**The productivity trend in Iran: Evidence from manufacturing firms**

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*Summary*

During the past ten years, Iran has been experiencing slow growth rate. In this study, by using plant-level information, we show that on average firm-specific productivity in the Iranian manufacturing sectors declined at the rate of 2.6 percent annually, while top 10% large firms experienced a modest growth in productivity between 2005 and 2011. By decomposing this trend, we find that the main driving force is within each firm, while between firms and industries components do not play any roles. We test several alternative explanations that may contribute to these negative trends. We show that the subsidy reform decreases the productivity of manufacturing sector of Iran. However, privatization seems to have no effect on a firm’s productivity. Private management does not have effect on productivity growth, while larger firm size defined in terms of its labor force is associated with higher productivity growth. In addition, we find that firms which are using more energy experience more decrease in productivity growth. We also find that Research and Development (R&D) expenditures significantly increase productivity growth, while the R&D sales ratio is only about 0.5 percent in manufacturing sectors, which is about one-fifth of the world average. A one-percent point increase in R&D expenditures increases productivity growth by 0.5 percent.