

Productivity Growth in Organised Manufacturing Sector in India: Evidence from Technology Intensive Classification of Industries

R. Rijesh

This paper examines the trends in productivity, both labour productivity and Total Factor Productivity (TFP), of organised manufacturing in India. It uses the growth accounting technique based on value added and gross output production framework for assessing the productivity dynamics of 62 industries at the 4-digit level of disaggregation during the period of 1980 to 2007. The study finds a marked shift of industrial composition towards technology and skill intensive production activities. These segments have witnessed considerable growth in labour productivity and total factor productivity, the latter being more pronounced since 2000. Though TFP trend is highly cyclical, there is evidence of a revival in recent period. This suggests that Indian manufacturing has been experiencing sizeable technical change and dynamism of late. However, for a large number of industries, especially the traditional low-technology intensive sectors, the results are sensitive to the method of measuring TFP.

I Introduction

This study examines the productivity performance of the organised manufacturing sector in India. Evaluation of productivity is an important yardstick of assessing the performance of an economic unit as it is concerned with the efficiency of resource (scarce inputs) use. An increase in the rate of productivity indicates that a larger quantity of output is produced by a given input or fewer quantities of inputs are employed by efficient utilisation of resources based on improvement in existing technology. Not surprisingly, in the long run, productivity growth is considered as an important determinant of the standard of living of an economy (Krugman 1996).

There are several important empirical evidences on the productivity performance of Indian manufacturing sector, especially since economic liberalisation of the 1990s.¹ Although much progress has been made, the results are far from conclusive, however. In general, there is a consciousness that productivity growth

R. Rijesh, Assistant Professor, Institute for Studies in Industrial Development, 4, Institutional Area, P.B. No 7513, Vasant Kunj, New Delhi 110070, Email: rijeshraju@gmail.com

The study is based on my Ph.D. thesis submitted to the Jawaharlal Nehru University. I wish to express my gratitude to Prof. Alokesh Barua and Prof. K L Krishna for the invaluable guidance and constructive criticism on an earlier draft. However, remaining errors, if any, are solely mine.

¹ See Kathuria, *et al.* (2014) and Trivedi, *et al.* (2011) for a comprehensive review of earlier studies.