

Understanding Industry Contributions to Aggregate Productivity Growth

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Abstract

To understand aggregate productivity growth requires knowledge of the sources of this growth by industry. Yet different decomposition formulas can give very different estimates of sectoral contributions to productivity (de Avillez, 2012).

Is there one correct method to decompose aggregate productivity growth into its sectoral contributions, or are there a variety of legitimate methods, depending on assumptions and the purpose of the decomposition? The objective of this paper is to critically review the methods that have been developed to decompose aggregate productivity growth and discuss the properties of the estimates of industry contributions that come from these decomposition. A key issue is how price changes are factored into the decomposition formula.

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