Opinion **Free Lunch**

Debunking American exceptionalism

How the US's colossal economy and stock market conceal its flaws

TEJ PARIKH

Costly healthcare, debt-fuelled spending and a yawning wealth gap make large numbers deceptive © Angela Weiss/AFP via Getty Images

Tej Parikh JANUARY 12 2025

Good afternoon. The inaugural Free Lunch on Sunday on why Europe is not a business backwater caused a stir. Time to shake perspectives some more this week with a discussion on why the US is not exceptional.

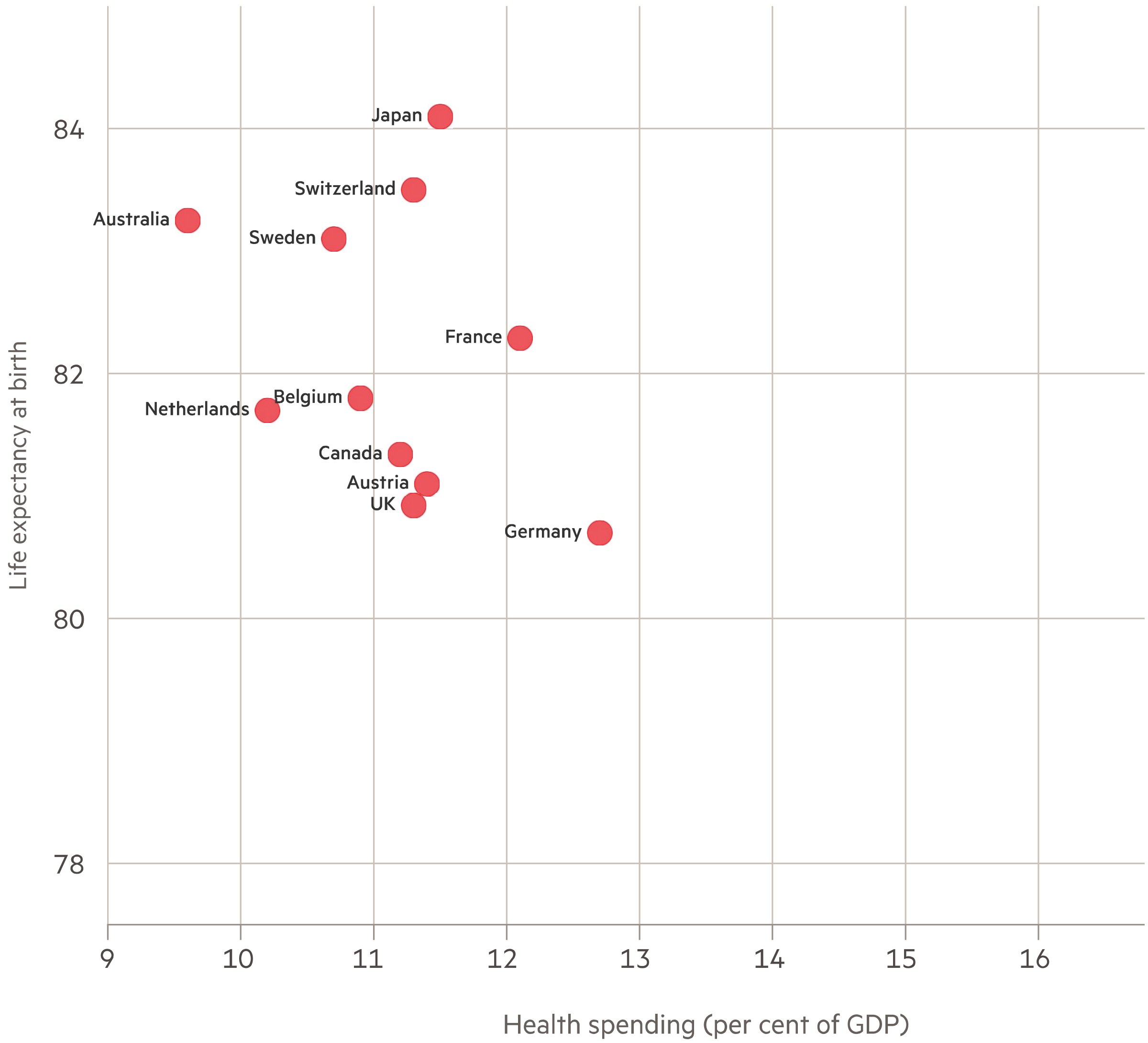
The term "American exceptionalism" is often used to describe the country's rapid post-pandemic economic growth, booming stock market and private sector-led technological innovation. The fanfare over US capitalism is not unfounded. But it can obscure arguments that counter the idea of US economic superiority. Here are some examples.

First: healthcare. Close to a fifth of US GDP comes from health expenditure. That is well above other OECD nations (in per capita terms too). Yet the country has among the worst health outcomes. Americans are more likely to die younger, have multiple chronic conditions, and die from a preventable or treatable malady, relative to citizens in other rich nations.

in other rich nations.

America: a healthy or healthcare economy?

The US spends the most, but has the worst outcomes



FINANCIAL TIMES

Source: Peterson-KFF analysis of OECD, NHE 2022 data

This is worth keeping in mind each time we read about the "strong" US consumer and jobs market. Healthcare spending is the largest component of American households' services expenditure (which drives overall consumption). As for employment, more than 40 per cent of new private sector jobs created since the start of 2023 have been in healthcare. The biggest US industries by revenue include hospitals, drug wholesalers and medical insurers.

Put simply, a significant share of the US's "booming" economy is generated by sickness. Inefficiencies in its healthcare system may also prop up US GDP by sustaining high levels of costly healthcare-related expenditure, whether through overtreatment or the ongoing treatment of preventable illnesses. (I've covered this in more depth on FT Alphaville.)

Second, government spending has played an under-appreciated role in supporting America's post-pandemic growth. Public transfers account for over a quarter of residents' income in more than 50 per cent of US counties. Since the start of 2023, the government has created more jobs than dynamic sectors like tech, finance, construction and manufacturing combined. As for Friday's "blowout" nonfarm payrolls number — showing 256,000 new jobs in December — over 100,000 came from healthcare, social assistance and the government.

Government and healthcare spending prop up US growth

Percentage point contribution to annual quarterly real GDP growth

Consumer spending on healthcare services Government spending and investment
Other (including non-healthcare household spending, private investment and trade)

FINANCIAL TIMES Source: BEA, Haver Analytics

Not all public expenditure involves higher spending on welfare and bureaucracy. The government has made productive investments and spent on defence. Still, outside of the pandemic and financial crisis, US public sector spending as a share of GDP is near its highest since the second world war — and it is forecast to rise as debt interest payments pick up.

Sure, America's public spending largesse emanates from the revenues its highly profitable private sector generates. But it also stems from its privileged ability to run enormous deficits.

"American exceptionalism is tied to the surge in government spending that has persisted since the global financial crisis," notes Tavi Costa, a macro strategist at Crescat Capital. "The dollar's reserve currency status has enabled the US to exceed its fiscal limits for an extended period, especially when compared to other nations." Whether that can continue sustainably is another question.

Beyond healthcare and government activity, consumer spending has been the main driver of US growth. But the image of the "resilient" US consumer who spends insatiably on retail, recreation and restaurants may not be the right one. For starters, the bulk of services spending has been on necessities such as rent, utilities and health. Discretionary spending has picked up, but it is heavily skewed by earnings. Recent Fed research shows higher-income households have fuelled post-pandemic retail spending.

Rising transitions into serious debt delinquency

Per cent of balance, 90 days + delinquent. Dashed lines are historic averages.

Auto loans Credit cards Mortgage

FINANCIAL TIMES Source: New York Fed Consumer Credit Panel/Equifax

Higher non-discretionary costs have squeezed lower earners more. And credit is helping to pay the bills. (Americans have a low savings rate, and average credit card debt is among the highest in the world.) Serious credit card and auto loan delinquencies across the US are now at their highest since the financial crisis fallout, and though mortgage distress is below historic averages, rents have rocketed.

Higher consumption has also been supported by Wall Street's surging stocks, where fast-growing companies and unrivalled liquidity have underpinned rising valuations (which, in turn, has attracted more liquidity).

But there may be a less exceptional factor contributing to higher stock prices. Andrew Lapthorne, global head of quantitative research at Société Générale, suggests rising demand for equities, alongside falling supply, has played an under-appreciated role. "The US equity market index has risen by over 400 per cent over the last 20 years," he said. "But the number of shares available to buy is actually 15 per cent lower, courtesy of companies being bought or delisting and share buybacks." In recent years, the number of listed NYSE companies has fallen too, just as liquidity has surged.

American equities are booming, but who gains?

Current value of stock market investments, nominal thousands, 3 month moving average

Bottom third (by income) Middle third Top third

Either way, high earners have the lion's share of equity investments. That is another timely reminder that the S&P 500 is a suboptimal indicator of the overall strength of the US economy. America's low earners are asset poor too and see minimal upside to both soaring stocks and property prices. And with equity holdings accounting for close to 50 per cent of households' assets (a record), most Americans are vulnerable to market corrections.

Finally, business dynamism. In my Market Insights column this week, I wrote about how, although creative destruction may appear to be alive and well in the US, by some metrics, such as company exit and entry rates, it is actually fading. One explanation is rising corporate concentration. The share of assets owned by the top 0.1 per cent of companies has risen from 47 per cent in 1931 to around 88 per cent. The market capitalisation share of the country's top 10 listed companies also surged post-pandemic, and is now at a historic high.

The rising power of America's top 0.1 per cent of companies

Per cent share of all firms sorted by:

Assets Sales (receipts) Net income

Source: 100 years of rising corporate concentration (Kwon, Ma, Zimmermann) May

Of course, scale allows companies to take advantage of efficiencies, which supports innovation. But it can also create a competitive moat that can stymie it (a 2019 US study suggests that a rising number of patents are registered by businesses with an already high stock of patents). The US's smaller listed firms are also less profitable than in peer nations. That may reflect the dominance of America's supersized firms.

Americans have among the highest median equivalised disposable incomes in PPP terms of all advanced nations. There is a reason for that. America's economy is a proven engine for wealth creation, technological innovation, consumption and raising capital at scale. Its 15 per cent share of the global economy reflects that. But it is also true that America's scale — and a focus on GDP numbers and stock markets — helps conceal its less dynamic features, including its disparities, vulnerabilities and exceptional privileges.

What do you think? Message me at: freelunch@ft.com or on X @tejparikh90.

Food for thought

Economists may have finally found *homo economicus*, the rational decision maker that underpins economic models: it's a large language model. This VoxEU column assesses how generative pre-trained transformers (GPTs) outperform humans on the matter of economic rationality.

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