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# **STAFF PAPER SERIES**

## **Productivity Growth in World Agriculture: Sources and Constraints**

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**DEPARTMENT OF APPLIED ECONOMICS**

**COLLEGE OF AGRICULTURAL, FOOD, AND ENVIRONMENTAL SCIENCES**

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## **Productivity Growth in World Agriculture: Sources and Constraints<sup>\*</sup>**

Vernon W. Ruttan<sup>\*\*</sup>

Prior to the beginning of the twentieth century, almost all increases in crop and animal production occurred as a result of increases in the area cultivated. By the end of the century almost all increases were coming from increases in land productivity -- in output per acre or per hectare. This period was an exceedingly short one in which to make a transition from a natural resource-based to a science-based system of agricultural production. In the presently developed countries, the beginning of this transition began in the latter half of the nineteenth century. In most developing countries, the transition did not begin until well into the second half of the twentieth century. For some of the poorest countries in the world, the transition has not yet begun.

During the second half of the twentieth century world population more than doubled—from approximately 2.5 billion in 1950 to 6.0 billion in 2000. The demands placed on global agricultural production arising out of population and income growth almost tripled. By 2050, world population is projected to grow to between 9 and 10 billion people. Most of the growth is expected to occur in poor countries where the income elasticity of demand for food remains high. Even moderately high income

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growth, combined with projected population growth, could result in close to doubling the demands placed on the world's farmers by 2050 (Johnson, 2000; United Nations, 2001).

The most difficult challenges will occur during the next two or three decades as both population and income in many of the world's poorest countries continue to grow rapidly. But rapid decline in the rate of population growth in such populous countries as India and China lend credence to the United Nations projections that by mid-century the global rate of population growth will slow substantially. The demand for food arising out of income growth is also expected to slow as incomes rise and the income elasticity of demand for food declines. In the interim, very substantial increases in scientific and technical effort will be required, particularly in the world's poorest countries, if growth in food production is to keep pace with growth in demand.

#### Agriculture in Development Thought

Economic understanding of the process of agricultural development has made substantial advances over the last half century. In the early post-World War II literature, agriculture, along with other natural resource-based industries, was viewed as a sector from which resources could be extracted to fund development in the industrial sector (Lewis, 1954, p. 139; Rostow, 1956, pp. 25-48; Ranis and Fei, 1961, pp. 533-65). Growth in agricultural production was viewed as an essential condition, or even a precondition, for growth in the rest of the economy. But the process by which agricultural growth was generated remained outside the concern of most development economists.

By the early 1960s a new perspective, more fully informed by both agricultural science and economics, was beginning to emerge. It had become increasingly clear that much of agricultural technology was “location specific.” Techniques developed in advanced countries were not generally directly transferable to less developed countries with different climates and resource endowments. Evidence had also accumulated that only limited productivity gains were to be had by the reallocation of resources within traditional peasant agriculture.

In an iconoclastic book, *Transforming Traditional Agriculture*, Theodore W. Schultz (1964) insisted that peasants in traditional agrarian societies are rational allocators of available resources and that they remained poor because most poor countries provided them with only limited technical and economic opportunities to which they could respond—that is, they were “poor but efficient.” Schultz (1964, pp. 145-147) wrote:

The principle sources of high productivity in modern agriculture are reproducible sources. They consist of particular material inputs and of skills and other capabilities required to use such inputs successfully. . . . But these modern inputs are seldom ready made. . . . In general what is available is a body of knowledge, which has made it possible for the advanced countries to produce for their own use factors that are technically superior to those employed elsewhere. This body of knowledge can be used to develop similar, and as a rule superior, new factors appropriate to the biological and other conditions that are specific to the agriculture of poor countries.

This thesis implies three types of relatively high-payoff investments for agricultural development: 1) the capacity of agricultural research institutions to generate new location-specific technical knowledge; 2) the capacity of the technology supply industries to develop, produce, and market new technical inputs; and 3) the schooling and non-formal (extension) education of rural people to enable them to use the new knowledge and technology effectively. The enthusiasm with which this high-payoff input model was accepted and transformed into doctrine was due at least as much to the success of plant breeders and agronomists in developing fertilizer and management responsive “green revolution” crop varieties for the tropics as to the power of Schultz’s ideas.<sup>1</sup>

The Schultz “high-payoff input model” remained incomplete, however, even as a model of technical change in agriculture. It did not attempt to explain how economic conditions induce an efficient path of technical change for the agricultural sector of a particular society. Nor does the high-payoff input model attempt to explain how economic conditions induce the development of new institutions, such as public sector agricultural experiment stations, that become the suppliers of location-specific new knowledge and technology.

Beginning in the early 1970s, Hayami and Ruttan (1971, 1985) and Binswanger and Ruttan (1978) formulated a model of induced technical change in which the development and application of new technology is endogenous to the economic system. Building on the Hicksian model of factor-saving technical change, and their own experience in southeast Asia, they proposed a model in which the direction of technical

change in agriculture was induced by changes (or differences) in relative resource endowments and factor prices. In this model, alternative agricultural technologies are developed to facilitate the substitution of relatively abundant (hence cheap) factors for relatively scarce (hence expensive) factors. Two kinds of technology generally correspond to this taxonomy. Mechanical technology is “labor saving,” designed to substitute power and machinery for labor. Biological and chemical technology is “land saving,” designed to substitute labor-intensive production practices and industrial inputs such as fertilizer and plant and animal protection chemicals for land. Both the technical conditions of production, and historical experience, suggest that changes in land productivity and labor productivity are relatively independent (Griliches, 1968).

The process of induced technical change can be illustrated from the historical experience of Japan and the United States, illustrated in Figure 1. In Panel A of Figure 1, the horizontal axis is the price of fertilizer relative to the price of land and the vertical axis the amount of fertilizer per hectare of agricultural land. In Panel B of Figure 1, the horizontal axis is the price of draft power relative to the price of labor and the vertical axis the amount of draft power per worker. Reading from right (1880) to left (1980), as the price of fertilizer declined relative to the price of land, fertilizer use per hectare rose in both countries (Panel A). Similarly, as the price of draft power declined relative to the price of labor, the use of power per worker rose in both countries (Panel B).

Throughout the period 1880-1980, Japanese farmers used more fertilizer per hectare than U.S. farmers and U.S. farmers used more power per worker than Japanese farmers. These differences in use of fertilizer per unit of land and of draft power per worker between the two countries, and the changes in each country between 1880 and



1980, were not the result of simple factor substitution in response to relative price changes. The large changes in factor ratios were made possible only by the very substantial advances in biological and mechanical technology that facilitated the substitution of fertilizer for land and draft power for labor. These technical changes were induced by the differences and changes in relative factor price ratios (Hayami and Ruttan, 1985, pp. 176-97).<sup>2</sup> Over time, particularly since World War II, there has been some convergence in relative factor prices and in relative intensity of factor use in the two countries.

Advances in mechanical technology in agriculture have been intimately associated with the industrial revolution. But the mechanization of agriculture cannot be treated as simply the adaptation of industrial methods of production to agriculture. The spatial dimension of crop production requires that the machines suitable for agricultural mechanization must be mobile -- they must move across or through materials that are immobile (Brewster, 1950, pp. 69-81). The seasonal characteristic of agricultural production requires a series of specialized machines -- for land preparation, planting, pest and pathogen control, and harvesting -- designed for sequential operations, each of which is carried out for only a few days or weeks in each season. One result is that a fully mechanized agriculture is typically very capital intensive. Advances in biological technology in crop production involve one or more of the following three elements: land and water resource development to provide a more favorable environment for plant growth; the addition of organic and inorganic sources of plant nutrition to the soil to stimulate plant growth and the use of biological and chemical means to protect plants from pests and pathogens; and selection and breeding of new biologically efficient crop

varieties specifically adapted to respond to those elements in the environment that are subject to management.

Advances in mechanical technology are a primary source of growth in labor productivity; advances in biological technology are a primary source of growth in land productivity. There are, of course, exceptions to this analytical distinction. For example, in Japan, horse plowing was developed as a technology to cultivate more deeply to enhance yield (Hayami and Ruttan, 1985, p. 75). In the United States, the replacement of horses by tractors released land from animal feed to food production (White, 2000; Olmstead and Rhode, 2001). At the most sophisticated level, technical change often involves complementary advances in both mechanical and biological technology. For most countries the research resource allocation issue is the relative emphasis that should be given to advancing biological and mechanical technology.

The model of induced technical change has important implications for resource allocation in agricultural research. In labor-abundant and land-constrained developing countries, like China and India, research resources are most productively directed to advancing yield-enhancing biological technology. In contrast, land-abundant Brazil has realized very high returns from research directed to releasing the productivity constraints on its problem soils. Discovery of the yield-enhancing effects of heavy lime application on acidic aluminum containing soils has opened its *Campos Cerrado* (great plains) region to extensive mechanized production of maize and soybeans.

## Measuring the Rate and Direction of Productivity Growth

Comparative research on the rate and direction of productivity growth in agriculture has gone through three stages. Initially, efforts were directed to the measurement of partial productivity ratios and indexes, such as output per worker and per hectare. Intercountry cross section and time series comparisons of output per unit of land and labor were first assembled by Colin Clark in his pioneering study, the *Conditions of Economic Progress* (1940). In the late 1960s, Clark's intercountry comparisons were revived and updated by Yujiro Hayami and associates (Hayami, 1969; Hayami and Inagi, 1969; Hayami, Miller, Wade and Yamashita, 1971). These early partial productivity studies identified exceedingly wide differences in land and labor productivity both among countries and major world regions. Recent trends in land and labor productivity indicate that these wide differences have persisted. In Figure 2, labor productivity (output per worker) is measured on the horizontal axis. Land productivity (output per hectare) is measured on the vertical axis. The dashed diagonal lines, with the units appearing across the top and down the right-hand side of the figure, trace the land-labor factor ratios (hectares of agricultural land per worker). The country and regional lines indicate land-labor trajectories for specific countries or regions. The partial productivity growth patterns of Figure 2 are displayed in much greater detail in the work of Hayami and Ruttan (1985, pp. 117-129). The several country and regional growth paths fall broadly into three groups: a) a land constrained path in which output per hectare has risen faster than output per worker; b) a land abundant path in which output per worker has risen more rapidly than output per hectare; and c) a intermediate growth path in which output

per worker and per hectare have grown at somewhat comparable rates. During the later stages of development, as the price of labor begins to rise relative to the price of land the growth path tends to shift in a labor saving direction. Partial productivity ratios such as those plotted in Figure 2 were employed by Hayami and Ruttan (1970, 1971, pp. 163-205) in their initial tests of the induced technical change hypothesis.

A second stage of the research on technical change in agriculture involved the estimation of cross-country production functions and the construction of multifactor productivity estimates. In these studies, factor inputs -- typically land, labor, livestock, capital equipment (machinery) and current inputs (fertilizer) -- were aggregated using either factor shares or statistical estimates as the weights for factor aggregation in multifactor productivity estimates or as elasticity coefficients in Cobb-Douglas type production functions.<sup>3</sup> Over time, improvements in data availability and estimation methods have contributed to greater reliability in the estimates.

The Hayami and Ruttan (1970) and the Kawagoe, Hayami and Ruttan (1985) cross-country meta-production functions (Lau and Youtopoulos, 1989) have been used in growth accounting exercises to partition the sources of differences in agricultural labor and land productivity between developed and developing countries and among individual countries. The results indicated that internal resource endowments (land and livestock), modern technical inputs (machinery and fertilizer) and human capital (general and technical education) each accounted for approximately one-fourth of the differences in labor productivity between developed countries and less developed countries as groups. Scale economies, present in developed countries but not in less developed countries, accounted for about 15 percent of the difference.<sup>4</sup>

The implications of these results for potential growth of labor productivity in the agricultural production of less developed countries were encouraging. The pressure of population against land resources was not a binding constraint on agricultural production. Scale diseconomies were not an immediate constraint on labor productivity. Labor productivity could be increased by several multiples -- to levels approximating the levels in western Europe in the early 1960s -- by investment in human capital, in agricultural research, and by more intensive use of technical inputs. The historical experience of Japan, and the more recent experience of Korea and Taiwan, did suggest, however, that as demand for labor, associated with rapid urban-industrial development, draws substantial labor from agriculture, small farm size could become a more serious constraint. As the agricultural labor force declines, farm consolidation results in a rise in the land/labor ratio and a rise in labor productivity.

A third stage in agricultural productivity analysis has involved efforts to test for the convergence of growth rates and levels of multifactor productivity between and among developing and less developed countries. Most of these studies have employed the Malmquist or frontier productivity approach. The basic idea of the Malmquist approach is to construct the *best practice* or *frontier* production function and to measure the distance of each country in the sample from the frontier by applying a linear programming method known as data envelopment analysis. The combination of inputs is allowed to vary along an efficient frontier, rather than the fixed coefficient production functions employed in the second-stage studies, to partition changes in multifactor productivity into technical change and efficiency change components.<sup>5</sup> Technical change measures the shift in the

best practice or frontier production functions; efficiency change measures change in the difference between average practice and the “best practice” productivity frontier.

These studies generally indicate a widening of the agricultural productivity gap between developed and developing countries between the early 1960s and the early 1990s. Within the group of developed countries, except for continuing divergence between northern and southern Europe, productivity levels have converged modestly. Developing countries as a group experienced declining total factor productivity relative to the frontier countries. There is, however some evidence of convergence toward the still relatively low frontier productivity levels within African agriculture (Thirtle, Hudley and Townsend, 1995; Fulginiti and Perrin, 1997, 1998; Ball, Bureau, Butault and Nehring, 2001; Chavas, 2001; Suhariyanto, Lusigi and Thirtle, 2001; Trueblood and Coggins, 2001).

The partitioning of total factor productivity into technical efficiency and technical change in Asian agriculture is illustrated in Figure 3. During the period 1965/66-1995/96 the gap between average practice, as measured by technical *efficiency change*, and best practice, as measured by *technical change*, widened. As a result average *total factor productivity change* (TFP) advanced more slowly than the rate of technical change in the countries on the efficiency frontier. Another way of making the same point is that technical efficiency has lagged relative to technical change associated with the rapid adoption of green revolution seed-fertilizer technology in the frontier countries (Rosegrant and Hazel, 2000, pp. 123-60). The results are not inconsistent with a technical trajectory implied by the induced technical change hypothesis. Technical change in Asia has been strongly biased in a land saving direction, in response to the relatively severe

constraints on land resources. This bias is reflected in both a land saving shift in the production function and the substitution of technical inputs, particularly fertilizer and pest and pathogen control chemicals, for land (Murgai, Ali and Byerlee 2001; Murgai 2001). Similar trends have taken place in some of the more land constrained labor-intensive agricultural systems in Africa and Latin America.

### Transition to Sustainability

Growth in total factor productivity in agriculture, arising out of technical change and improvements in efficiency, has made an exceedingly important contribution to economic growth. Within rural areas, growth of land and labor productivity has led to substantial poverty reduction. Productivity growth has also released substantial resources to the rest of the economy and contributed to reductions in the price of food in both rural and urban areas (Shane, Roe and Munisamy, 1998; Irz, Lin, Thirtle and Wiggins, 2001). The decline in the price of food, which in many parts of the world is the single most important factor determining the buying power of wages, has been particularly important in reducing the cost of industrial development in a number of important emerging economies. These price declines have also meant that, in countries or regions that have not experienced such gains in agricultural productivity, farmers have lost competitive advantage in world markets and consumers have failed to share fully in the gains from economic growth. But what about the future? In the next two sections I will first address the environmental and resource constraints and then the scientific and the technical

constraints that will confront the world's farmers as they attempt to respond to demands that will be placed on them. <sup>6</sup>

### Resource and Environmental Constraints

The leading resource and environmental constraints faced by the world's farmers include soil loss and degradation; water logging and salinity; the coevolution of pests, pathogens and hosts; and the impact of climate change. Part of my concern is with the feedback of the environmental impacts of agricultural intensification on agricultural production itself (Tilman et al., 2001).

*Soil.* Soil degradation and erosion have been widely regarded as major threats to sustainable growth in agricultural production in both developed and developing countries. It has been suggested, for example, that, by 2050, it may be necessary to feed "twice as many people with half as much topsoil" (Harris, 1990, p. 115). However, attempts to assess the implications of soil erosion and degradation confront serious difficulties. Water and wind erosion estimates are measures of the amount of soil moved from one place to another rather than the soil actually lost. Relatively few studies provide the information necessary to estimate yield loss from erosion and degradation. Studies in the United States by the Natural Resources Conservation Service have been interpreted to indicate that if 1992 erosion rates continued for 100 years the yield loss at the end of the period would amount to only 2-3 percent (Crosson, 1995a). An exceedingly careful review of the long term relationship between soil erosion, degradation and crop productivity in China and Indonesia concludes that there has been little loss of organic matter or mineral nutrients and that use of fertilizer has been able to compensate for loss of nitrogen



(Lindent, 2000). A careful review of the international literature suggests that yield losses at the global level might be roughly double the rates estimated for the United States (Crosson, 1995b).

At the global level, soil loss and degradation are not likely to represent a serious constraint on agricultural production over the next half century. But soil loss and degradation could become a serious constraint at the local or regional level in some fragile resource areas. For example, yield constraints due to soil erosion and degradation seem especially severe in the arid and semi-arid regions of sub-Saharan Africa. A slowing of agricultural productivity growth in robust resource areas could also lead to intensification or expansion of crop and animal production that would put pressure on soil in fragile resource areas – like tropical rain forests, arid and semiarid regions, and high mountain areas. In some such areas, the possibility of sustainable growth in production can be enhanced by irrigation, terracing, careful soil management, and changes in commodity mix and farming systems (Lal, 1995; Smil, 2000; Niemeijer and Mazzucato, 2000).

*Water.* During the last half-century, water has become a resource of high and increasing value in many countries. In the arid and semiarid areas of the world, water scarcity is becoming an increasingly serious constraint on growth of agricultural production (Seckler, Molden and Barker, 1999; Raskin et al., 1998; Gleick, 2000). During the last half century, irrigated area in developing countries more than doubled, from less than 100 million hectares to more than 200 million hectares. About half of developing country grain production is grown on irrigated land. The International Water Management Institute had projected that by 2025 most regions or countries in a broad

sweep from north China across east Asia to north Africa and northern sub-Saharan Africa will experience either absolute or severe water scarcity.<sup>7</sup>

Irrigation systems can be a double-edged answer to water scarcity, since they may have substantial spillover effects or externalities that affect agricultural production directly. Common problems of surface water irrigation systems include water logging and salinity resulting from excessive water use and poorly designed drainage systems (Murgai, Ali and Byerlee). In the Aral Sea basin in central Asia, the effects of excessive water withdrawal for cotton and rice production, combined with inadequate drainage facilities, has resulted in such extensive water logging and salinity, as well as contraction of the Aral Sea, that the economic viability of the entire region is threatened (Glazovsky, 1995). Another common externality results from the extraction of water from underground aquifers in excess of the rate at which the aquifers are naturally recharged, resulting in a falling groundwater level and rising pumping costs. In some countries, like Pakistan and India, these spillover effects have in some cases been sufficient to offset the contribution of expansion of irrigated area to agricultural production.

However, the lack of water resources is unlikely to become a severe constraint on global agricultural production in the next half century. The scientific and technical effort devoted to improvement in water productivity have been much more limited than efforts to enhance land productivity (Molden, Amarasinghe and Hussain, 2000), so significant productivity improvements in water use are surely possible. Institutional innovations will be required to create incentives to enhance water productivity (Saleth and Dinar, 2000). But in 50 to 60 of the world's most arid countries, plus major regions in several other countries, competition from household, industrial and environmental demands will

reallocate water away from agricultural irrigation. In many of these countries, increases in water productivity and changes in farming systems will permit continued increases in agricultural production. In other countries, the reduction in irrigated area will cause a significant constraint on agricultural production. Since these countries are among the world's poorest, some will have great difficulty in meeting food security needs from either domestic production or food imports.

*Pests.* Pest control has become an increasingly serious constraint on agricultural production in spite of dramatic advances in pest control technology. In the United States, pesticides have been the most rapidly growing input in agricultural production over the last half century. Major pests include pathogens, insects and weeds. For much of the post-World War II era, pest control has meant application of chemicals. Pesticidal activity of Dichlorodiphenyl-trichloroethane (DDT) was discovered in the late 1930s. It was used in World War II to protect American troops against typhus and malaria. Early tests found DDT to be effective against almost all insect species and relatively harmless to humans, animals and plants. It was relatively inexpensive and effective at low application levels. Chemical companies rapidly introduced a series of other synthetic organic pesticides in the 1950s (Ruttan, 1982; Paladino, 1996). The initial effectiveness of DDT and other synthetic organic chemicals for crop and animal pest control after World War II led to the neglect of other pest control strategies.

By the early 1960s, an increasing body of evidence suggested that the benefits of the synthetic organic chemical pesticides introduced in the 1940s and 1950s were obtained at substantial cost. One set of costs included the direct and indirect effects on wildlife populations and on human health (Carson, 1962; Pingali and Rogers, 1995). A

second set of costs involved the destruction of beneficial insects and the emergence of pesticide resistance in target populations. A fundamental problem in efforts to develop methods of control for pests and pathogens is that the control results in evolutionary selection pressure for the emergence of organisms that are resistant to the control technology (Palumbi, 2001). When DDT was introduced in California to control the cottony cushions scale, its predator the vedelia beetle turned out to be more susceptible to DDT than the scale. In 1947, just one year after the introduction of DDT, citrus growers were confronted with a resurgence of the scale population. In Peru, the cotton bollworm quickly built up resistance to DDT and to the even more effective -- and more toxic to humans -- organo-phosphate insecticides that were adopted to replace DDT (Palladino, 1996, pp. 36-41).

The solution to the pesticide crisis offered by the entomological community was Integrated Pest Management (IPM). IPM involved the integrated use of an array of pest control strategies: making hosts more resistant to pests, finding biological controls for pests, cultivation practices, and also chemical control if needed. At the time Integrated Pest Management began to be promoted in the 1960s, it represented little more than a rhetorical device. But by the 1970s, a number of important Integrated Pest Management programs has been designed and implemented. However, exaggerated expectations that dramatic reductions in chemical pesticide use could be achieved without significant decline in crop yields as a result of Integrated Pest Management have yet only been partially realized (Gianessi, 1991; Lewis, van Lenteren, Phakak and Tumlinson, 1977).

My own judgment is that the problem of pest and pathogen control will represent a more serious constraint on sustainable growth in agricultural production at a global

level than either land or water constraints.<sup>8</sup> In part, this is because the development of pest and pathogen-resistant crop varieties and chemical methods of control both tend to induce the evolution of more resistant pests or pathogen. In addition, international travel and trade are spreading the newly resistant pests and pathogens to new environments. As a result, pest control technologies must constantly be replaced and updated. The coevolution of pathogens, insect pests and weeds in response to control efforts will continue to represent a major factor in directing the allocation of agricultural research resources to assuring that agricultural output can be maintained at present levels or continue to grow.<sup>9</sup>

*Climate.* Measurements taken in Hawaii in the late 1950s indicated that carbon dioxide (CO<sub>2</sub>) was increasing in the atmosphere. Beginning in the late 1960s, computer model simulations indicated possible changes in temperature and precipitation that could occur due to human-induced emission of CO<sub>2</sub> and other “greenhouse gasses” into the atmosphere. By the early 1980s a fairly broad consensus had emerged in the climate change research community that energy production and consumption from fossil fuels could, by 2050, result in a doubling of the atmospheric concentration of CO<sub>2</sub>, a rise in global average temperature by 2.5-4.5°C (2.7-8.0°F), and a complex pattern of worldwide climate change (Ruttan, 2001, pp. 515-20).

Since the mid-1980s, a succession of studies has attempted to assess how an increase in the atmospheric concentration of greenhouse gases could affect agricultural production through three channels: a) Higher CO<sub>2</sub> concentrations in the atmosphere may have a positive “fertilizer effect” on some crop plants (and weeds); b) Higher temperatures could result in a rise in the sea level, resulting in inundation of coastal areas

and intrusion of saltwater into groundwater aquifers; c) Changes in temperature, rainfall and sunlight may also alter agricultural production, although the effects will vary greatly across regions. Early assessments of the impact of climate change on global agricultural suggested a negative annual impact in the 2-4 percent range by the third decade of this century (Perry, 1990). More recent projections are more optimistic (Mendelsohn, Nordhaus and Shaw, 1994; Rosenzweig and Hillel, 1998). The early models have been criticized for a “dumb farmer” assumption—they did not incorporate how farmers would respond to climate change with different crops and growing methods. Efforts to incorporate how public and private suppliers of knowledge and technology might adjust to climate change are just beginning (Evenson, 1998). But even the more sophisticated models have been unable to incorporate the synergistic interactions among climate change, soil loss and degradation, ground and surface water storage, and the incidence of pests and pathogens. These interactive effects could combine into a significantly larger burden on growth in agricultural production than the effects of each constraint considered separately. One thing that is certain is that a country or region that has not acquired substantial agricultural research capacity will have great difficulty in responding to anticipated climate change impacts.

#### Scientific and Technical Constraints

The achievement of sustained growth in agricultural production over the next half-century represents at least as difficult a challenge to science and technology development as the transition to a science-based system of agricultural production during the twentieth century. In assessing the role of advances in science and technology to

release the several constraints on growth of agricultural production and productivity, the induced technical change hypothesis is useful. To the extent that technical change in agriculture is endogenous, scientific and technical resources will be directed to sustaining or enhancing the productivity of those factors which are relatively scarce and expensive. Farmers in those countries which have not yet acquired the capacity to invent or adapt technology specific to their resource endowments will continue to find it difficult to respond to the growth of domestic or international demand.

In the 1950s and 1960s, it was not difficult to anticipate the likely sources of increase in agricultural production over the next several decades (Ruttan, 1956; Schultz, 1964; Millikan and Hapgood, 1967). Advances in crop production would come from expansion in area irrigated, from more intensive application of improved fertilizer and crop protection chemicals, and from the development of crop varieties that would be more responsive to technical inputs and management. Advances in animal production would come from genetic improvements and advances in animal nutrition. At a more fundamental level, increases in crop yields would come from genetic advances that would change plant architecture to make possible higher plant populations per hectare and would increase the ratio of grain to straw in individual plants. Increases in production of animals and animal products would come about by genetic and management changes that would decrease the proportion of feed devoted to animal maintenance and increase the proportion used to produce usable animal products.

I find it much more difficult to tell a convincing story about the likely sources of increase in crop and animal production over the next half century than I did a half century ago. The ratio of grain to straw is already high in many crops, and severe physiological

constraints arise in trying to increase it further. There are also physiological limits to increasing the efficiency with which animal feed produces animal products. These constraints will impinge most severely in areas that have already achieved the highest levels of output per hectare or per animal unit—in western Europe, north America and east Asia. Indeed, the constraints are already evident. The yield increases from incremental fertilizer application are falling. The reductions in labor input from the use of larger and more powerful mechanical equipment are declining as well. As average grain yields have risen from the 1-2 metric tons per hectare to 6-8 metric tons per hectare range in the most favored areas, the share of research budgets devoted to maintenance research—the research needed to maintain existing crop and animal productivity levels—has risen relative to total research budgets (Plucknet and Smith, 1986). Cost per scientist year has been rising faster than the general price level (Pardey, Craig and Hallaway, 1989; Huffman and Evenson, 1993). I find it difficult to escape a conclusion that both public and private sector agricultural research, in those countries that have achieved the highest levels of agricultural productivity, has begun to experience diminishing returns.

Perhaps advances in molecular biology and genetic engineering will relieve the scientific and technical constraints on the growth of agricultural production. In the past, advances in fundamental knowledge have often initiated new cycles of research productivity (Kislev and Evenson, 1975). Transgenetically modified crops, particularly maize, soybeans and cotton, have diffused rapidly since they were first introduced in the mid-1990s. Four countries—United States, Argentina, Canada and China—accounted for 99 percent of the 109 million acres of transgenic crop area in 2000 (James, 2000). The applications that are presently available in the field are primarily in the area of plant



protection and animal health. Among the more dramatic example is the development of cotton varieties that incorporate resistance to the cotton bollworm. The effect has been to reduce the application of chemical control from 8-10 to 1-2 spray applications per season (Falck-Zepeda, Traxler and Nelson, 2000). These advances are enabling producers to push crop and animal yields closer to their genetically determined biological potential. But they have not yet raised biological yield ceilings above the levels that that have been achieved by researchers employing the older methods based on Mendelian genetics (Ruttan, 1999).

Advances in agricultural applications of genetic engineering in developed countries will almost certainly be slowed by developed country concerns about the possible environmental and health impacts of transgenetically modified plants and foods. One effect of these concerns has been to shift the attention of biotechnology research effort away from agricultural applications in favor of industrial and pharmaceutical applications (Committee on Environmental Impact Associated with Commercialization of Transgenic Plants, 2002, pp. 221-229). This shift will delay the development of productivity-enhancing biotechnology applications and agricultural development and in less developed economies.

I find it somewhat surprising that it is difficult for me to share the current optimism about the dramatic gains to be realized from the application of molecular genetics and genetic engineering. One of my first professional papers was devoted to refuting the pessimistic projections of agricultural productivity and production that were common in the early 1950s (Ruttan, 1956). Others students of this subject have presented more optimistic perspectives (Waggoner, 1997; Runge et al., 2001). But I have not yet

seen evidence that the new genetics technologies, although undoubtedly powerful, will or can overcome the long-term prospect of diminishing returns to research on agricultural productivity.

### Agricultural Research Systems

I have given major attention to this point, to the role of agricultural research as a source of technical change and productivity growth. In this section I sketch the evolution and structure of national and international agricultural research systems.<sup>10</sup> The institutional arrangements for the support of agricultural research began in the middle of the nineteenth century. In 1843 Sir John Bennett Law established, and later endowed, an agricultural experiment station on his ancestral estate at Rothamsted (England). The introduction by Justus von Liebig of the laboratory method of training in organic chemistry at Giessen led directly to the establishment of the first publicly supported agricultural experiment station at Mockern, Saxony in 1852. The German model of public sector agricultural research became the model for agricultural research in the United States. A number of American students who studied with Liebig were responsible for establishing the research program of the U.S. Department of Agriculture and the agricultural experiment stations at the new land-grant public universities in the late 1800s (Ruttan, 1982). The basic structure of the U.S. agricultural research system has become increasingly complex, with the federal government, individual states, and the private sector each playing an important role. The sources and flows of funding for 1998 are shown in Figure 4.

Substantial progress was made in the first several decades of the twentieth century in initiating public sector agricultural research capacity in Latin America and in the colonial economies of Asia and Africa. Research efforts were focused primarily on tropical export crops such as sugar, rubber, cotton, banana, coffee and tea. The disruption of international trade during the Great Depression of the 1930s and during World War II, followed by the break-up of colonial empires, aborted or severely weakened many of these efforts.

By the early 1960s, the U.S. development assistance agency and the assistance agencies of the former colonial powers were beginning to channel substantial resources into strengthening agricultural education and research institutions with a stronger focus on domestic food crops in developing countries. The Ford and Rockefeller Foundations collaborated in the establishment of four international agricultural research institutes: the International Rice Research Institute (IRRI) in the Philippines; the International Center for the Improvement of Maize and Wheat (CIMMYT) in Mexico; the International Institute of Tropical Agriculture (IITA) in Nigeria; and the International Center for Tropical Agriculture (CIAT) in Columbia. In 1971, the two foundations, joined by the World Bank, the United Nations Food and Agricultural Organization (FAO) and the United Nations Development Program (UNDP) and a number of bilateral donor agencies, formed a Consultative Group on International Agricultural Research (CGIAR). By the early 1990s the CGIAR systems had expanded to 18 centers or institutes.

From the 1950s through the 1980s, the resources available to the new national and international research institutions from national and international sources expanded rapidly. Both the national and international systems achieved dramatic success in the

development of higher yielding, “green revolution” wheat, rice and maize varieties (Alston et. al., 2000; Ruttan, 2001, pp. 203-223). Several developing countries—India, China, Brazil, Argentina and South Africa—achieved world class agricultural research capacity. During the 1990s, however, growth of public sector support for both national and international agricultural research slowed substantially. Support for private sector agricultural research, which remains concentrated primarily in developed countries, has continued to grow rapidly.<sup>11</sup>

An active and vibrant global agricultural research system will be needed to sustain growth in agricultural productivity into the twenty-first century. But the system itself is still incomplete. When it is completed, it will include strong public national research institutions, linked to higher education, that can work effectively with the international system and other national systems. This network will be complemented by a scientifically sophisticated technology supply industry, composed of both national and multinational firms. The research systems in most developing countries have yet to establish sufficient capacity to make effective use of the existing advances in knowledge and technology. The private sector agricultural technology supply industry, although growing rapidly, still remains poorly represented in most developing countries.

## Perspective

What are the implications of the resource and environmental constraints, the scientific and technical constraints, and the institutional constraints on agricultural productivity growth over the next half century? In those countries and regions in which land and labor productivity are already at or approaching scientific and technical

frontiers, it will be difficult to achieve growth in agricultural productivity comparable to the rates achieved over the last half century (Pingali, Maya and Velasco 1990; Reilly and Fuglie 1998; Pingali and Heisey, 2001). But in most of these countries at the technological frontier, the demand for food will rise only slowly. As a result, these countries, except perhaps those that are most land constrained, will have little difficulty in achieving rates of growth in agricultural production that will keep up with the slowly rising demand for food. Several of the countries near the technological frontier, particularly in east Asia, will find it economically advantageous to continue to import substantial quantities of animal feed and food grains (Rosegrant and Hazel, 2000).

For those countries in which land and labor productivity levels are furthest from frontier levels, particularly those in sub-Saharan Africa, opportunities exist to enhance agricultural productivity substantially. Countries that are land constrained, such as India, can be expected to follow a productivity growth path that places primary emphasis on biological technology. In contrast Brazil, which is still involved in expanding its agricultural land frontier while confronting crop yield constraints in its older agricultural regions can be expected to follow a more balanced productivity growth path. Most of the poor countries or regions that find it advantageous to follow a biological technology path will have to invest substantially more than in the past to acquire a capacity for agricultural research and technology transfer. These investments will include general and technical education, rural physical infrastructure, and building appropriate research and technology transfer institutions. Moreover, gains in labor productivity will depend on the rate of growth in demand for labor in the non-farm sectors of the economy, which in turn create the incentives for substituting of mechanical technology for labor in agricultural

production. If relatively land abundant countries, in sub-Saharan Africa for example, fail to develop a strong intersector labor market in which workers can move from rural agricultural jobs to urban manufacturing and service jobs, they will end up following an east Asian land-saving biological technology path.

I find it more difficult to anticipate the productivity paths that will be followed by several other regions. The countries of the former USSR have in the past followed a trajectory somewhat similar to North America (as shown in Figure 2). If they recover from recent stagnation, these countries may resume their historical trajectory.<sup>12</sup> The trajectories that will be followed by west Asia, north Africa and other arid regions are highly uncertain. Very substantial gains in water productivity will be required to realize gains in land productivity in these areas, and very substantial growth in non-agricultural demand for labor will be required to realize the substantial gains in labor productivity that would enable them to continue along the intermediate technology trajectory that has characterized the countries of southern Europe. The major oil-producing countries will continue to expand their imports of food and feed grains. If the world should move toward more open trading arrangements, a number of tropical or semitropical developing countries would find it advantageous to expand their exports of commodities in which their climate and other resources give them a comparative advantage and import larger quantities of food and feed grains.

While many of the constraints on agricultural productivity discussed in this paper are unlikely to represent a threat to global food security over the next half century, they will, either individually or collectively, become a threat to growth of agricultural production at the regional and local level in a number of the world's poorest countries. A

primary defense against the uncertainty about resource and environmental constraints is agricultural research capacity. The erosion of capacity of the international research system will have to be reversed; capacity in the presently developed countries will have to be at least maintained; and capacity the developing countries will have to be substantially strengthened. Smaller countries will need, at the very least, to strengthen their capacity to borrow, adapt, and diffuse technology from countries in comparable agroclimatic regions. It also means that more secure bridges must be built between the research systems of what have been termed the “island empires” of the agriculture, environment and health sciences (Mayer and Mayer, 1974).

If the world fails to meet its food demands in the next half century, the failure will be at least as much in the area of institutional innovation as in the area of technical change. This conclusion is not an optimistic one. The design of institutions capable of achieving compatibility between individual, organizational, and social objectives remains an art rather than a science. At our present stage of knowledge, institutional design is analogous to driving down a four-lane highway looking out the rear-view mirror. We are better at making course corrections when we start to run off the highway than at using foresight to navigate the transition to sustainable growth in agriculture output and productivity.

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Figure 1.1 Relation between fertilizer input per hectare of arable land and the fertilizer-arable land price ratio. (hectares of arable land that can be purchased by one ton of  $N + P_2O_5 + K_2O$  contained in commercial fertilizers), the United States and Japan: quinquennial observations for 1880-1980. (Source: Yujiro Hayami and Vernon W. Ruttan, *Agricultural Development: An International Perspective*. Baltimore, MD, Johns Hopkins University Press, 1985: 179).

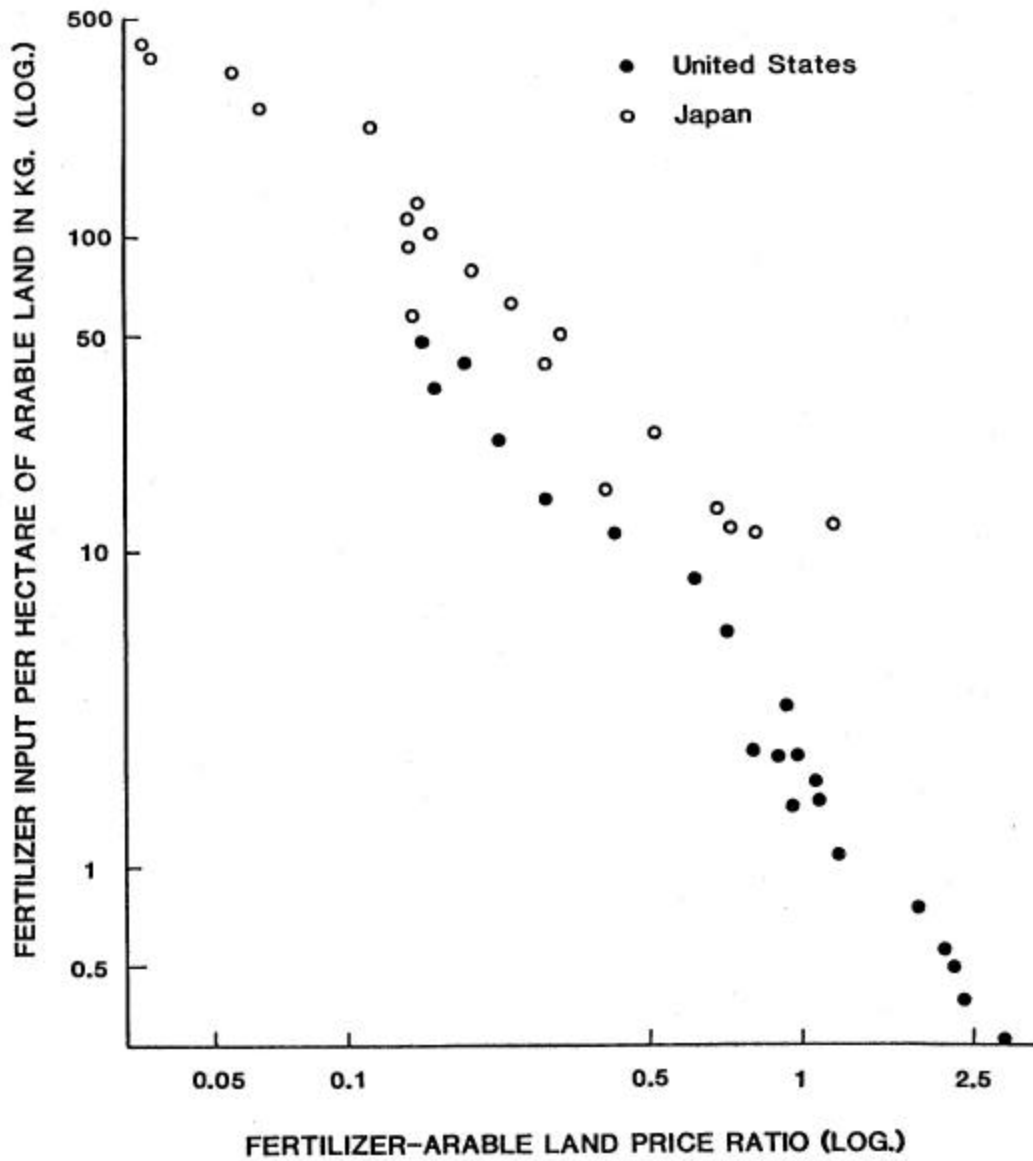


Figure 1.2 Relation between farm draft power per male worker and power-labor price ratio (hectares of work days that can be purchased by one horsepower of tractor or draft animal), the United States and Japan: quinquennial observations for 1880-1980. (Source: Yujiro Hayami and Vernon W. Ruttan, *Agricultural Development: An International Perspective*. Baltimore, MD, Johns Hopkins University Press, 1985: 178-204).

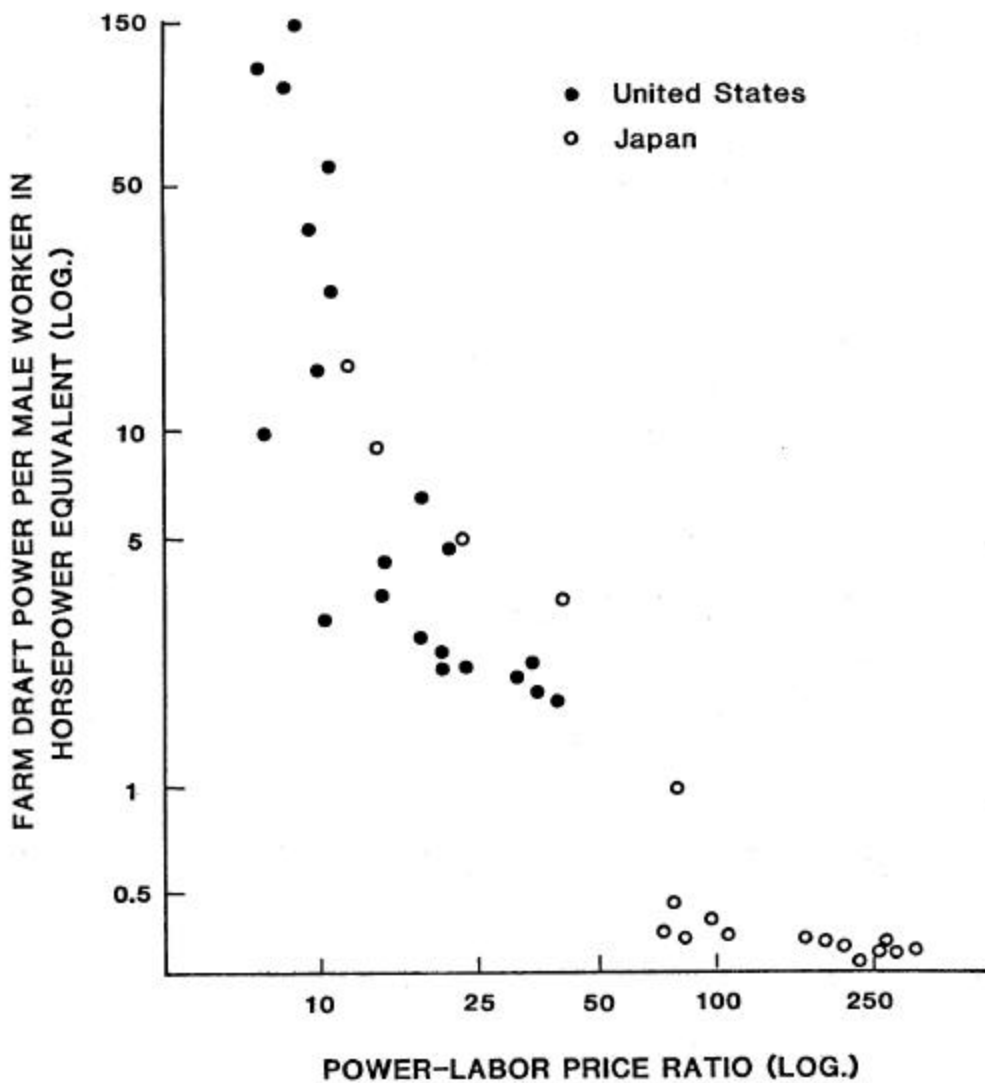


Figure 2

International comparison of land and labor productivities by region: 1961 to 1990. *Note:* AgGDP in nominal local currency units was first deflated to base year 1980 using country-specific AgGDP deflators and then converted to U.S. dollars using agricultural output PPPs. The number of countries on which the regional (weighted averages) area is based is as follows: sub-Saharan Africa (17), Asia and the Pacific (11), Latin America and the Caribbean (18), West Asia and North Africa (9), Europe (13), and North America (2). Hectares of agricultural land per economically active member of the agricultural population includes arable plus permanently cropped and permanently pastured land. "Agricultural workers" is here defined as economically active in agricultural production. (Source: Barbara J. Craig, Philip G. Pardey and Johannes Roseboom. 1997. "International Productivity Patterns: Accounting for Input Quality, Infrastructure and Research." *American Journal of Agricultural Economics* 79: 106).

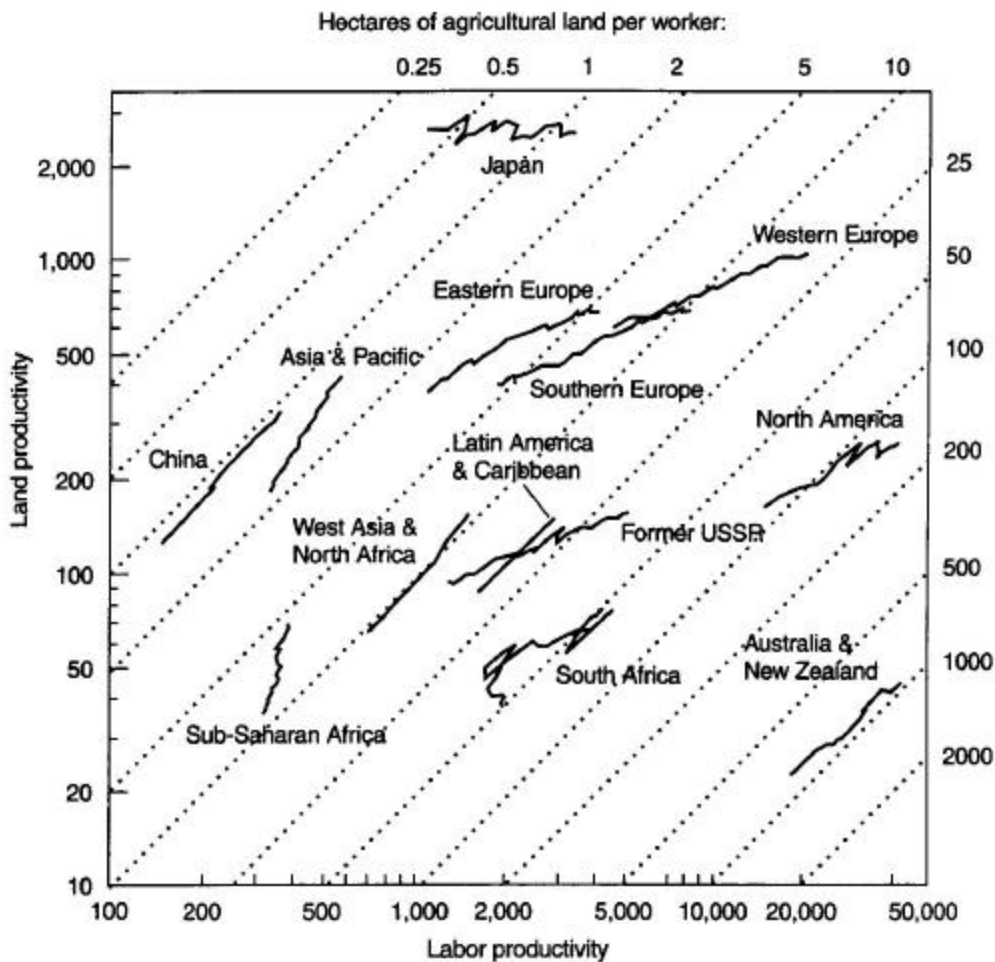


Figure 3 Efficiency Change, Technical Change and TFP Change in Asian Agriculture. (Source: K. Suharlyanto, A. Lusigi and C. Thirtle (inpress), "Productivity Growth and Convergence in Asian and African Agriculture." In *Africa and Asia in Comparative Economic Perspective*, eds., Peter Lawrence and Colin Thirtle, London: Palgrave.

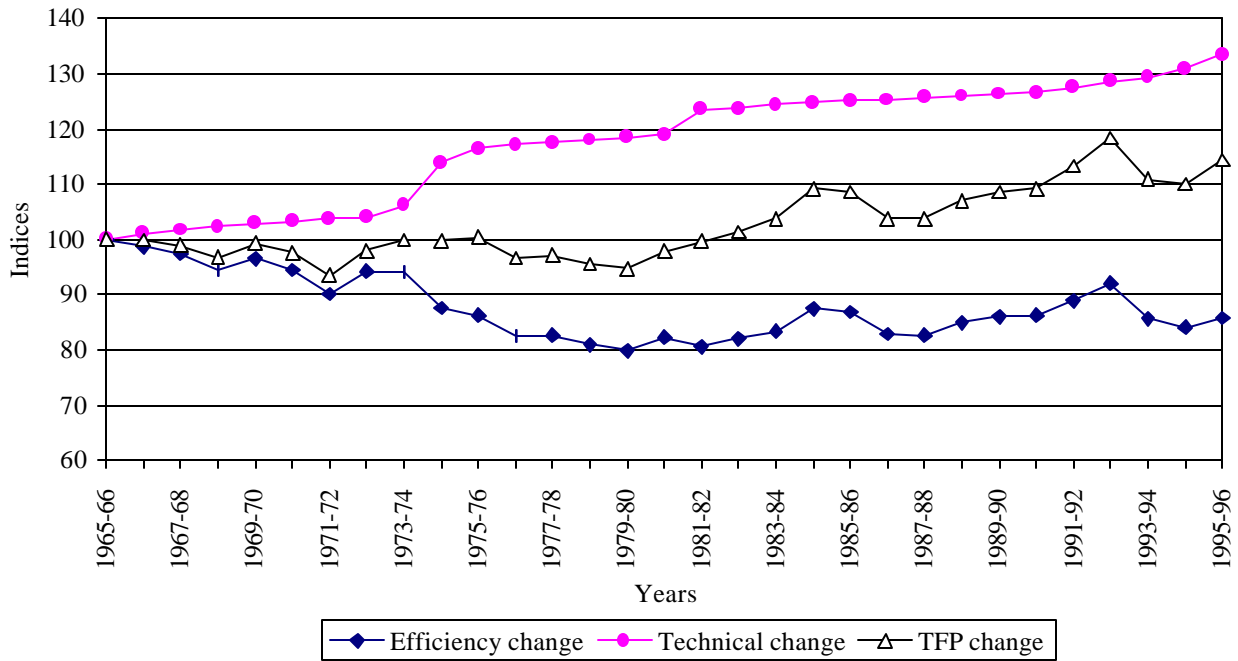
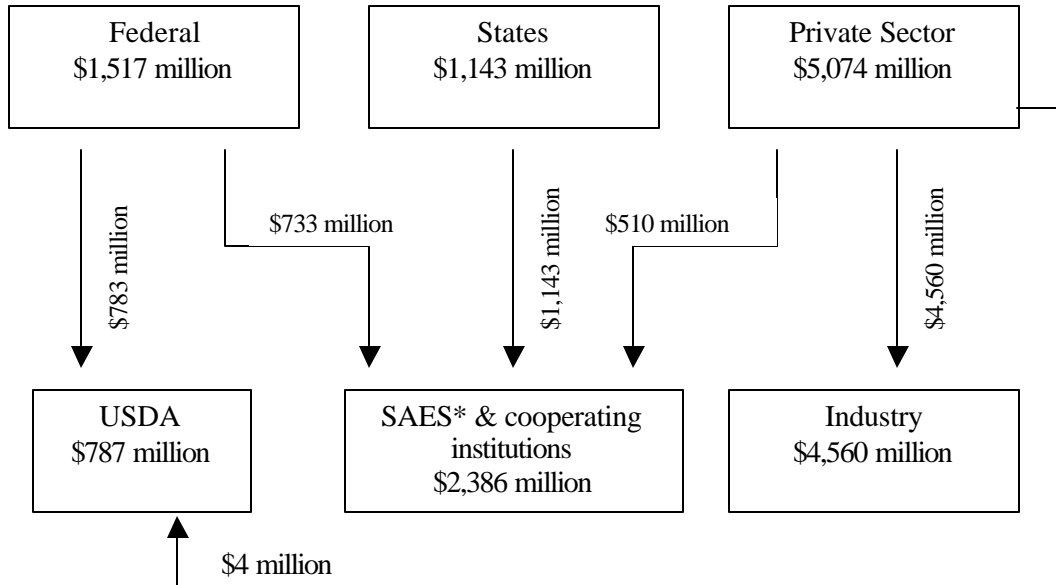


Figure 4

Sources and flows of funding for agricultural research in 1998. \*SAES are the State Agricultural Experiment Station. (Source: Adapted from Keith Fuglie, Nicole Ballenger, Kelly Day, C. Klotz, M. Ollinger, John Reilly, U. Vasavada and J. Lee. 1996. *Agricultural Research and Development: Public and Private Investment Under Alternative Markets and Institutions*. Washington, DC: USDA Economic Research Service Report AE 35.)





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<sup>1</sup> The Schultz “poor but efficient” hypothesis was received skeptically by development economists who had posited a “backward bending” labor supply curve in developing countries’ agriculture. See, for example, Lipton (1968). For a particularly vicious review of *Transforming Traditional Agriculture*, see Balough (1968). Schultz was the recipient of the 1979 Nobel Award in economics, along with W. Arthur Lewis, for his contribution to development economics.

<sup>2</sup> The Hayami and Ruttan (1985) induced innovation interpretation of technical change has been criticized on both theoretical and empirical grounds. See for example Olmstead and Rhode (1993) and Koppel (1995). For a response to these criticisms, see Ruttan and Hayami (1995).

<sup>3</sup> Multifactor productivity estimates for agriculture in the United States were first constructed in the late 1940s and early 1950s (Barton and Cooper, 1948; Schultz, 1953; Ruttan, 1956). For a comparative review and analysis of the sources of differences in the several aggregate agricultural production functions that have been estimated for U.S. agriculture, see Trueblood and Ruttan (1995). Note that from the beginning agricultural economists were using what, in the recent literature, have been termed “augmented” neoclassical production functions rather the Solow-type two-factor production functions. For a review of total factor productivity estimates in developing countries, see Pingali and Heisey (2001).

<sup>4</sup> In cross-country growth accounting, it has not been possible to account directly for improvement in the quality of inputs. Attempts are made to capture improvements in the quality of labor input by including education and for improvements in the quality of capital and intermediate inputs by including investment in technical education or research and development in the cross-country production functions. Jorgenson and Gollop (1995) have estimated that during 1947-85, when total factor productivity in U.S. agriculture grew at an annual rate of 1.58 percent, input quality change accounted for about one-third of the total factor productivity growth. Using a somewhat different approach Shane, Gopinath and Roe (1998) estimated that private research and development embodied in factor input quality, accounting for about 25 percent of total factor productivity between 1949-91.

<sup>5</sup> The advantages of the Malmquist or frontier productivity index, in addition to the decomposition of total factor productivity into efficiency change and technical change, are that: a) it is nonparametric and does not require a specification of the functional form of the production technology; and b) it does not require an economic behavior assumption such as cost minimization or revenue maximization (Fare et al, 1994a; b). The contemporaneous Malmquist approach employed by Trueblood and Coggins (2001) identifies the “best practice” countries in each period and measures the change in each countries performance relative to the change in the frontier. A country which shows a positive growth in total factor productivity may show negative Malmquist productivity change because it may lag relative to the best practice frontier. The sequential Malmquist approach that has been employed by Suhariyante, Lusigi and Thirtle (2001) does not permit negative technology shifts.

<sup>6</sup> The issues discussed in this section are addressed in greater detail in Ruttan (1999).

<sup>7</sup> Countries characterized by “absolute water scarcity” do not have sufficient water resources to maintain 1990 levels of per capita food production from irrigated agriculture, even at high levels of irrigation efficiency, and also meet reasonable water demands for domestic, environmental and industrial purposes. Countries characterized by “severe water scarcity” are in regions in which the potential water resources are sufficient to meet reasonable water needs by 2025 but only if they make very substantial improvements in water use efficiency and water development (Seckler, Molden and Barker, 1999).

<sup>8</sup> Estimates of losses in crop and animal production due to pests vary greatly by commodity, location and year. However, estimates by reputable investigators run upwards of 33 percent of global food crop

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production. Losses represent a higher percentage of output in less developed countries than in developed countries. Among major commodities the highest losses are experienced by rice (Yudelman, Ratta and Nygaard, 1998).

<sup>9</sup> I have not in this paper discussed the potential impacts of health constraints on agricultural production. The increase in use of insecticides and herbicides associated with agricultural intensification have had important negative health effect on agricultural workers. The health effects, which include the incidence of new diseases such as AIDS and of the resurgence of older diseases such as malaria and tuberculosis, are greatest in rural communities in developing countries. It is not too difficult to visualize situations in particular villages in which the coincidence of several of these health factors could result in serious constraints on agricultural production (Pingali and Roger, 1995; Bell, Clark and Ruttan, 1994; Haddad and Gillespie, 2001).

<sup>10</sup> For a more detailed discussion of the evolution and structure of national and international agricultural research see Ruttan (1982), Huffman and Evenson (1993).

<sup>11</sup> In 1995 it was estimated that global agricultural research expenditures amounted to \$33 billion (in 1993 dollars). Of this amount public sector expenditures amounted to \$12.2 billion in developed countries and \$11.5 billion in developing countries. Private sector expenditures for agricultural research amounted to \$10.8 billion in developed and \$0.7 billion in developing countries. Support the CGIAR system declined from \$334 million in 1990 to \$305 million (1993 prices) in 2000 (Pardey, 2001).

<sup>12</sup> Between 1962-1990, crop yields in the former Soviet Union experienced modest gains relative to the world's leaders. Since the early 1990s, however, yield growth rates became negative and by 1997 the yield gap between the countries of the former Soviet Union and the world leaders exceeded the levels of 1962 (Trueblood and Arnade, 2001).