

Abstract for “China’s Productivity Performance in the Government-Engineered Growth – A ‘True’ Index Number Approach”

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Productivity analysis in the neoclassical growth accounting framework is subject to strong institutional and behavioural assumptions that are inappropriate for transition economies. In China, while official data are mostly unreliable, agents operate under distortions and frictions created by government interventions and institutional deficiencies. We develop an index-number approach based on Afriat’s methodology to address allocative inefficiency and data problems in the Chinese economy. This analytical tool allows us to decompose TFP growth into changes in technology, scale economies, and allocative efficiency. We apply it to a newly constructed data set. After a test for data consistency in aggregation and a correction for changes in efficiency, our TFP estimates appear to be less erratic and volatile than those obtained by the traditional method applied to the same data. The decomposition of TFP changes suggests that not only is technical progress relatively low in China, but the output growth itself occurs under persistent cost-increasing diseconomies.

Key Words

Total factor productivity; allocative inefficiency; Afriat-type tight bounds of “true” index; Törnqvist index; government intervention; economic transition in China

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