The Europe-U.S. Retail Trade Productivity Gap in a Rear-view Mirror

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Is the Europe-U.S. retail trade productivity gap a genuine phenomenon or the result of a variety of measurement issues? This research question, which raised concerns during most of the decade preceding the Great Recession, has two primary motivations. First, we hope to gain a better understanding of the Europe-U.S. market economy productivity gap, attributable almost solely to the retail trade sector. In particular, our goal is to answer the perplexing question that remains stubbornly relevant: “Can measurement errors, including those that arise from offshoring, explain all, some, or none of the productivity gap in this sector?” Second, this paper is about more than measurement differences. It also asks how much of the measured gap is attributable to transatlantic differences in the economic structures such as scale economies. With a harmonized measure of real output, the post-1995 period now reports a 0.5 percentage point productivity gap in favour of the U.S., down from the ‘official’ 1.5 percentage points. This new gap is further downgraded to one-quarter of a percentage point as a result of a counterfactual experiment that asks what would productivity performance look like had we accounted for differences in the economic structures between the two economies. The productivity gap in favour of the U.S. retail trade sector still holds albeit with a much more modest order of magnitude.