DRG Study:
Productivity in Major Manufacturing Industries in India: 1973-74 TO 1997-98

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The Development Research Group (DRG) in the Reserve Bank of India has brought out a study entitled "Productivity in Major Manufacturing Industries in India: 1973-74 to 1997-98". The twentieth in the DRG Study Series, this Study is authored by Prof. Pushpa Trivedi, Shri Anand Prakash and Shri David Sinate.

The DRG Studies series have an accent on policy-oriented research. They are released for wide circulation with a view to generating constructive discussion among professional economists and policy makers on subjects of current interest. he views expressed in these studies are those of the authors and do not reflect the views of the Reserve Bank.

After a brief adjustment to the unprecedented balance of payments crisis of 1990-92, the Indian economy has, in the 1990s, experienced robust and stable growth. With the real growth rate averaging 6.4 per cent over the decade, India has emerged as one of the fastest growing economies in the developing world. Accumulating evidence of productivity as an important source of growth has generated a debate on the measurement and analysis of productivity changes, particularly at the industry level. Productivity is also regarded as a key determinant of price and cost competitiveness, both at home and in international markets. Macroeconomic policies the world over are being increasingly fashioned around a recognition of the crucial role of productivity in economic performance.

The present DRG study provides the most recent estimates of productivity – single factor productivity, total productivity and total factor productivity – in the major manufacturing industries in India which also make a significant contribution to India's exports. In doing so, the study addresses various theoretical and methodological issues relating to the concept and measurement of productivity. It also presents cross country comparisons with a view to situating the level of productivity, its movement over time and the productivity gap in Indian industries in an international perspective.

The principal findings of the study are that labour productivity in the six manufacturing industries selected for study has been higher than that for the manufacturing sector as a whole. In fact, labour productivity has been rising at a faster rate than capital productivity. International comparison shows that while labour productivity in Indian industries has been rising faster than in some industrialised countries, the level of labour productivity in India is low and convergence with international levels is difficult in the near future. In terms of total factor productivity, the Indian manufacturing sector has recorded positive rates of growth, particularly since the second half of the 1980s, which compare favourably with those of east Asian economies.

The study concludes that increasing productivity in Indian industries, with industry-specific strategies, is an imperative in order to raise standards of living in the country and to make Indian products globally competitive. Indian industries will have to plan for economising the use of inputs and curtailing costs so as to remain competitive in the global trading environment.

The study is available on RBI website http://www.rbi.org.in

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