

WHICH SECTORS MAKE POOR COUNTRIES SO UNPRODUCTIVE?

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Abstract

Which sectors are most responsible for the low total factor productivities of developing countries? To answer this question we develop a new framework for sectoral development accounting. Applying this framework to the Penn World Table, we find that in equipment, construction, and food the sectoral TFP differences between developing countries and the United States are much larger than in the aggregate. However, in manufactured consumption the sectoral TFP differences are about equal to the aggregate TFP differences, and in services they are much smaller. We show that our level of disaggregation allows us to reconcile the results of existing studies of sectoral productivity differences, which have focused on noncomparable two-sector decompositions of the aggregate data. We also show that our results help shed light on existing theories of aggregate TFP differences. (JEL: O14, O41, O47)