Productivity Growth in the Global Agricultural Economy

Keith O. Fuglie*
Economic Research Service

*The views expressed in this presentation are the author's own and not necessarily those of the Economic Research Service.
Long-run decline in real agricultural prices reflects rising productivity relative to demand

Source: Pfaffenzeller, Newbold & Rayner (2007) updated from International Monetary Fund
Is the recent agricultural price rise because productivity growth has been slowing down?

Source: World Bank Development Report 2008  (figure refers to developing countries only)
Measuring and decomposing growth

- Yield growth
- Area growth
- Input intensification
- TFP growth
  - technical change
  - allocative efficiency

Real output growth

Price effect

- Research & extension
- Rural education
- Resource quality
- Infrastructure
- Institutions

- Resource endowments
- Prices & costs
- Input policies
- Infrastructure
- Exchange rates
- Institutions
Measuring TFP growth

• Previous studies: Malmquist Distance function
  – Arnade (1998), Coelli et al. (2005), Ludena et al. (2007)
  – Uses only Input-Output quantity data
  – Results sensitive to data quality & dimensionality issue

• This study: use Solow-type growth accounting method
  – TFP growth is difference between output growth and input growth

\[
TFP_{tc} = \sum_{i} R_{ic} Y_{itc} - \sum_{j} S_{jc} X_{jtc}
\]

– Only compare TFP growth, not TFP levels, among countries
Empirical approach

• Output: use FAO real output series
  – Aggregates crop and livestock outputs using fixed global prices measured in constant 2000 US$

• Input: Aggregate FAO input quantity data using cost shares or production elasticities published from previous studies
  – Where not available, assign cost share from “similar” country
Growth rate aggregate input is weighted average of growth in Land, Labor, Capital and Materials, where weights are their (fixed or varying) cost shares.
Constructing an input index

- Inputs
  - Land
    - Land & structures
      - Rainfed cropland
      - Irrigated cropland
    - Economically active persons
  - Labor
  - Capital
    - Tractors & energy
    - Livestock & feed
  - Materials
    - Fertilizers, pesticides, and seed

Average input cost shares for 9 countries
Application of cost shares to regions

USA
Brazil
Mexico
UK
USSR
China
Japan
Indonesia
SSA
South Africa
TFP growth indexes compared with Tornqvist indexes from country studies

Brazil

Indonesia

China

India

USA

EU-11

TFP indexes

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country studies

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this study
Agricultural growth decomposition shows declining input intensification and rising TFP

Annual growth rate by decade, global average

Sources of growth
- TFP
- Material Inputs
- Livestock Capital
- Machinery Capital
- Land
- Labor

Shaded regions show contribution of inputs and TFP to output growth
Agricultural TFP growth rates converging among major global regions

Average growth in inputs

-8% -6% -4% -2% 0% 2% 4%
Developing countries
Industrialized countries
Former Soviet block countries

Average growth in TFP

-1% 0% 1% 2% 3%
Developing countries
Industrialized countries
Former Soviet block countries
Average ag TFP growth, 1970-2006 (% per year)

Circled regions show persistently low TFP growth.
Further work to improve global TFP index

- Cost share data from more countries
- Allow cost shares to vary over time
- More complete data on capital stocks
  - Treestocks
  - Machinery and structures
- Include natural resource stocks
  - Water (irrigation withdrawals)
  - Land (soil) quality
“Technology capital” as driver of TFP growth

- **Index of Innovation-Invention (II) capital**
  - Ag scientists / cropland (ASTI)
  - Industrial R&D as % of GDP (UNESCO)

- **Index of Technology Mastery (TM) capital**
  - Ag extension workers / cropland (Judd et al.)
  - Average schooling of male workers (Barro & Lee)

- Index measures for 87 developing countries in two periods: 1970-75 and 1990-95 (panel data)
Technology capital in “Invention-Innovation”

Score:
(i) Ag Sci/cropland, 1 to 3
(ii) Industrial R&D/GDP, 1 to 3

Invention-innovation = (i) + (ii)
Model: Technology capital and TFP growth

Model 1: Did technology capital influence subsequent TFP growth?
- average TFP growth in 1970-89 as function of 1970-75 II & TM capitals
- average TFP growth in 1990-07 as function of 1990-95 II & TM capitals

\[ TFP_{c,t} = \sum_{i=2}^{6} \sum_{j=2}^{6} \delta_{i,j} D_{ij} c,t. \]

\( D_{ij} \) = series of 19 dummy variables representing different combinations of II and TM technology capital (c = country, t = period)

Model 2: Difference-in-differences model
- did change in II & TM capitals between 1970/75 and 1990/95 affect TFP growth?

\[ \Delta TFP_{c} = \delta_{II} \left( \Delta II_{c} \right) + \delta_{TM} \left( \Delta TM_{c} \right). \]
Model 1 results: Technology capital strongly associated with subsequent TFP growth

TFP growth (% per year)

Invention-Innovation (II) capital

Extension-Education (TM) capital
Model 2: Countries that increased their II capital (R&D) increased their rate of TFP growth
Conclusions

• Global agricultural TFP growth accelerating
  – Led by developing countries
  – Offset decline in growth in input intensification

• Long-run TFP growth strongly associated with technology capital
  – Research capacity more important than extension-education
  – Evidence strong except sub-Saharan Africa