

Researchers

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Productivity and Competition in India's Brick Industry

Abstract

Previous research suggests that in many developing countries businesses are less productive on average than their counterparts in developed countries. Additionally, productivity across firms varies more in developing countries than in developed countries. These market characteristics suggest that the forces of competition, growth, and innovation that tend to drive productivity in developed countries may be weaker in developing countries. Given that one of the fundamental roles of policy is to promote an efficient market, these inconsistencies imply that there may be a role for policy to play in promoting competitive markets in developing countries. However, the choice of policy intervention depends on an understanding of what the constraints to market efficiency are, and little research exists to guide policymakers in this area.

Context of the Evaluation

This study will assess firms that make and sell bricks in India to gain a deeper understanding of the actual variation in the productivity of firms across the sector. Researchers will then introduce subsidized technology to a random sample of firms to test what happens to the market when the productivity of some firms changes. Two types of improved technology will be introduced, one for the smallest firms and another for mid-sized firms that already use more advanced technology. If the introduction of technology increases profits, then it is likely that financial or informational constraints inhibit these firms from adopting practices that would lead to improved outcomes. However, if productivity improvements do not result in a firm capturing more market share and increasing its profits, this would suggest that lack of competition between firms allows less productive firms to survive.

The introduction of improved technology is currently being piloted with a small set of firms to evaluate the effectiveness of the technology and the percentage of firms that choose to participate in the program.

Results and Policy Lessons

Results forthcoming.

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