Agricultural Productivity Growth, Efficiency Change and Technical Progress in Latin America and the Caribbean

Carlos E. Ludena, Inter-American Development Bank

carlosl@iadb.org

Selected Paper prepared for presentation at the International Association of Agricultural Economists (IAAE) Triennial Conference, Foz do Iguaçu, Brazil, 18-24 August, 2012.

Table of Contents

Contents

List of Tables

List of Graphs

Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, DC 20577

The Research Department (RES) produces a quarterly newsletter, *IDEA (Ideas for Development in the Americas)*, as well as working papers and books on diverse economic issues. To obtain a complete list of RES publications, and read or download them please visit our web site at: http://www.iadb.org/res

Abstract[1]

This paper analyses total factor productivity growth in agriculture and its subsectors in Latin America and the Caribbean between 1961 and 2007. To estimate productivity growth we use the Malmquist index, which is a non-parametric methodology that uses data envelopment analysis (DEA) methods. The results show that among developing regions, Latin America and the Caribbean shows the highest agricultural productivity growth, growing at an average rate of 1.9 percent, relative to a world average of 1.7 percent. The higher growth within the region has occurred in the last two decades, especially due to improvements in efficiency and the introduction of new technologies. This result denotes convergence of the region to productivity levels of developed countries such as the United States. Country level results within the region are very heterogeneous. However, land abundant countries such as Argentina, Chile and Colombia consistently outperform land constrained countries such as Central American and Caribbean countries (except for Costa Rica). Within agriculture, crops and non-ruminant sectors have shown the strongest growth between 1961 an 2001 with average growth rates of 0.8 and 2 percent, respectively. Ruminant production has performed the worst with 0.1 percent average growth. We further analyze the cases of Brazil and Cuba to show how policies and external shocks can influence agricultural productivity. These case studies show that policies that do not discriminate the agricultural sectors and that remove price and production distortions may help improve productivity growth in agriculture.

JEL Classification: O13, O47, O54

Keywords: Total factor productivity, agriculture, crops, livestock, Latin America and the Caribbean, Malmquist Index

[1] The author would like to thank Carmen Fernandes for her invaluable help in constructing the data on fertilizers.

Introduction

Productivity growth in agriculture has captured the interest of economists for a long time. As agriculture develops, it releases resources to other sectors of the economy. This has been the base of successful industrialization in now developed economies such as the Unites States, Japan or countries in the European Union. Thus, agricultural development becomes an important precondition of structural transformation towards industrial development, as it precedes and promotes industrialization.

Agricultural productivity plays a key role in the process of industrialization and development. Krueger et al. (1991) and Stern (1989) show that countries with high levels of productivity growth and only modest discrimination towards the agricultural sectors were successful industrializes. Meanwhile, countries with low levels of productivity growth and a strong bias against agriculture through trade and pricing policies were unsuccessful industrializes.

In Latin America and the Caribbean, most of the analysis of total factor productivity (TFP) growth in agriculture in the last 20 years has been in the context of worldwide multicountry studies (Fulginiti and Perrin (1993, 1997, 1998); Arnade, 1998; Trueblood and Coggins, 2003; Nin, Arndt and Preckel, 2003; Coelli and Rao, 2005; Weibe et al., 2000; Bravo-Ortega and Lederman, 2004; Ludena et al. 2007). These studies offer a broad view of agricultural productivity growth and present results for certain Latin American countries.

At the country level, there have been several studies that analyze agricultural productivity using total factor productivity with focus on particular countries. The countries analyzed in these studies include Argentina (Lema and Brescia, 2001; Lema and Parellada, 2000; Lema and Battaglia, 1998), Brazil (Rada et al., 2009; Pereira et al., 2002; Gasquez and Conceição, 2001; and Avila and Evenson, 1995), Chile (Olavarría et al., 2004), Colombia (Romano, 1993), Mexico (Fernandez-Cornejo and Shumway, 1997), Uruguay (Arancet and Calvete, 2003). Other studies have focused on group of countries such as the Andean region (Pfeiffer, 2003; Ludena et al., 2005) and South American countries (Bharati and Fulginiti, 2007).

However, none of these studies offer a complete comparative analysis of agricultural productivity growth among countries within Latin America and the Caribbean. With the exception of Avila and Evenson (2005), there is no updated comparative study in the literature that analyzes TFP growth in agriculture in the region. Additionally, for most of the multicountry studies cited the time period analyzed is usually from the 1960s up to the year 2000,[2] which misses most of the development in agriculture in the past decade.

This study tries to fill this gap in the literature as is does several things. First, it shows how agricultural productivity has evolved in the last 47 years in Latin America and the Caribbean and how it compares to other regions around the world. Second, it provides additional information of sectoral agricultural productivity in crops and livestock (ruminants and non-ruminants). Finally, it offers the most updated country analysis for the region, as it analyzes 24 countries in South and Central America and the Caribbean.

The remainder of this paper is organized as follows. In Section 2 we describe the Malmquist index method used in the study and the data used. In Section 3 we present and discuss our results on agricultural productivity for the 1961-2007 period. In section 4 we discuss sectoral results for crops and livestock, while in section 5 we showcase Brazil and Cuba, as examples on how agricultural productivity is influence by changes in economic policy and by external shocks. The final section presents some concluding comments.

Methodology – A Malmquist Index Approach

To estimate total factor productivity in agriculture we use the Mamquist Index (Färe et al., 1994). The Malmquist index is a non-parametric methodology that uses data envelopment analysis (DEA) methods to construct a piece-wise linear production frontier for each country and year in the sample.

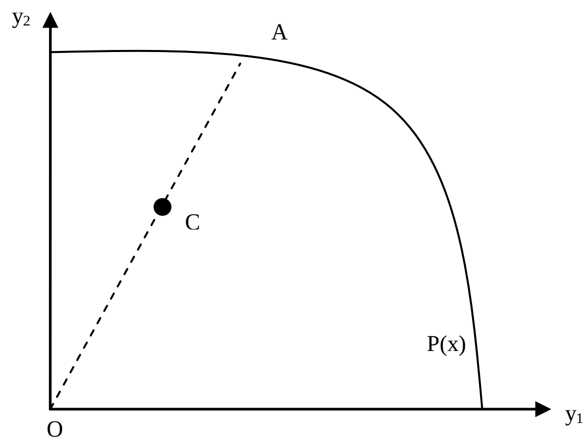
The Malmquist index is based on the idea of a function that measures the distance from a given input/output vector to the technically efficient frontier along a particular direction defined by the relative levels of the alternate outputs. Shephard's output distance function is defined as the reciprocal of the maximum proportional expansion of output vector *y* given input *x*, seeking to increase all outputs simultaneously.

[2] Most of these studies use FAO data, which until very recently, only offered input and output data up to the year 2003. In this study we use the most up-to-date data released by FAO in June 2009, which includes output data until 2007.

Figure 1 shows the output possibility set for period t and t+1. The production possibility frontier given outputs y_1 and y_2 represents efficient combinations of these outputs. There are efficient and inefficient production units in this output possibility set. Points A and C represent an efficient and an inefficient production unit, respectively along the same ray through the origin at time *t*. The maximum proportional expansion of $\boldsymbol{y}$ with respect to the frontier for production unit C is denoted by the ratio OA/OC. How far the production unit in C is from the frontier is denoted by the distance from the production point to the frontier denoted by $D_0(\boldsymbol{x},\boldsymbol{y})$ = OC/OA.

Figure 1

Output Possibility Set and Distance Functions



Färe et al. (1994) show that the distance function can be computed as the solution to a linear programming problem, with the model exhibiting constant returns to scale:

$$\left[D_0\left(\boldsymbol{x}^{k^*}, \boldsymbol{y}^{k^*}\right)\right]^{-1} = \max_{z^k, \theta^{k^*}} \theta^{k^*} \qquad (1)$$

Subject to

$$\sum_{k=1}^{N} z^k y_j^k \geq y_j^{k^*} \theta^{k^*} \qquad j = 1, \ldots, J$$

$$\sum_{k=1}^{N} z^k x_h^k \geq x_h^{k^*} \qquad h = 1, \ldots, H$$

$$z^k \geq 0 \qquad k = 1, \ldots, N$$

where k is the set of countries (k^* is a particular country whose efficiency is being measured), j is the set of outputs, h is the set of inputs, z^k is the weight of the k^{th} country data and θ is the efficiency index, which is equal to one if country k^* is efficient in producing the output vector. The model exhibits constant returns to scale.

The Malmquist index between period t and t+1 is defined as the geometric mean of two Malmquist indices:

$$M_0 = [M_0^t \times M_0^{t+1}]^{1/2} = \left[\frac{D_0^t(x^{t+1}, y^{t+1})}{D_0^t(x^t, y^t)} \times \frac{D_0^{t+1}(x^{t+1}, y^{t+1})}{D_0^{t+1}(x^t, y^t)}\right]^{1/2} \qquad (2)$$

The first term refers to the Malmquist index that measures TFP change between two data points with reference technology at time t and the second term measures the distance with reference technology at time t+1. Values of this index larger than one indicate increase in productivity.

As shown by Färe et al. (1994) the Malmquist index can be decomposed into an efficiency component and a technical change component.

$$M_0 = \frac{D_0^{t+1}(x^{t+1}, y^{t+1})}{D_0^{t+1}(x^t, y^t)} \times \left[\frac{D_0^t(x^{t+1}, y^{t+1})}{D_0^{t+1}(x^{t+1}, y^{t+1})} \times \frac{D_0^t(x^t, y^t)}{D_0^{t+1}(x^t, y^t)}\right]^{1/2} \qquad (3)$$

The first term is the efficiency change component or "catching-up", and measures the change in how far observed output is from maximum potential production (the frontier) between period t and t+1. The second term is the technical change component or "innovation" and captures the shift of technology (the world frontier) at each country's observed input mix between period t and period t+1. Once a country reaches the frontier, further growth is limited by the rate of innovation, or movement of the frontier itself.

To estimate productivity growth within agricultural for crops and livestock, Nin, Arndt, Hertel and Preckel (2003) modify the specification in (1) an estimate a directional Malmquist Index. This directional index takes advantage of information on input allocation by introducing specific input constraints for allocated inputs, modifying the directional distance function measure (Chung et al., 1997). The product-specific directional Malmquist is then defined as:

$$M_0 = \left[\frac{D_0^t(x^{t+1}, y^{t+1}, y_{-i}^{t+1}; y_i^{t+1}, \mathbf{0})}{D_0^t(x^t, y^t, y_{-i}^t; y_i^t, \mathbf{0})} \times \frac{D_0^{t+1}(x^{t+1}, y^{t+1}, y_{-i}^{t+1}; y_i^{t+1}, \mathbf{0})}{D_0^{t+1}(x^t, y^t, y_{-i}^t; y_i^t, \mathbf{0})}\right]^{1/2} \tag{4}$$

The output-specific Malmquist index in (4) indicates that we measure TFP growth for output y^t_i, while holding all other outputs y^t_{-i} constant. As with the Malmquist index, this measure can also be decomposed in both efficiency change and technical change components. This directional Malmquist Index is used to estimate the results of TFP growth in crops and livestock.

The Malmquist index is estimated using the General Algebraic Modeling System (GAMS), which is a high-level modeling system for mathematical programming and optimization (Brooke et al., 1992). The distance measures used to estimate the Malmquist Index are calculated by solving four linear programming problems in (1)[3]. For country *i*, a series of four linear programming problems are solved, one for each of the distance of country *i* at time *t* and time t+1 with respect to the frontier at time t and time t+1. The distance of each country *i* to the frontier is estimated as a byproduct of the frontier estimation method. Each linear programming problem corresponds to the solution on one distance function between period t and period t+1. The first problem evaluates the distance to the frontier at time t with respect to the technology and time t; the second evaluates the distance at time t+1 with technology at time t+1; the third evaluates the distance at time t with respect to the technology at time t+1; finally, the fourth evaluates the distance to the frontier at time t+1 with respect to the technology at time t.

Finally, we use a cumulative frontier approach as in Nin, Arndt and Preckel (2003). This technology definition eliminates the possibility of technical regress, but allows negative productivity growth through the efficiency change component of the productivity index.

Data on Outputs and Inputs

Data for inputs and outputs were collected from FAOSTAT and covered a period of 47 years from 1961 to 2007. The data included 120 countries considering two outputs (crops and

[3] For the directional Malmquist index, we use the modified optimization problem in (1).

livestock), and five inputs (animal stock, land, fertilizer, tractors, and labor). The description of these data follows in the next paragraphs.

Output for crops and livestock is the value of production expressed in millions of 1999-2001 international dollars. Labor is the total economically active population in agriculture, in thousands of people. This measure of agricultural labor input, also used in other cross country studies is an uncorrected measure, that does not account for hours worked or labor quality (education, age, experience, etc.). Tractors are the total number of agricultural tractors in use. We do not make any allowance for the horsepower of the tractors. Fertilizer is defined as the quantity of nitrogen, phosphorus, and potassium in metric tons of plant nutrient consumed in agriculture.

Land consists of arable land and permanent crops and is expressed in thousands of hectares. As defined by FAOSTAT arable land includes “land under temporary crops, temporary meadows for mowing or pasture, land under market and kitchen gardens and land temporarily fallow (less than five years). Permanent crops include land cultivated with crops that occupy the land for long periods and need not be replanted after each harvest, such as cocoa, coffee and rubber; this category includes land under flowering shrubs, fruit trees, nut trees and vines, but excludes land under trees grown for wood or timber.” Excluded from this definition are permanent pastures.

Animal stock is the number of cattle, buffalos, camels, sheep, goat, pigs, chicken, turkeys, ducks and geese expressed in livestock unit (LU) equivalent. Given the variability of body sizes of the main animal species across geographical regions, animal units are standardized for comparisons across the world as in Ludena et al. (2007). Carcass weight statistics from 2000 are used to generate conversion factors for several regions around the globe, and used to convert stock quantities into livestock units using OECD cattle as the base unit of measure. This animal stock variable improves the measures used by Ludena et al. (2007) as it incorporates buffalos and camels, important species used in Asia and Africa.

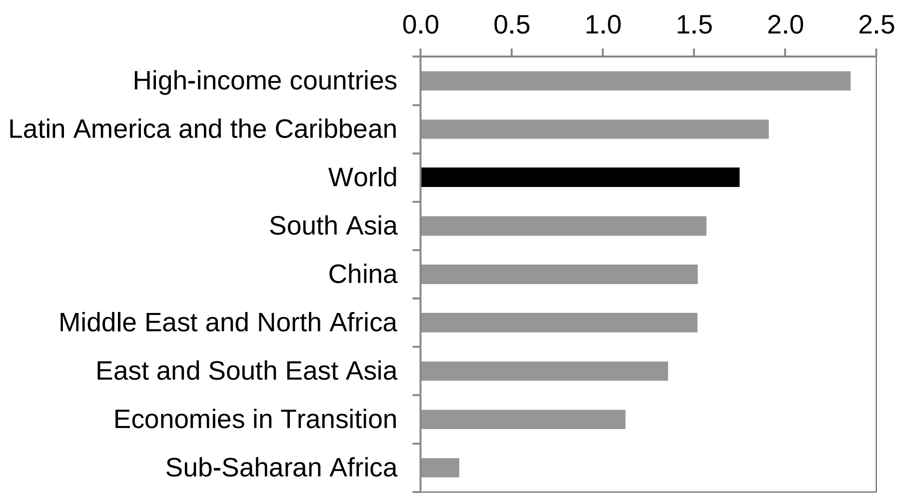
Productivity Growth in Agriculture worldwide and in Latin America

Figure 1 shows that world agricultural productivity has grown between 1961 and 2007 at an average annual rate of 1.7 percent. High income countries grew at the fastest rate than any other group of countries at an annual rate of 2.4 percent. Relative to other regions, Latin America and the Caribbean has experienced the highest growth rate in agricultural productivity among developing regions (1.9 percent), higher than Asian countries and Economies in Transition. As shown by Ludena et al. (2007), most of the growth in agriculture comes from the livestock sector, especially non-ruminants (pigs and poultry), as production technology in these sectors is more transferable from developed to developing countries.

Figure 2

Annual Total Factor Productivity Growth in Agriculture, 1961–2007

Percentage



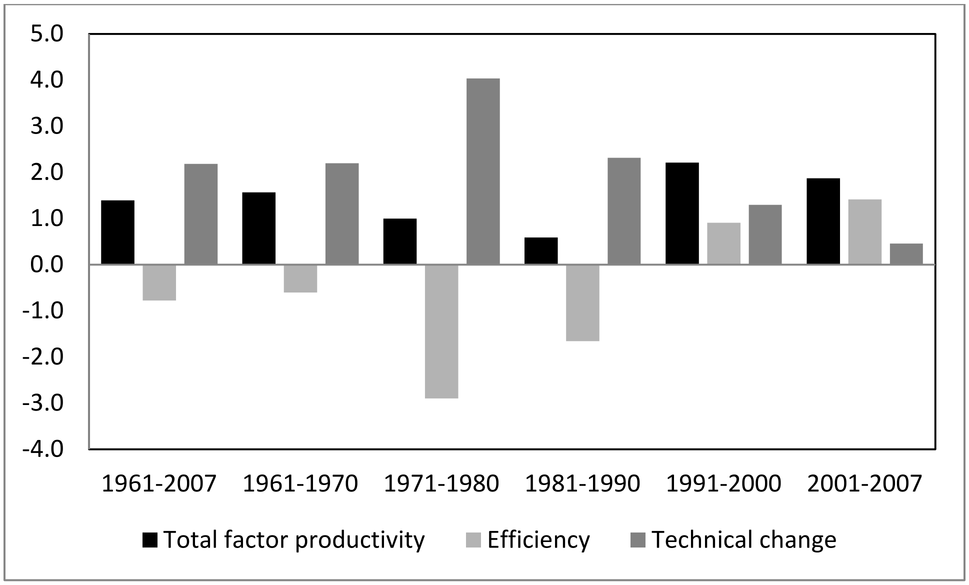
Source: Author's own estimations.

As we take a closer look at Latin America and the Caribbean, Figure 3 shows that agricultural productivity has grown at an average rate of 1.4 percent per year. Of this growth, all is due to growth in technical change (2.2 percent). In contrast, efficiency changes—that is, whether the existing technology is used more efficiently irrespective of whether that technology is itself improving—have been negative over the period (-0.8 percent). That is, on average, total factor growth in Latin America has been driven by technological change rather than changes in efficiency.

Figure 3

Annual Growth in TFP, Technical Change, and Efficiency in Agriculture in Latin America and the Caribbean, 1961–2007

Percentage



Source: Author’s own estimations.

However, as we analyze decade by decade, we observe that agricultural productivity has grown at a faster rate in the last two decades at a combined rate of over 2 percent per year, posting the fastest growth during the 1990s. Most of this growth in these last two decades is due to growth in efficiency, which has been negative during the 1960s through the 1980s but turned positive in the 1990s. This increase in efficiency —that is, whether the existing technology is used more efficiently irrespective of whether that technology is itself improving— is remarkable and may denote convergence to developed economies’ levels of agricultural production.

Latin America’s gains in agricultural productivity are associated mostly with introduction of cost saving technologies. These technologies include genetically modified crops (GMCs) (see Falck-Zepeda et al., 2009), zero tillage (Trigo et al., 2009), or the use of global positioning systems (GPS) for fertilization and harvesting. These new technologies were for the most part developed in high-income countries, but with important spillover effects in developing economies. In Latin America, Argentina and Brazil are countries where these types of technologies have become more widely used.

Taking a look at each individual country, we observe that productivity growth has been very heterogeneous among them (Figure 4). However, certain patterns are evident: those countries with higher land availability have performed better than those with land limitations. Land abundant countries (defined as those with 12 or more hectares per laborer) have grown at an annual average rate of 1.7 percent between 1961 and 2007, and five of them (Argentina, Chile, Colombia, Mexico and Venezuela) have grown at rates equal or higher than 2 percent. Countries with land constraints experienced lower average productivity growth rates (1.1 percent), which suggest the importance of land availability and scale factors in agricultural productivity.[4]

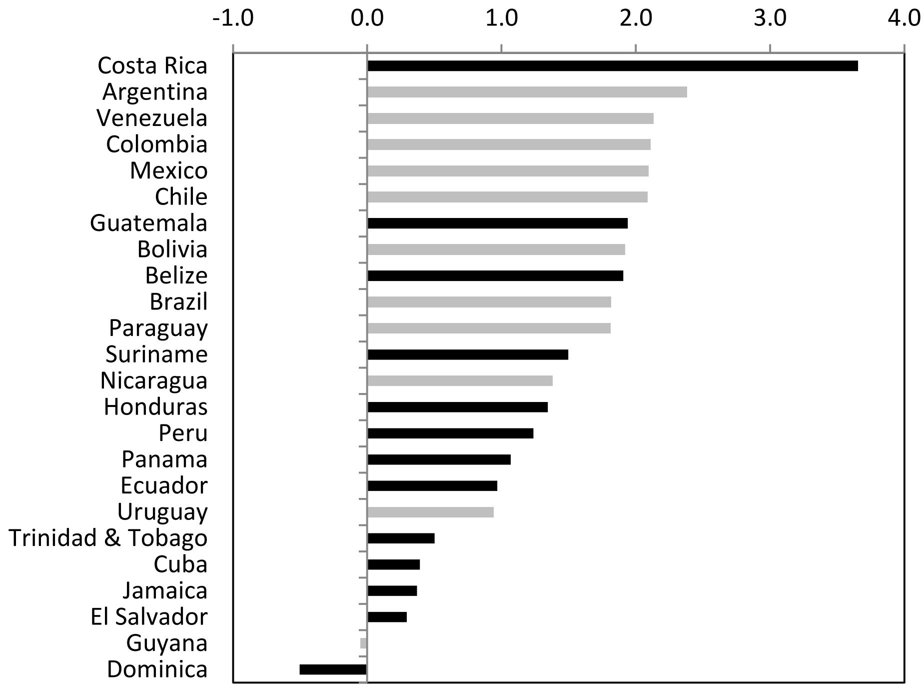
The lower growth of land constrained countries has important implications for food security and poverty reduction. Most of these countries are already net food importers, and any reduction in productivity in agriculture may exacerbate problems in achieving food security. This may also affect poverty reduction in rural areas and the competitiveness of agricultural products from these countries in world markets.

Figure 4

Productivity Growth in Agriculture by Country in Latin America and the Caribbean, 1961–2007

Percentage

[4] It is important to notice that growth rates do not tell us anything about productivity levels, which may be different from one country to the next and unrelated to those productivity growth rates.



Note: Countries in gray are land-abundant countries (more than 12 hectares per laborer). Countries in black are land-constrained countries.

Source: Author's own estimations.

As we analyze country productivity growth decade by decade, there is also not a specific pattern among countries (Table 1). Some countries like Argentina, Bolivia and Venezuela showed strong productivity growth during the 46-year period. For Brazil and Chile which also had strong growth, the 1960's proved to be a difficult period, with productivity growth rates below their own annual average for the whole period. Other countries showed the same pattern as Latin American as a whole, with slow growth during the 1970's and 1980's, and higher productivity growth rates during the 1990's and 2000's. Countries that followed this pattern include El Salvador, Panama and Peru.[5]

Table 1

Agricultural Productivity Growth in Latin America and the Caribbean, 1961-2007

Percentage

[5] Appendix Figure 1 shows the evolution of productivity growth, efficiency change and technical change for selected countries.

Country	1961-2007	1961-1970	1971-1980	1981-1990	1991-2000	2001-2007
Land abundant countries (Ha/PEA < 12)						
Argentina	2.4	3.7	3.4	0.9	0.8	3.8
Bolivia	1.9	1.0	1.9	1.3	2.4	3.9
Brazil	1.8	-0.6	1.5	3.4	2.4	2.8
Chile	2.1	0.9	1.0	2.1	4.0	2.8
Colombia	2.1	2.0	2.8	2.4	2.5	0.2
Guyana	-0.1	-0.5	0.7	-2.4	6.0	-6.1
Mexico	2.1	2.7	1.4	0.5	3.3	2.9
Nicaragua	1.4	4.7	0.0	-2.2	4.5	-0.7
Paraguay	1.8	0.3	0.5	3.7	-0.5	7.4
Uruguay	0.9	-0.9	3.1	-0.7	-0.3	5.3
Venezuela	2.1	2.8	1.4	1.4	4.4	-0.1
Average	1.7	1.5	1.6	0.9	2.7	2.0
Land constrained countries (Ha/PEA < 12)						
Barbados	0.5	2.2	-0.9	-1.4	0.0	4.6
Belize	1.9	3.7	2.7	-2.3	6.6	-2.7
Costa Rica	3.7	5.2	0.7	4.5	4.6	3.0
Cuba	0.4	-4.2	2.2	0.7	3.2	0.0
Dominica	-0.5	0.9	-2.8	1.8	-2.7	1.0
Ecuador	1.0	0.6	-0.5	0.9	0.9	4.4
El Salvador	0.3	1.8	-0.3	-1.4	0.5	1.2
Guatemala	1.9	2.3	2.1	1.2	2.0	2.2
Honduras	1.3	1.6	1.1	0.5	0.6	4.1
Jamaica	0.4	2.1	-1.6	0.7	0.4	0.2
Panama	1.1	2.6	0.2	-0.3	0.6	3.1
Peru	1.2	0.8	-2.0	-0.3	5.2	3.7
Suriname	1.5	5.3	6.1	-2.3	-2.4	1.0
Trinidad & Tobago	0.5	-1.0	-1.5	0.0	4.1	1.3
Average	1.1	1.7	0.4	0.2	1.7	1.9

Note: EAP = economically active population in agriculture.

Source: Author’s own estimations.

Despite the relatively good performance of agriculture relative to other sectors in Latin America and to other developing economies, there are important reasons not to be complacent. Convergence in agricultural productivity is important as outlined by Ludena et al. (2007). What matters for convergence to the frontier is the extent to which agricultural productivity grows in Latin America relative to frontier countries such as the United States and other developed economies. So how agricultural productivity in Latin America compares to developed economies?

Figure 5 shows the relative average cumulative productivity index for land abundant and land constrained countries in the region with respect to the cumulative productivity index in the

United States.[6] We should be careful in interpreting this graph, as we assume in this case that Latin America has the same level as the United States in 1961.[7] Taking that into consideration, the relative cumulative productivity index for both groups of countries in Latin America consistently declined from the 1960s throughout the 1980s. That is, during the first three decades of the period analyzed the productivity gap widened between Latin America and the United States. However, this relative decline was reduced during the 1990s and seemed to have leveled off at around 60 percent of United States' cumulative TFP index. This denotes convergence in relative productivity levels with the United States due to the rise of efficiency observed throughout the last two decades.

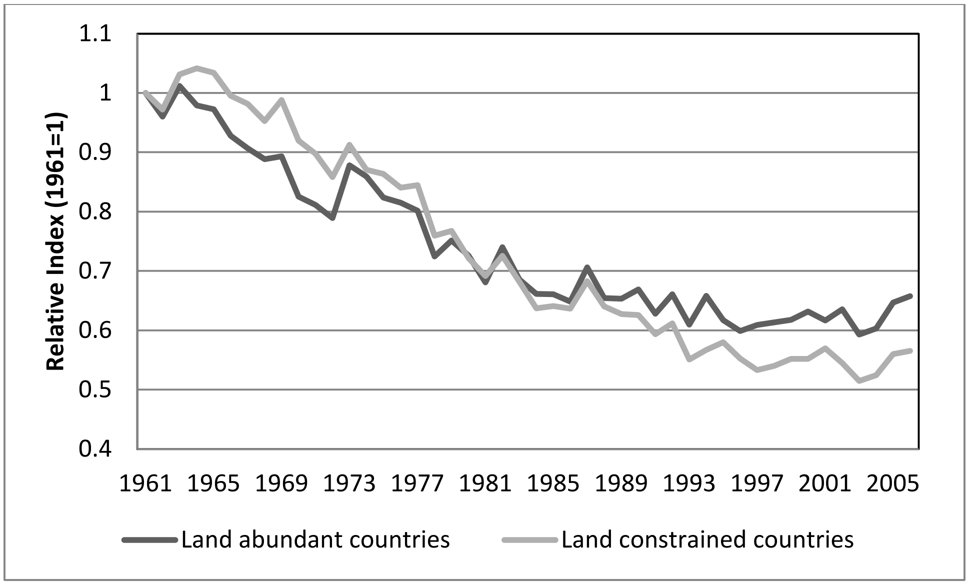
Comparing the two groups of Latin American countries relative to the United States, land abundant countries (Argentina, Brazil, Mexico, etc.) relative productivity is around 66 percent by the end of the period. For land constrained countries the relative productivity level is around 57 percent. The gap between these two groups of countries has widened during that time, mainly due to the high productivity growth rate of land abundant countries, especially during the 1990s.

Figure 5

Latin America and Caribbean Cumulative Productivity Index Relative to the United States, (1960 = 1)

[6] It is important to notice that these cumulative indices do not relate to productivity levels. For example, countries with a lower production base and productivity levels can have higher productivity growth rates (as the case of Guyana or Belize).

[7] Alauddin et al. (2005) mention that TFP level for Brazil in 1970 was half of the United States, while for Argentina it was 31 percent larger than the US level in 1970. This demonstrates the greater variation of initial productivity levels within Latin American and Caribbean countries.



Source: Author's own estimations.

Sectoral Productivity Growth in Agriculture: Crops and Livestock

To analyze the sectoral productivity growth in agriculture, we base our analysis on unpublished data from Ludena (2005). Using a directional Malmquist Index (Nin, Arnd, Hertel and Preckel, 2003), Ludena (2005) estimated agricultural productivity growth in crops and livestock, the later split into two major subsectors that includes ruminants (bovine cattle and milk production) and non-ruminants (pigs and poultry).[8] This analysis covered 116 countries around the world, including most Latin American and Caribbean countries from 1961 to 2001.[9]

The advantage of this analysis is that they not only examines agricultural productivity in the sector as a whole, but explores productivity growth at the sectoral level for both crops and livestock. Understanding the behavior of each sector within agriculture would allow us to identify which sectors within agriculture are lagging behind and may become roadblocks to agricultural development. This would allow the development of policies aimed at improving productivity growth at the sectoral level, which may be different from those policies aimed to the agricultural sector as a whole.

[8] Ruminants include bovine cattle, sheep, goats, horses, etc. and non-ruminants include pigs and poultry.
[9] We have not been able to analyze the 1961-2007 timeframe, as some of the data used in Ludena (2005) is not available up to 2007. This includes data from FAO Food Balance Sheets, which contains information to estimate the feed input variable used in livestock's productivity measures.

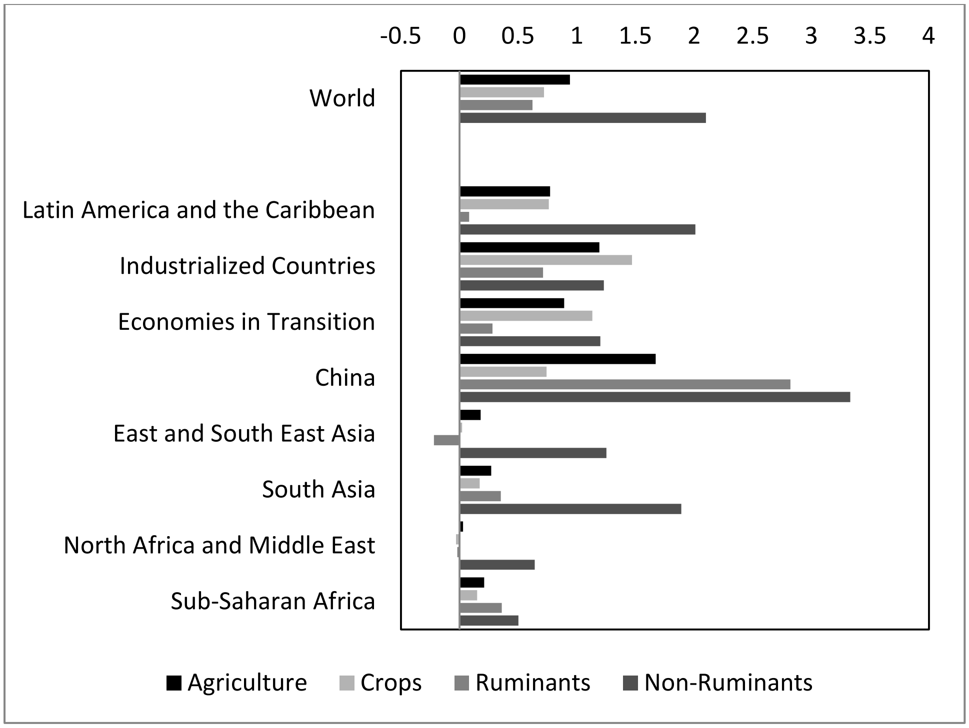
Figure 6 shows the results for Latin America and the Caribbean as it compares to other regions. The results of this analysis show that for almost all regions crops and non-ruminants have the largest growth rate, and ruminants show the weakest growth rate. Crops grew at an average rate of 0.7 percent, while within livestock, non-ruminants was the sub-sector with the largest average productivity. The world average annual growth rate for non-ruminants was 2.1 percent, while ruminant productivity grew at 0.6 percent. For ruminants, most of the regions show small growth rates (less than 1 percent), with some regions such as East and South East Asia showing negative productivity growth rates.

For Latin America, we observe the same pattern. Crops crops grew at an average annual rate of 0.8 percent, non-ruminants at 2.0 percent and ruminants showed the weakest growth at 0.1 percent. Relative to other regions, productivity growth in crops grew at a rate higher than the world average and other developing regions, but not more than industrialized economies, economies in transition and China. For non-ruminants, we have that Latin America grew, with the exception of China, at the highest rate around the world. However, for ruminants Latin America shows one of the weakest growth rates among all regions.

Figure 6

Annual Productivity Growth Rate in Crops and Livestock, 1961-2001

Percentage



Source: Own estimation based on unpublished data from Ludena (2005).

The high growth of non-ruminant production (pigs and poultry) is because technologies from developed countries are more transferable than those for ruminant production. This has enabled increased efficiency in production systems with the use of these new technologies. Other factor that has also helped is the increased use of processed food that has lowered feed costs, which makes up a large share of total costs in ruminant and non-ruminant production.

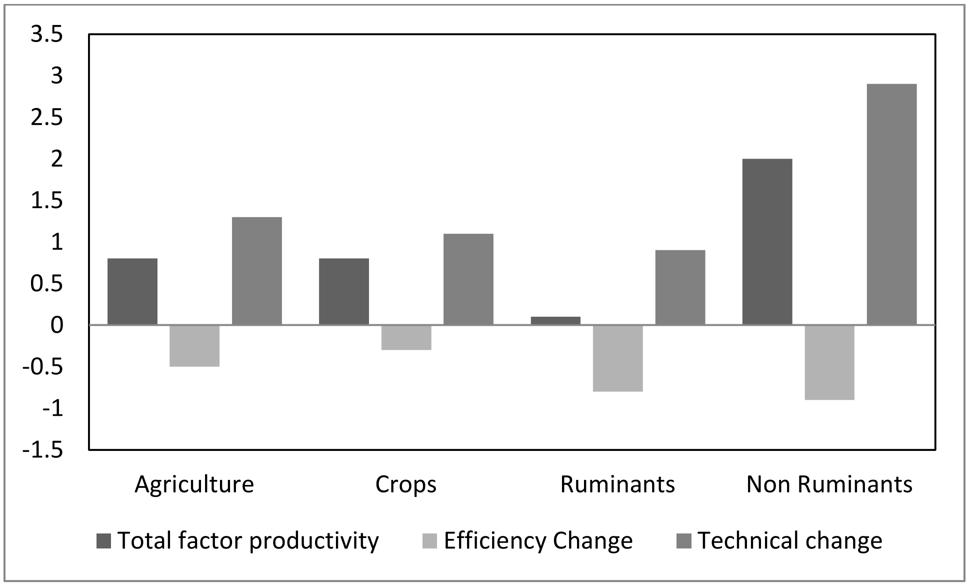
Figure 7 shows the decomposition of productivity for each agricultural sector over the 1961-2001 period. Similar to the results in Figure 3, most of the growth for all agricultural sectors (crops, ruminants and non-ruminants) comes from technological change. In other words, the outward shift of the production possibility frontier for the region, caused from technology spillovers from developed countries. As for changes in efficiency, we observe that these have been negative over the period.[10]

Figure 7

[10] There is efficiency growth in livestock during the 1990s; however, that growth is not enough to compensate for efficiency losses between the 1960s and 1980s.

Productivity Growth by Agricultural Sector in Latin America and the Caribbean, 1961-2001

Percentage



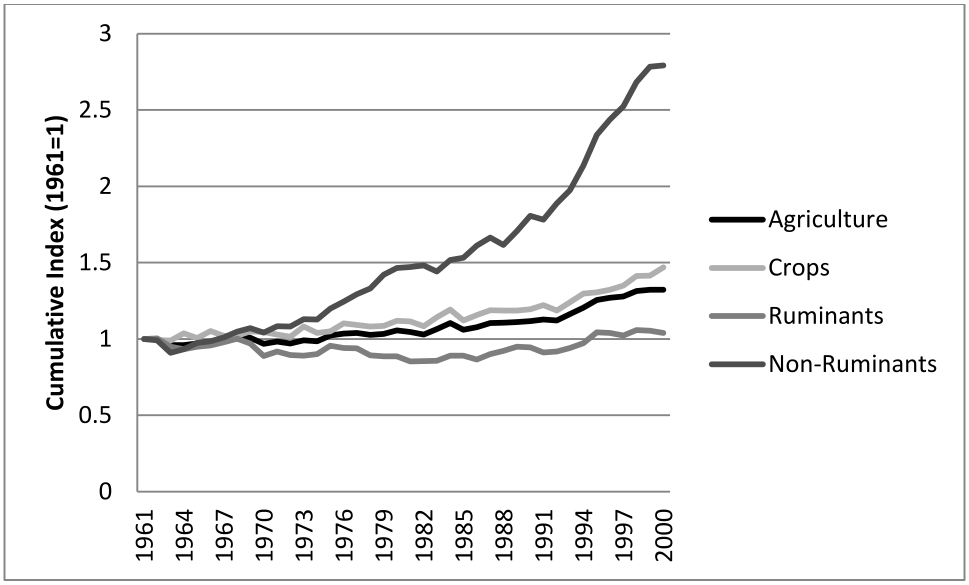
Source: Own estimation based on unpublished data from Ludena (2005).

Finally, Figure 8 shows the cumulative productivity of agriculture, as well as the three subsectors. This graph clearly shows the stagnation in productivity during the 1960s and 1970s, and the growth during the 1980s and 1990s. As we compare the subsectors, non-ruminants outperformed crops and ruminants. However, ruminant seem to be sector that is dragging down overall agricultural productivity in Latin America. This is important, as specific policies for beef and milk production could be developed in the region to improve technology transfer and efficiency of production systems.[11]

Figure 8

Cumulative Productivity Growth in Agriculture and subsectors in Latin America and the Caribbean (1961 = 1)

[11] Appendix Table 1 and Appendix Table 2 contain country level data on crop and livestock productivity growth decade by decade from 1961 to 2001. We do not discuss them here, and leave it for the reader's reference.



Source: Own estimation based on unpublished data from Ludena (2005).

Total Factor Productivity: Policy Reforms and External Shocks

Up to this point this paper has presented how productivity growth has changed due to improvements in technology and efficiency. However, there has not been a discussion on the possible effects of policies or external shocks that may have led to these productivity changes. To better illustrate this, we discuss the cases of Brazil and Cuba, and how productivity is influenced by changes in policy towards agriculture, macroeconomic shocks, and political events. We show how the estimated total factor productivity measures are able to pick up productivity variations due to changes in policy and other external shocks.[12]

Changes in Economic Policy towards Agriculture: The Case of Brazil

Since 1943 until the mid 1980s, the minimum price program (MPP) was the cornerstone of Brazil's agricultural policy (OECD, 1997). The program intended to reduce price risks, hence providing incentives for higher investment and production in agriculture. However, the program became the instrument of a "cheap food policy" for over 40 commodities which consisted in controlling agricultural prices and protecting consumers through price freezes and price fixing,

[12] This is by no means an exhaustive analysis, as we acknowledge that econometric methods should be used to establish the effects of policy reforms and external shocks on agricultural productivity.

controlling marketing margins and allowing subsidized imports to compete with domestic production. During this period, productivity growth declined in Brazilian agriculture, both for crops and livestock. Between 1961 and 1985 agricultural productivity declined on average 0.6 percent per year (Table 2). Crop productivity decreased 0.9 annually and ruminant productivity (beef and milk) declined 1.0 percent per year. The exception was the pig and poultry sector, which increased its productivity on average 1 percent per year during the period (Figure 9).

Table 2

Productivity Growth in Agriculture and its Sectors in Brazil and Cuba, 1961-2001

Percentage

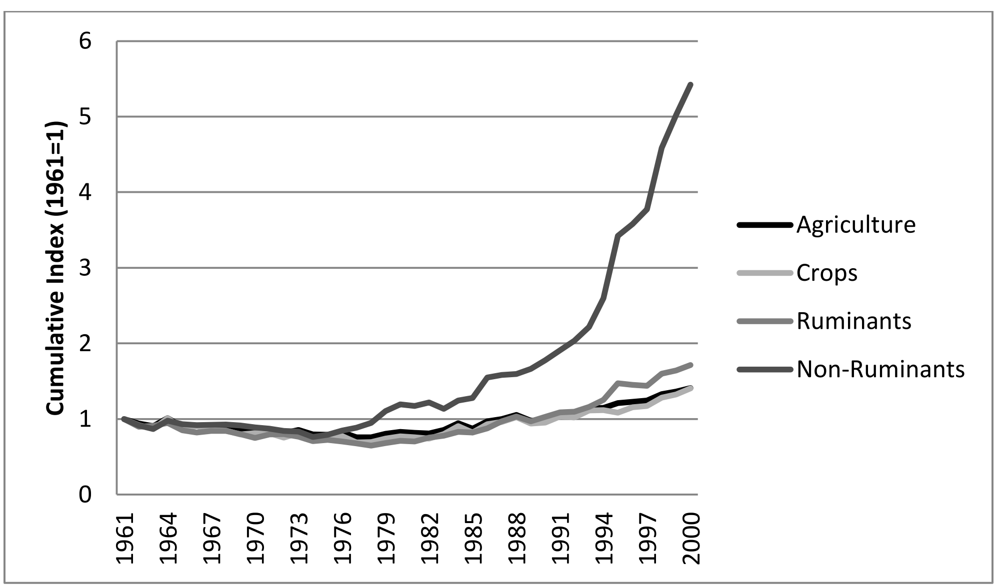
Country	Period	Agriculture	Crops	Ruminants	Non-Ruminants
Brazil	1961-1985	-0.6	-0.9	-1.0	1.0
	1986-2000	3.3	3.6	5.0	10.1
Cuba	1961-1988	0.4	-4.9	-1.0	1.9
	1989-1992	-20.9	-16.9	-22.4	-23.3
	1993-2000	6.9	2.9	5.3	9.8

Source: Own estimation based on unpublished data from Ludena (2005).

Figure 9

Cumulative Productivity Growth Index of Agriculture and its sectors in Brazil, 1961-2001

(1961=1)



Source: Own estimation based on unpublished data from Ludena (2005).

In 1985 policies towards the agricultural sector began to change with trade liberalization and the reduction of state intervention in the agricultural sector, with deregulation and the elimination of direct price controls on agricultural commodities. These changes led to reduced production costs and an increase in productivity growth in crops and livestock. From 1986, Brazil's agricultural productivity has grown by an average annual rate of 3.3 percent, with livestock productivity being the driving force in this increase in productivity. Poultry and pork productivity grew at 10 percent, and beef and milk productivity grew at 5 percent per year. For crops, productivity grew at a rate of 3.6 percent.[13]

One reason for increased poultry and pork productivity is that production of these sectors has been expanding beyond traditional regions and towards the Brazilian corn/soybean belt where the states in these regions have given incentives to these industries. This shift has translated into feed cost savings which have compensated for additional transportation costs incurred by these industries. With these productivity gains in the last 20 years, Brazilian agricultural productivity has grown by 41 percent between 1961 and 2001. Non-ruminant productivity has grown almost 5 times (442 percent), and ruminant has grown by 71 percent.

The case of Brazil shows the effects of policies that disincentive agricultural innovation and production like price fixing and policies that favor urban consumers. Changes in these policies towards market and trade liberalization, has allowed the agricultural sector in Brazil to become more innovative, acquire new technologies such as better crop varieties (disease, pest or drought resistant) or increased feed efficiency in livestock, that has allowed them to reduce costs and ultimately to increase productivity. As discussed by Helfand and Castro de Rezende (2004), the result of policy reforms transformed the agricultural sector in the most dynamic sector in Brazil during the 1990s.

External Shocks and Agricultural Policy: The Case of Cuba

[13] Magalhaes and Diao (2009) show convergence in productivity among regions in Brazil, as yields for maize and wheat in less productive regions have grown faster than in more productive regions.

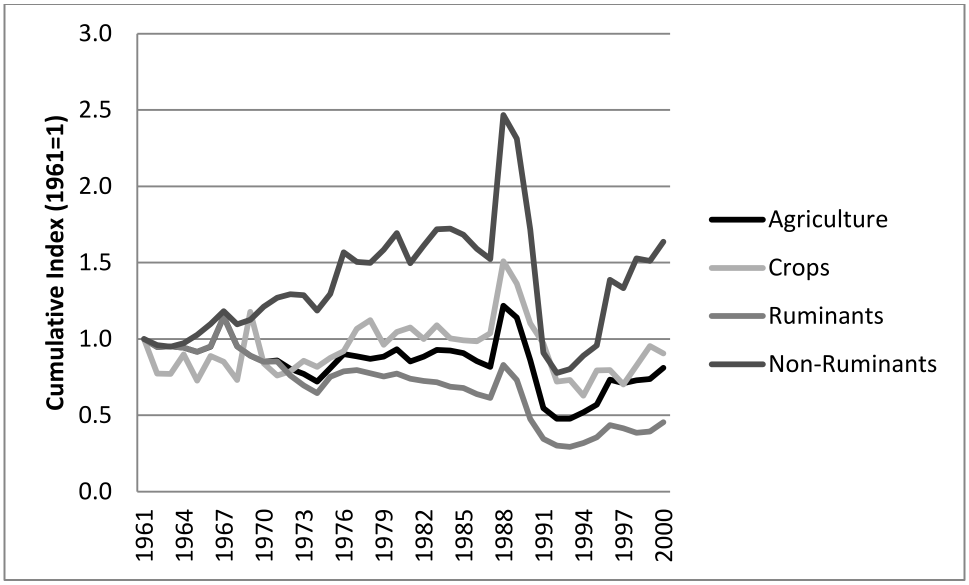
Cuban agriculture in the 1960s followed the Soviet model of monoculture, with high mechanization and heavy use of fertilizers. Large state farms were created which covered 70 percent of all agricultural land, leaving the rest to small farmers and cooperatives, with farms no larger than 70 hectares per farmer. Cuba at that time used as many tractors and fertilizer per hectare as the United States, trading sugar at preferential terms with the Soviet Union in exchange for oil, chemicals and machinery. During that time (1950s-1980s), Cuban agricultural productivity declined, indicating excessive input usage.[14] Crop and ruminant productivity decreased during this period (1 and 32 percent, respectively), with non-ruminant productivity increasing by 68 percent (Table 2).

In 1989 the Soviet Union collapsed, which meant that $6 billion dollars in subsidies to the island vanished almost overnight. According to Zepeda (2003), GDP shrank by 25 percent between 1989 and 1991, oil imports fell by 50 percent, availability of fertilizers and pesticides decreased by 70 percent, and other imports fell by 30 percent. These affected Cuban agriculture, with a decrease in agricultural productivity of 52 percent between 1989 and 1992. All sectors suffered declines in productivity, especially ruminant production (Figure 10).

Figure 10

Cumulative Productivity Growth Index of Agriculture and its sectors in Cuba, 1961-2001 (1961=1)

[14] Same productivity declines are observed during the "Green Revolution" in India, where high-yield wheat varieties required more intensive use of fertilizer and other inputs.



Source: Own estimation based on unpublished data from Ludena (2005).

Facing this crisis, in 1993 the Cuban government embarked on a series of reforms of its agricultural sector. The government gave land to farmers and cooperatives and created the UBPC (Basic Unit of Cooperative Production) as the fundamental unit of production, where farmers were allowed to sell excess production in farmer's markets. By the year 2000, the share of arable land under these units was 42 percent, while the share of the state owned land decreased from 75 to 33 percent. With these reforms, Cuba's agricultural productivity grew by an average rate of 7 percent per year. The largest increase in productivity was observed in non-ruminants (10 percent) and ruminant production (5 percent).

Non-ruminant production reached in the year 2000 pre-1988 productivity levels. This was mostly driven by the pork industry, where most of the meat in farmers' markets is pork. Cuts on feed imports promoted alternatives feed sources. Urban agriculture, through production in small plots within cities, and a more efficient use of inputs (feed) for pork, also improved productivity. Additionally, the State established a contract system with farmers, where the government assigned animal feed per ton of pork production. However, for poultry it was a different story. Reduced feed imports decreased poultry production, with many poultry production units remaining idle because of the lack of feed.

Ruminant productivity did not fully recover from the 1989 crises. Due to oil shortages, the government turned to animal traction as a substitute for tractors. By the year 2000, there were a total of 400,000 oxen in use, more than double 1990 levels, with the number of tractors decreasing by 40 percent between 1990 and 2000 (Rios and Cardenas, 2003). Sale of beef was prohibited, and anyone caught illegally slaughtering cattle could be sent to prison. As a result of these reforms, beef availability in Cuba plummeted.

This case illustrates how external shocks can affect productivity growth in agriculture. However, it also shows how policy reforms, in this case changing the land tenure system and allowing farmers to sell excess production, can have significant effects on productivity growth for the agricultural sector.

Conclusions and Policy Implications

This paper has analyzed agricultural productivity growth, technical change and efficiency change in Latin America and the Caribbean. We have analyzed the agricultural sector as a whole, as well as subsectors within agriculture including crops, ruminants and non-ruminants. We have also analyzed the cases of Brazil and Cuba, and how changes in productivity relate to policy reforms and external shocks to agriculture.

The results show that overall, Latin America and the Caribbean has performed well among other developing regions. In fact, the region shows the strongest growth of all developing countries. It is also important to note that there has been a recovery of efficiency in the last two decades, which has closed the widening gap between Latin America and developed economies such as the United States.

As we look into particular countries within Latin America, the results are very heterogeneous, but we could observe that on average land abundant countries had a higher productivity growth rate than land constrained countries. This highlights the importance of access to land and scale factors in agricultural productivity.

Within agriculture, non-ruminant and crops have been the sectors with the highest productivity levels. This denotes the ease of transfer of technologies from developed economies to developing countries. Such technologies include genetically modified crops that reduce costs on pesticides. Improved crop productivity may lower feed prices, which constitutes a large share of the costs in livestock production. However, ruminant production has lagged behind with almost no growth in the whole period analyzed.

This has important implications on sectoral policies within agriculture, as these results may imply stronger technology transfer and investment in agricultural research and development (R&D) towards ruminant production. However, this may prove difficult, given the low levels of investment in R&D in the region. As discussed by Stads and Beintema (2009), the region invested in R&D 1.14 percent of agricultural output in 2006 (around 3 billion dollars). Of this amount, 70 percent was invested by only three countries, namely Argentina, Brazil and Mexico (land abundant countries).

Stads and Beintema (2009) mention that the higher share of R&D investment by high-income countries has widened the gap with middle and low income countries. This has important implications for agricultural productivity, food security and poverty reduction in these middle and low income countries, because the countries with lower R&D investment are at the same time those that are land constrained and net food importers. Lower levels of R&D investment in these countries may hinder the ability to generate and transfer new technologies and improve efficiency in the agricultural sector. As productivity is compromised, food security and reduction of rural poverty may also be affected.

Finally, governments in the region should implement economy wide and sectoral policies that try to increase productivity in agriculture. These policies should be included within agricultural development framework that helps increase efficiency in farmers, transfer technology, implement best agricultural practices and provide access to credit, market opportunities and inputs such as fertilizer and other chemicals.

References

Alauddin, M., D. Headey and D.S. Prasada Rao. 2005. Explaining Agricultural Productivity Levels and Growth: An International Perspective. Centre for Efficiency and Productivity Analysis Working Paper No. 02/2005. School of Economics, University of Queensland, Australia.

Arancet, C. and S. Calvete. 2003. Evolución, Determinantes y Contribución de la Productividad Total de Factores al Crecimiento del Producto Agropecuario Uruguayo. Trabajo de Investigación Monográfico para la obtención del Título de Licenciado en Economía, FCEyA (UDELAR). Montevideo, Julio 2003.

Arnade, C. 1998. Using a Programming Approach to Measure International Agricultural Efficiency and Productivity. *Journal of Agricultural Economics*, 49, 67-84**.**

Avila, A F.D. and R.E. Evenson. 1995. Total Factor Productivity Growth in Brazilian Agriculture and the Role of Agricultural Research. Anais do XXXIII Congresso Brasileiro de Economia e Sociologia Rural. (Vol. I), Curitiba, 31/07 a 03/08/95. pp. 631-657, 1995.

Avila, A.F.D., and R.E. Evenson. 2005. Total Factor Productivity Growth in Agriculture: The Role of Technological Capital, In Volume 3B of the *Handbook of Agricultural Economics*, B.L. Gardner and G.C. Rausser eds. Amsterdam; New York: Elsevier.

Bharati, P. and Fulginiti, L. 2007. Institutions and Agricultural Productivity in Mercosur. In: E.C. Teixeira and M.J. Braga, (eds.), *Institutions and Economic Development*, Vicosa, MG, Brasil, Os Editores, 2007, pp. 1.

Bravo-Ortega, C. and D. Lederman, 2004. Agricultural Productivity and Its Determinants: Revisiting International Experiences. *Estudios de Economia*, 31(2), 133-163. Universidad de Chile, Santiago de Chile.

Chung, Y.H., R. Färe, and S. Grosskopf. 1997. Productivity and Undesirable Outputs: A Directional Distance Function Approach. *Journal of Environmental Management*. 51:229-40.

Coelli, T.J. and D.S. Prasada Rao. 2005. Total Factor Productivity Growth in Agriculture: A Malmquist Index Analysis of 93 Countries, 1980-2000. *Agricultural Economics*, 32(s1): 115-134.

Falck-Zepeda, J., C. Falconi, M.J. Sampaio-Amstalden, J.L. Solleiro Rebolledo, E. Trigo and J. Verástegui. 2009. La Biotecnología Agropecuaria en América Latina: Una Visión Cuantitativa. IFPRI Documento de Discusión 00860SP, Washington DC.

FAOSTAT. 2009. http://faostat.fao.org/site/339/default.aspx. Accessed July, 2009.

Färe, R., S. Grosskopf, M. Norris, and Z. Zhang. 1994. Productivity growth, technical progress and efficiency change in industrialized countries. *American Economic Review* 84(1), 66-83.

Fernandez-Cornejo, J. and C.R. Shumway. 1997. Research and productivity in Mexican Agriculture. *American Journal of Agricultural Economics*. 79(3), 738-753

Fulginiti, L. and R.K. Perrin. 1993. Prices and Productivity in Agriculture. *Review of Economics and Statistics*, 75(3) 471-482.

Fulginiti, L. and R.K. Perrin. 1997. LDC Agriculture: Non parametric Malmquist Productivity Indexes. *Journal of Development Economics,* 58, 373-390.

Fulginiti, L. and R.K. Perrin. 1998. Agricultural Productivity in Developing Countries. *Agricultural Economics*, 19(1-2) 45-51.

Gasquez, J.G. and J.C.P.R. Conceição. 2001. Transformações Estruturais da Agricultura e Produtividade Total dos Fatores. In: *Transformações da Agricultura e Políticas Públicas.* IPEA. Brasília, 539 p.

Helfand, S.M. and G.C. de Rezende. 2004. The Impact of Sector-Specific and Economy-Wide Policy Reforms on the Agricultural Sector in Brazil: 1980-98. *Contemporary Economic Policy*, 22(2), 194-212.

Krueger, A. A.Valdes and M. Schiff (eds.). 1991. Political Economy of Agricultural Pricing Policy: Latin America. Johns Hopkins University Press.

Lema, D. and G. Parellada. 2000. Productivity and Competitive Advantage of the Argentinean Agriculture. INTA. Instituto de Economía y Sociología. Buenos Aires.

Lema, D. and S. Battaglia. 1998. Crecimiento y productividad en la agricultura argentina 1970-1997: inspiración o transpiración. Reunión Anual de la Asociación Argentina de Economía Agraria, La Plata. Octubre 1998.

Lema, D. and V. Brescia. 2001. Medicion del Cambio Tecnológico la Productividad y la Eficiencia en el Sector Agropecuario. Taller Internacional "La Modelización en el Sector Agropecuario", Buenos Aires, 19 y 20 de Junio de 2001.

Ludena, C.E. 2005. Productivity Growth in Crops and Livestock and Implications to World Food Trade, Ph.D. Dissertation, Purdue University. West Lafayette, USA.

Ludena, C.E., T.W. Hertel, P.V. Preckel, and A. Nin. 2007. Productivity Growth and Convergence in Crop, Ruminant and Non-Ruminant Production: Measurement and Forecasts, *Agricultural Economics*, 37(2007): 1-17.

Ludena, C.E., T.W. Hertel, P.V. Preckel, K. Foster, and A. Nin. 2005. Cambios Tecnológicos y Productividad en el Sector Agropecuario: Un Análisis de la Comunidad Andina, *Cuestiones Económicas*, 21(1): 61-84.

Magalhaes, E. and X. Diao. 2009. Productivity Convergence in Brazil: The Case of Grain Production. IFPRI Discussion Paper 00857, April 2009.

Nin, A, C. Arndt, P.V. Preckel. 2003. Is agricultural productivity in developing countries really shrinking? New evidence using a modified nonparametric approach. *Journal of Development Economics* 71(2): 395-415.

Nin, A., C. Arndt, T.W. Hertel, and P.V. Preckel. 2003. Bridging the Gap between Partial and Total Factor Productivity Measures using Directional Distance Functions. *American Journal of Agricultural Economics* 85(4): 928-942.

OECD. 1997. Brazilian Agriculture: Recent Policy Changes and Trade Prospects. Working Paper No. 55. Paris, France.

Olavarría, J.A., B.E. Bravo-Ureta and H. Cocchi. 2004. Productividad total de los factores en la agricultura chilena: 1961-1996. *Economía Agraria y Recursos Naturales*. 4(8): 121-132.

Pereira, M.F., J.S.T. da Silveira, E.A. Lanzer and R.W. Samohy. 2002. Productivity Growth and Technological Progress in the Brazilian Agricultural Sector. *Pesquisa Operacional*, 22(2), 133-146.

Pfeiffer, L.M. 2003. Agricultural Productivity Growth in the Andean Community. *Amer. J. Agr. Econ.* 85(5): 1335–1341.

Rada, N.E., S.T. Buccola and K.O. Fuglie. 2009. Brazil's Rising Agricultural Productivity and World Competitiveness. Agricultural and Applied Economics Association 2009 AAEA and ACCI Joint Annual Meeting, Milwaukee, Wisconsin, July 26-29, 2009

Ríos, A., and J. Cárdenas. 2003. Animal Traction in Cuba: An Historical Perspective. Instituto de Investigaciones de Mecanización Agropecuaria (IIMA), La Habana, Cuba.

Romano, L.O. 1993. Productividad Agropecuaria: Evolución, Estado Actual y Tendencias Futuras. Instituto Colombiano Aropecuario, División Planeación Estratégica. Boletín Técnico. pp. 7-27.

Stads, G-J. and N.M Beintema. 2009. Public Agricultural Research in Latin America and the Caribbean: Investment and capacity Trends. Agricultural Science and Technology Indicators (ASTI) Synthesis Report, IFPRI, Washington DC.

Stern, N. 1989. The Economics of Development: A Survey. *The Economic Journal*, 99(397): 597-685

Trigo, E., E. Cap, V. Malach and F. Villarreal. 2009. The Case of Zero-Tillage Technology in Argentina. IFPRI Discussion Paper 00915, Washington DC.

Trueblood, M.A. and J. Coggins. 2003. *Intercountry Agricultural Efficiency and Productivity: A Malmquist Index Approach*, mimeo, World Bank, Washington DC.

Weibe, K., M. Soule, C. Narrod, and V. Breneman. 2000. Resource Quality and Agricultural Production: A Multicountry Comparison, mimeo, US Department of Agriculture, Economic Research Service, Washington, D.C., July 2000.

Zepeda, L. 2003. Cuban Agriculture: A Green and Red Revolution. *Choices* 4th Quarter.

Appendix

Appendix Table 1

Productivity Growth in Crops in Latin America and the Caribbean, 1961-2000

Percentage

Country / Region	1961-2000	1961-1970	1971-1980	1981-1990	1991-2000
Latin America & Caribbean	0.7	0.1	-0.1	0.6	2.3
South America	0.9	-0.2	-0.7	1.6	2.7
Caribbean	-2.2	-6.4	0.4	-0.3	-2.4
Argentina	n.d.	n.d.	n.d.	2.1	3.7
Belize	3.1	0.6	3.4	1.2	7.2
Bolivia	0.6	-3.5	-0.5	2.1	4.6
Brazil	0.7	-1.7	-1.5	2.2	3.7
Chile	3.0	4.0	1.8	3.2	3.1
Colombia	1.5	0.8	2.6	1.6	1.2
Costa Rica	2.7	4.2	0.0	3.7	3.1
Cuba	-0.4	-3.8	2.5	1.3	-1.6
Dominican Republic	0.7	2.5	0.4	-0.6	0.6
Ecuador	0.2	0.7	-1.1	0.4	0.9
El Salvador	-0.2	1.3	0.1	-1.3	-1.0
Guatemala	1.3	1.8	1.7	0.7	1.2
Guyana	3.6	3.2	4.5	0.9	5.9
Haiti	n.d.	n.d.	n.d.	-0.2	-2.7
Honduras	-1.2	-2.8	-0.1	-0.8	-1.2
Jamaica	0.7	2.6	-1.7	-0.1	2.2
Mexico	0.5	1.8	0.5	-2.3	2.0
Nicaragua	2.2	8.9	-0.0	-2.6	3.0
Panama	-1.6	-2.1	-1.7	-1.2	-1.5
Paraguay	2.1	0.3	5.4	1.6	1.3
Peru	0.7	-0.8	-1.8	0.8	4.7
Puerto Rico	n.d.	n.d.	n.d.	n.d.	n.d.
Suriname	0.1	-1.4	4.9	2.2	-5.0
Trinidad and Tobago	n.d.	n.d.	n.d.	n.d.	-1.6
Uruguay	n.d.	n.d.	4.9	0.7	2.8
Venezuela	1.2	0.8	-0.2	2.0	2.1

n.d. = No data available.
Source: Own estimation based on unpublished data from Ludena (2005).

Appendix Table 2

Productivity Growth in Livestock in Latin America and the Caribbean, 1961-2000

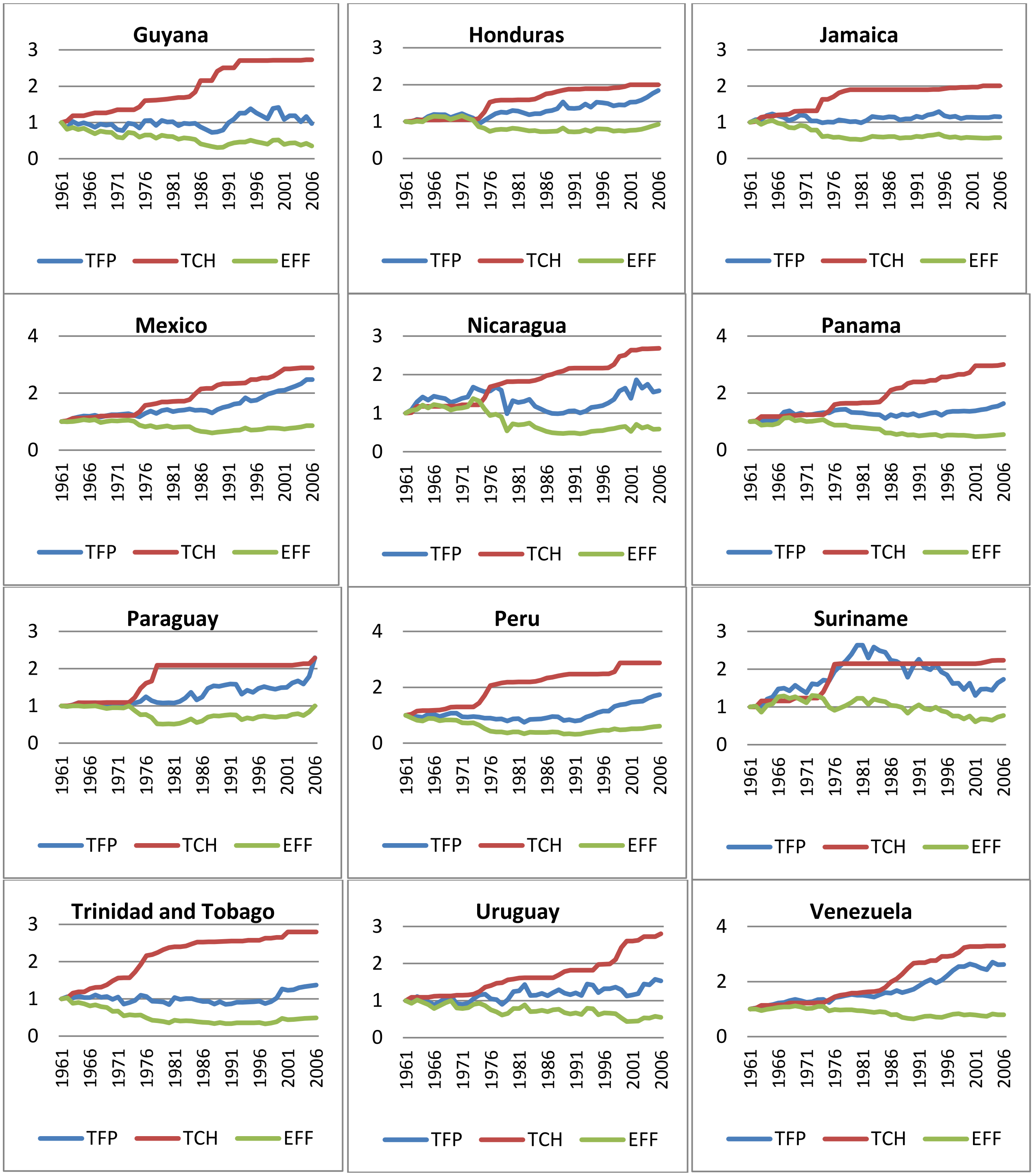
Percentage

Country / Region	1961-2000	1961-1970	1971-1980	1981-1990	1991-2000
Latin America & Caribbean	0.8	-0.8	1.2	1.9	1.0
South America	0.5	-1.4	0.8	1.9	0.6
Caribbean	1.2	0.7	1.8	0.4	1.8
Argentina	n.d.	n.d.	n.d.	n.d.	n.d.
Belize	n.d.	-0.4	n.d.	n.d.	n.d.
Bolivia	0.8	-3.0	1.4	1.5	3.6
Brazil	1.0	-3.3	0.9	2.9	3.8
Chile	1.8	2.1	0.4	3.0	1.6
Colombia	2.0	-0.8	1.0	3.3	4.8
Costa Rica	n.d.	1.5	1.5	11.9	n.d.
Cuba	1.0	2.5	2.1	-1.1	0.3
Dominican Republic	n.d.	n.d.	n.d.	n.d.	6.2
Ecuador	n.d.	n.d.	-3.3	3.0	0.7
El Salvador	1.8	1.1	2.7	1.7	1.8
Guatemala	0.8	1.1	-1.6	1.7	2.0
Guyana	n.d.	n.d.	n.d.	n.d.	n.d.
Haiti	n.d.	n.d.	n.d.	n.d.	-2.9
Honduras	-0.4	-0.8	2.4	-1.9	-1.4
Jamaica	n.d.	n.d.	-0.1	-1.9	7.3
Mexico	2.2	-0.2	3.5	1.7	4.0
Nicaragua	n.d.	n.d.	n.d.	3.3	10.1
Panama	0.8	-3.3	1.4	4.7	0.6
Paraguay	n.d.	0.3	n.d.	n.d.	13.0
Peru	n.d.	2.0	1.8	n.d.	n.d.
Puerto Rico	n.d.	n.d.	n.d.	9.4	n.d.
Suriname	n.d.	-1.3	n.d.	n.d.	-21.1
Trinidad and Tobago	n.d.	n.d.	n.d.	n.d.	-0.2
Uruguay	1.7	2.0	2.8	1.2	0.8
Venezuela	2.3	2.82	2.22	0.2	4.0

n.d. = No data available.
Source: Own estimation based on unpublished data from Ludena (2005).

Appendix Figure 1

Cumulative Total factor productivity, technical change and efficiency change in Latin American and Caribbean countries, 1961-2007 (1961=1)



Note: TFP = Total factor productivity; TCH = Technical change; EFF = Efficiency change
Source: Author's own estimations.