Productivity Dynamics in Indian Industries - Input Reallocation and Structural Change

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Paper Abstract: Indian economy has been growing at a spectacular rate in the last decade and this has attracted much attention in the literature (e.g. Bosworth and Collins, 2008, Eichengreen, Gupta and Kumar, 2010). Economic growth in India during the last decade has bypassed any other country of the similar economic situation, except China. This staggering growth performance has also been accompanied by improved labor productivity growth rates and service led TFP growth. The average labor productivity growth in Indian economy was as low as 1 percent during 1951-1966, which grew only marginally to 2 percent during 1966 1980 and 1981-95, while it improved significantly to 5 percent during 1995-2010 periods (The Conference Board Total Economy Database, January 2014). Overall, the Indian economy registered a TFP growth rate of 1.12 per cent during 1980-2011. For the manufacturing sector, 1990s was a decade of factor accumulation but gradual diffusion of technology through widespread policy reforms in industrial policy and trade may have contributed to surge in productivity growth in the 2000s (Das *et al* 2015). In case of services, the reverse occurred as average TFP growth declined in 2000s. A plausible inference could be that in 2000s, for the services it was a period of capital accumulation.