

Industry Origins of Aggregate Productivity Growth in India

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This paper attempts to quantify the sources of India's economic growth during the last three decades. The literature on the sources of economic growth in the independent India is quite extensive. Recent studies confirm the positive role of productivity in enhancing economic growth particularly in the post-reform periods (Sivasubramonian, 2001; Dholakia, 2002; Guha Khasnobis and Bari, 2003; Virmani, 2004; Bosworth, Collins and Virmani, 2006). Existing evidence stresses by and large the twin roles of, "pro market reforms" of 1980s as well as "widespread economy-wide reforms" of 1990s and 2000s in sustaining the growth rate. The present study is different from previous attempts in this line, as we focus on sources of growth at industry. We use detailed sectoral data constructed for 31 industries, under India KLEMS project, keeping in mind that analysis of aggregate data has important drawbacks as it by and large conceals the enormous variations in performance across industries. These variations reflect fundamentally different production processes, rates of technological innovation and market conditions, all of which may lead to differences in outcomes. The industry level data enables us to identify the sources of India's economic growth to its industry origins. The paper is a contribution to the literature on the empirics of India's economic growth in several respects. First, it provides a comprehensive and detailed sector analysis comprising the entire economy at the industry level. Second, the measures of labor and capital inputs incorporate the heterogeneity of different types of employees and capital assets. Finally an attempt is made to distinguish between organized and unorganized manufacturing sub-sectors in accounting for productivity growth performance of the manufacturing sector.

Given the growing optimism about India's long term growth prospects since the advent of an open economy regime, the paper seeks to examine whether productivity growth drives the observed growth performance of Indian economy by computing industry level contributions of total factor productivity growth and factor accumulation. Using a growth accounting approach and combining measures of industry output, capital and labor inputs, an estimate of productivity by industry will be computed and analyzed for the period 1980-2008.