

The Mystery of TFP

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Paper Abstract:

Using data for 10 sectors within the market sector for 18 countries over the period 1970-2007 drawn from the EU KLEMS dataset, I analyse TFP growth at the sectoral and aggregate level. In all countries resources have been shifting away from industries with high TFP growth towards industries with low TFP growth. Nevertheless I find that structural change has favoured growth in most countries. Errors in measuring capital or in measuring the elasticity of output with respect to capital are unlikely to substantially reduce the role of TFP in explaining growth. But some aspects of TFP remain hard to explain: contrary to received theory an increase in TFP growth does not cause an increase in the rate of capital accumulation.