

Americans do I.T Better: US Multinationals and the Productivity Miracle

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Abstract

The US experienced a sustained increase in productivity growth in the decade after 1995, particularly in sectors that intensively use information technologies (IT). This “productivity miracle” did not occur in Europe. This paper shows that US multinationals operating in Europe also experienced a productivity miracle: US multinationals obtained higher productivity from IT than non-US multinationals in Europe, particularly in the IT intensive sectors. Furthermore, establishments that are taken over by US multinationals increase the productivity of their IT, whereas observationally identical establishments taken over by non-US multinationals do not. Combining a new pan-European IT dataset with our firm-level management practices survey, we show that the US advantage in IT is primarily due to its “people management” practices on promotions, rewards, hiring and firing. US-style people management appears to be associated with the ability to adopt new IT more effectively. As a result US firms at home and abroad experienced large increases in productivity growth when IT investment rose sharply after 1995. We can account for about half of the US-EU difference in productivity growth using our estimates.