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Human Capital and Agricultural Productivity Change

INTRODUCTION

It is now more than 30 years since human capital held by farmers, farm workers and by the research and extension specialists developing and diffusing improved technology to them attained a role in production and income analysis. T.W. Schultz (1954), was a pioneer in studies showing that the human capital associated with formal schooling enabled farmers to be more productive. He also pioneered the growth accounting work that indicated the potential role for the improved agricultural technology developed by research scientists and diffused by extension agents. Griliches' (1957) work on hybrid corn and the diffusion of research discoveries targeted to different regions of the US initiated a number of studies showing the economic importance of new technology.¹

In the past 30 years numerous studies of the role of human capital in agriculture have been made. Norton and Davis (1981) reviewed more than 100 studies of research impact. Jamison and Lau (1982) reviewed more than 30 studies of farmer schooling impacts. Birkhauser, Evenson and Feder (1988) reviewed more than 40 studies of extension impacts. These reviews showed that in spite of differences in methodologies almost all studies supported the basic propositions put forth in the original papers. Human capital, whether in the form of basic literacy or in more advanced understanding of technical relationships and management principles, has economic value because it enables more efficient and productive farms and family enterprises.²

The chief objective of this paper will be to address several conceptual and statistical issues pertinent to these studies and to review several recent studies where formulations take these issues into account. Conventional human capital studies (for example, of returns to schooling) are considered only to the extent that they are part of broader studies.³ This review shows that these recent studies continue to support the general proposition that human capital has high productive value.

CONCEPTUAL ISSUES

Most data suited to measuring human capital impacts are not well suited to isolating the impact or contribution of a single type of human capital to

* Yale University

productivity or farm income. A number of studies of schooling-income relationships have been undertaken under the assumption that the effect of other types of human capital – extension, applied research and pre-technology science – are ‘constant’ in that they affect all observations in a comparable way. Even where this may be a plausible assumption, as, for example, in a cross-section of farms in a small region, a number of studies have shown that the *level* of other types of human capital affects the return to schooling (and that the level of schooling affects the return to extension). Welch (1970) calculated, for example, that a substantial part (at least one-third) of the earnings differential realized by farmers with high levels of schooling would disappear if the flow of new technology were to be halted.⁴

Table 1 depicts the relationship between types of human capital skills and products that they are associated with. The products (and their associated skill types) are presented in a *hierarchical* fashion because each higher order product is or can be a productive input into the production process below it. The central product of agricultural research systems is the agricultural invention (5) as typified by a new crop variety. The term invention is used here in a broad sense and can cover mechanical, biochemical, chemical, electrical, and even managerial inventions of new technology. The development of inventions induces sub-inventions which are derivative modifications of inventions. On-farm and farming system researchers engage in sub-invention as they seek to design improved systems.⁵ Much agronomic research is of this type. Some extension workers and farmers also engage in sub-invention. Communication of technical and price information, the specialty of extension systems, enhances technical choice and farm management decisions by farmers.

In agricultural research systems, product levels above (or upstream from) the actual invention of new technology also matter because they determine invention potential through the production of pre-invention ‘germplasm’. For biological inventions there is a natural sense in which genetic resources serve a ‘parental’ role in facilitating the development or invention of an improved plant (or animal). In a more general sense, the definition of parental material can be broadened to include not only genetic, mechanical, and chemical materials, but methods and concepts (that is, intellectual germplasm) as well.⁶

The planned production of pre-invention germplasm in many forms is a critical activity in agricultural research systems. Many systems institutionalize such work within experiment stations and direct it toward the production of such germplasm. As depicted in the table, general scientists produce some agricultural pre-invention germplasm, but in a less focused and directed way than do the agricultural scientists working in experiment stations.

Spatial or spill-in dimensions

As one moves up the hierarchy of human capital products in Table 1, the location specificity of the products decreases and the likelihood of product spill-in to a given location (having originated outside the location) increases.

Farm management and technology choices must be made by each farm manager and there is virtually no spill-in (or out) of these products. Information regarding technology, prices, weather, and so on, does spill in, sometimes across

TABLE 1 *Human capital dimensions*

<i>Human Capital Products</i>			<i>Specialists</i>				
Level	Description	Farmers	Extension Workers	OF-FS Researchers	Applied Agricultural Scientists	Basic Agricultural Scientists	General Scientists
7	General science					X	XXX
6	Pre-invention germplasm				X	XXX	X
5	Technology invention			X	XXX	X	
4	Sub-invention	X	X	XXX	XX		
3	Information communication	XX	XXX	XX	X		
2	Technology choice decision	XXX	X	X			
1	Farm management decision	XXX	X				

long distances. Inventions vary greatly in their location specificity. Crop varieties typically have a high degree of location specificity because of genotype environment interactions (this is especially the case for corn). Many mechanical inventions are also location specific for similar reasons. Agricultural chemicals, on the other hand, have low location specificity and spill broadly across many environments.⁷

Sub-inventions, because they are derivative from inventions, will have a higher degree of location specificity than the inventions from which they are derived. Farming systems management recommendations, for example, may be seen as a modification or sub-invention with high location specificity. Pre-invention germplasm, on the other hand, will typically have quite low location specificity and general science may have very low location specificity.

Spill-in and system design

Technology system design for agriculture must respect the inherent location specificity of the products in question. A given location must have specialists in the location if the product does not spill-in (for example, levels 1 and 2 in Table 1). It need not have specialists in the location provided the product:

- 1 Is being produced outside the location in a reasonable 'spill-way' (that is, the product will spill from its origin to the location with low locational friction).
- 2 The receiving location has the skills to interpret and screen information relevant to the product.

In many locations in the developing world in the 1950s, the extent of real spill-ways for most agricultural technology was seriously overestimated. Many locations (even countries) felt that it was necessary to invest only in information (extension) systems and some sub-invention, and that they could forgo investing in applied agricultural research because they were located in good spill-ways. Most locations found that the spill-way gradients were actually quite high and that there were few good research programmes located in these spill-ways. Thus, both national and international research programmes located in the spill-ways in the tropics and sub-tropics had high payoffs. Today, a complex system of international, national, regional and branch research stations (and extension systems) has emerged in response to experience with limited spill-in of technology.

Timing relationships

Each human capital product in Table 1 has a life cycle over time (which is related to the spatial dimension) in which it is produced and then enters into economic use. After use it may be superseded by another substitute or follow-on product, which to some degree builds upon the initial product. If it is superseded by a follow-on product that is an 'additive' to it, its life time will be permanent even

though it is rendered obsolete by the additive technology. If it is superseded by a product with incomplete 'additivity', its impact on productivity will decline, and it will then depreciate.⁸

Farm management decisions typically have a short life because next year's decisions may depend on new information, hence additivity occurs. Technology choice decisions have a longer life. Most extension information has a relatively short life because of new non-additive information.

New technology typically has a longer life because even when inventions (for example, varieties) are superseded by new ones, the new inventions have been built upon the old ones (through the parentage mechanism). Crop and animal technology is subject, however, to real environmental exposure losses in cases where pests and pathogens exploit this technology after exposure.

METHODS FOR HUMAN CAPITAL VALUATION AND ECONOMETRIC SPECIFICATION ISSUES

Studies of human capital contributions to agriculture have concentrated on measuring the relationship between human capital investments and farm production, profits and incomes. Relatively few studies have attempted to compute more general economic outcomes. It is convenient to classify these studies in the following categories:

- A Imputation-Accounting Studies
- B Meta-Production Function Studies
- C TFP Decomposition Studies
- D Meta-Profits Function Studies

These 4 classes of studies are in roughly chronological order in that the earliest studies in this field were of the imputation-accounting type and the meta-profits function studies are of most recent origin. The term 'meta' is used here to refer to specifications which do not treat technology as fixed and given as in conventional specifications. Instead they include variables that seek to *proxy* flows of human capital products. These variables are usually based on measures of investment in inputs into the activity (for example, research or extension) rather than on direct measures of the product in question. Accordingly, the hierarchical, spatial and timing dimensions discussed above must be addressed.

In general, the imputation-accounting studies have relied on proxies for human capital products more directly and hence have avoided many of the specification issues (see below). The TFP decomposition studies, however, are indirectly a form of meta-production function study, and thus the issue of human-capital variable specification arises in the same form in these studies as well.

The general treatment of these specification questions has proceeded along the following lines:

- a) Hierarchical issues have been addressed by seeking more detailed measurement and classification of human capital products. Interaction variables are then used to deal with the hierarchical issues.

- b) Spatial or spill-in specifications have generally been based on geo-climate data. Typically, the unit of observation for which production data are observed (for example, the average farm in a district) can be matched to similar geo-climate regions outside the unit of observation. It is often the case that little or no actual research is conducted in the unit itself, but that research may be conducted elsewhere in (and presumably for) a similar region or sub-region. The procedure used in several studies is to form a variable:

$$\hat{R}_u = \alpha R_u + \beta R_{ss} + \gamma R_{sr} \quad (1)$$

where R_u is the research stock variable for research conducted in the unit, R_{ss} is for research conducted outside the unit in similar geo-climate sub-regions and R_{sr} is for research conducted in similar geo-climate regions. Iterative methods are usually used to estimate α , β and γ and hence spill-in.

- c) Timing issues are addressed by forming a stock from previous investment where the timing weights α_i in the stock measure the life cycle impacts of research conducted in a given time period t .

$$R_t = \sum_i W_i R_{t-i} \quad (2)$$

Since these weights typically rise and then fall, the exponentially declining weight structure used in many distributed lag models is poorly suited to this problem.⁹ Most studies have estimated periods of rising, constant and falling weights, by iterative methods (see Evenson and Hoffman, 1988).

Imputation-accounting studies

Imputation-accounting studies evolved from the original total factor productivity (TFP) measurement methods. Imputation-accounting methods entail the application of one or more 'corrections' or imputations to the TFP data to account for TFP growth. The basic idea is that by 'chipping-away' at the residual TFP growth component with enough corrections and imputations one will reach a pretty complete accounting for the components of TFP growth. The pioneers in this general approach are Schultz (1954), Griliches (1957) and Denison (1967). Griliches and Jorgensen (1957) contributed a major study of this type and engaged in a debate with Denison over procedures.

The most direct corrections or imputations are those associated with human capital change. Studies of schooling-associated skills show that under the assumption that earnings differentials associated with skills were reflecting real productivity, corrections for labour quality can be made.

The foundations for the accounting approach can be developed in the following simple way:

Suppose that the true relationship between output and input is:

$$Y = \delta F(LQ_1, MQ_m, HQ_h, Z) \quad (3)$$

where δ is a scale economies parameter, and Q_l, Q_m , and Q_h are quality indexes that index the units of labour (L), machines (M) and land (H) into 'real' quality-constant units over time (or across observations). Z is a vector of variables that characterizes technology and infrastructure contributions not channelled through scale or factor quality.

Now suppose that we do not observe δ, Q_l, Q_m or Q_h and simply measure:

$$Y = F(L, M, H) \quad (4)$$

The observed TFP growth rate from (4) will be:

$$\bar{TFP} = Y - S_l \hat{L} - S_m \hat{M} - S_h \hat{H} \text{ where } S_l, S_m \text{ and } S_h \text{ are factor cost shares.} \quad (5)$$

The true TFP growth rate is:

$$\bar{\bar{TFP}} = \hat{Y} - \hat{S}_l (\hat{L} + \hat{Q}_l) - S_m (\hat{M} + \hat{Q}_m) - S_h (\hat{H} + \hat{Q}_h) - \alpha \hat{Z} - \hat{S} \delta \quad (6)$$

where α is the elasticity of product with respect to the Z variables and \hat{S} is the rate of change in farm size.

Suppose further that the shares S_l etc. may be measured with error (S_l^* etc. are the true shares), then the difference between measured TFP growth and the correct TFP growth is:

$$\begin{aligned} \bar{\bar{TFP}} - \bar{TFP} = & (S_l - S_l^*) (\hat{L} + \hat{Q}_l) + (S_m - S_m^*) (\hat{M} + \hat{Q}_m) \\ & + (S_h - S_h^*) (\hat{H} + \hat{Q}_h) + S_l^* \hat{Q}_l + S_m^* \hat{Q}_m + S_h^* \hat{Q}_h + \alpha \hat{Z} + \delta \hat{S} \end{aligned} \quad (7)$$

Note that the first three terms are based on errors in measuring the factor shares or marginal products, and the second three are based on the failure to correct for factor quality. The technology-infrastructure term unassociated with factor quality and the scale term are also included. Griliches and others who have utilized this framework have noted that the simple specification of this model does not, by itself, mean much. To be meaningful, one must bring additional evidence to the problem. One must obtain better share (marginal product) measures and actually compute Q_l, Q_m and Q_h . The definitions themselves are a tautology unless this is done.

A large literature on the measurement of \hat{Q}_l based on schooling-income relationships exists and has been applied in many accounting studies. This adjustment is generally the most important accounting contribution in these studies.¹⁰ Griliches has also made adjustments for share corrections, capital stock measurement and scale economies in the context of the above specification for agriculture.

The methodology for studies concentrating on evaluating the contribution of agricultural technology entails the following steps:

- a) Identifying the invented technology (in most cases this is a set of inventions rather than a single 'invention'. For example in the hybrid corn study many hybrid varieties were considered).

- b) Documenting all costs associated with producing, developing and diffusing the invention(s). With hybrid corn this included all public and private costs. These costs were incurred as long as 25 or 30 years prior to the realization of benefits.
- c) Estimating the cost advantage for early adopters. Some studies have utilized experiment station trials to make controlled 'with- without' yield and cost comparisons. These comparisons, however, are generally not representative of farmer fields, and most studies have attempted to obtain farm level comparisons. (In the hybrid corn study both experiment stations and farm data were used.)
- d) Estimating the adoption pattern and the adoption-advantage interaction. In general, a new invention(s) will be adopted first on economic units where the cost advantage is greatest. As adoption spreads, the advantage typically declines (unless, as with hybrid corn, the technology as defined is undergoing continuous change).
- e) Converting c and d to a benefits stream.

Imputation studies then have generally sought to estimate the shifts in supply curves from cost data. They have also estimated (or, all too often, simply assumed) the units over which these skills apply. Generally, adoption rates are used to determine these units.

Table 2 summarizes a number of the studies of the Imputation-Accounting type.

The calculated internal rates of return represent the *average* rate of return per dollar invested over the period studied, with the benefits of past research assumed to continue indefinitely. Some studies have sought to distinguish between changes in consumers' surplus and changes in producers' surplus.

Statistical meta-production function studies

Table 3 summarizes several meta-production function studies where research extension and schooling variables have been incorporated into aggregate production function analyses. In one form or another these studies had to address the three questions discussed above in specifying the research (and extension) variables. The first is the specification of research across commodities. The second is the spatial or regional issue. The third is the timing dimension.

The studies vary greatly in the specification of these variables. In some cases time series data were used and simple lags were presumed. Other studies used distributed lag methods. The Evenson-Welch study for the US is one of the few to actually estimate spill-in. In this study geo-climate regions and sub-regions were defined. The study estimated crop research spill-in to be confined to geo-climate sub-regions, while livestock research impacts were confined to geo-climate regions – hence spill-in from one state to another was quite extensive.

The estimated rates of return from these studies can be roughly interpreted as returns to marginal investment. They are calculated by computing the estimated marginal product of the research (or extension or schooling) variable and then

TABLE 2 *Imputation-accounting studies*

Study	Country	Time Commodity	Annual Internal Period	Rate of Return (%)
Griliches, 1958	USA	Hybrid corn	1940–1955	35–40
Griliches, 1958	USA	Hybrid sorghum	1940–1957	20
Peterson, 1967	USA	Poultry	1915–1960	21–25
Evenson, 1969	South Africa	Sugarcane	1945–1962	40
Barletta, 1970	Mexico	Wheat	1943–1963	90
Barletta, 1970	Mexico	Maize	1943–1963	35
Ayer, 1970	Brazil	Cotton	1924–1967	77+
Schmitz and Seckler, 1970	USA	Tomato Harvester, with no compensation to displaced workers	1958–1969	37–46
		Tomato Harvester, with compensation of displaced workers for 50% of earnings loss		16–28
Ayer and Schuh, 1972	Brazil	Cotton	1924–1967	77–110
Hines, 1972	Peru	Maize	1954–1967	35–40 ^a 50–55 ^b
Hayami and Akino, 1977	Japan	Rice	1915–1950	25–27
Hayami and Akino, 1977	Japan	Rice	1930–1961	73–75
Hertford, Ardila, Rocha and Trujillo 1977	Colombia	Rice	1957–1972	60–82
		Soybeans	1960–1971	79–96
		Wheat	1953–1973	11–12
		Cotton	1953–1972	none
Pee, 1977	Malaysia	Rubber	1932–1973	24
Peterson and Fitzharris, 1977	USA	Aggregate	1937–1942	50
			1947–1952	51
			1957–1962	49
			1957–1972	34
Wennergren and Whitaker, 1977	Bolivia	Sheep	1966–1975	44
		Wheat	1966–1975	–48
Pray, 1978	Punjab (British India)	Agricultural research and extension	1906–1956	34–44
	Punjab (Pakistan)	Agricultural research and extension		
		Rice	1948–1963	23–37
Avila, 1981	Brazil		1959–1978	87–119
Scobie and Posada, 1978	Bolivia	Rice	1957–1964	79–96
Pray, 1980	Bangladesh	Wheat and Rice	1961–1977	30–35
Moricochi, 1980	Brazil	Citrus	1933–1985	78.3–27.6
Nagy, 1987	Pakistan	Wheat	1967–1981	58
Nagy, 1981	Pakistan	Maize	1967–1981	19
Monteiro, 1975	Brazil	Cocoa	1923–1975	16–18
			1958–1974	60–79
			1958–1985	61–79
Fonseca, 1976	Brazil	Coffee	1933–1995	23.6–25.6

Notes: ^aReturns to maize research only.

^bReturns to maize research plus cultivation 'package'.

Source: Evenson, forthcoming.

computing the implicit stream of benefits from the added product from an investment in time t in region j from the time and spill-in weights.

TFP decomposition studies

TFP decomposition studies are closely related to the meta-production function studies because TFP measures can be derived from a production function framework. Most recent TFP measures, however, are derived from accounting relationships and use a form of 'superlative' index number methodology (for example, the Tornquist approximation to the Divisa index). They do not fully address all issues inherent in specification 5, but do deal with inflexibilities associated with the specification curvature of production or transformation functions.

TABLE 3 *Meta-production function studies*

Study	Country	Commodity	Time Period	Estimated Marginal Rate of Return(%)
Tang, 1963	Japan	Aggregate	1880–1938	35
Griliches, 1964	USA	Aggregate	1949–1959	35–40
Latimer, 1964	USA	Aggregate	1949–1959	not significant
Peterson, 1967	USA	Poultry	1915–1960	21
Evenson, 1968	USA	Aggregate	1949–1959	47
Evenson, 1969	South Africa	Sugarcane	1945–1958	40
Barletta, 1970	Mexico	Crops	1943–1963	45–93
Duncan, 1972	Australia	Pasture Improvement	1948–1969	58–68
Cline, 1975 (revised by Knutson and Tweeten, 1979)	USA	Aggregate	1939–1948	41–50
		Research and extension	1949–1958	39–47
			1959–1968	32–39
			1969–1972	28–35
Bredahl and Peterson, 1976	USA	Cash grains	1969	36
		Poultry	1969	37
		Dairy	1969	43
		Livestock	1969	47
Kahlon, Bal, Saxena, and Jha, 1977	India	Aggregate	1960–1961	63
	Philippines	Rice	1966–1975	75
Nagy and Furtan, 1978	Canada	Rapeseed	1960–1975	95–110
Davis, 1979	USA	Aggregate	1949–1959	66–100
			1964–1974	37
Evenson and Welch, 1979	USA	Crop and Livestock	1964	55
Salmon, 1987	Indonesia	Rice	1972–1977	133
Pray and Ahmed, 1987	Bangladesh	Aggregate	1948–1981	100+

Source: Evenson, forthcoming.

Modern index number methods have thus enabled the use of a great deal of flexibility in the weighting of input and output indices. The two stage TFP decomposition procedure in which one first computes TFP measures allowing location and time period weights to vary and then pools these measures in a TFP decomposition specification has been increasingly used.

Table 4 summarizes several TFP decomposition studies. The Evenson study for US agriculture confirms the earlier results on spill-in from the Evenson-Welch study. They also illustrate the degree of complexity that can be obtained with large TFP data sets.

Table 5 reports elasticity estimates and internal rates of return for a study of the International Agricultural Research system. This study utilized data for 24 developing countries to investigate the impacts of IARC research in a TFP decomposition framework. International data have certain limitations for analysis, but the TFP decomposition methods allow for each country (and time period) to have different production weights. However, since IARC impacts are inherently realized across countries, one must utilize international data to capture fully their impacts. The study indicates that the IARC programme in many commodities have been effective. This study also supports the conclusion of studies in individual countries regarding the contribution of national research programmes.¹¹

Meta-profit function studies

The most recent development in the evaluation of human capital impacts is the use of meta-profits system evaluation where human capital variables (that is, research, extension, schooling) are incorporated directly into systems of output supply and factor demand equations. These studies represent an advance over the second generation studies in several respects; they allow for multiple outputs or products, and they allow the measurement of separate research impacts on each output supplied and on each variable factor demanded.

The methodology of the meta-profits function systems is based on the maximized profits function where farm profits are expressed as a function of all prices of variable outputs and factors and on fixed factors and meta-technology variables, (research, extension, schooling). The first partial derivatives of this function with respect to an output (or input) price is the supply (or demand) function for that output (or input). Thus a system including an equation for each output supplied and each factor demanded is estimated jointly. Each equation includes the prices and meta-technology variables.

Table 6 summarizes the research and extension impacts on output supply and variable factor demand and variable factor productivity for studies undertaken in India, the Philippines and Brazil. These are in elasticity form and should be carefully interpreted because they are estimated treating fixed factors, particularly land area and farm size, as constant. The variable factor productivity elasticities cannot then be considered to be the full impacts.

Nonetheless, these results are instructive regarding factor and product bias. On the product side, the Indian results show that strong crop biases emerge. The HYV Green Revolution impacts are widely recognized to have a factor bias

TABLE 4 *Decomposition studies*

Study	Country	Commodity	Time Period	Annual Internal Rate of Return(%)
Evenson, 1979	USA	Aggregate	1868–1926	65
	USA	Technology oriented	1927–1950	95
	USA	Science oriented	1927–1950	110
	USA	Science oriented	1948–1971	45
	Southern USA	Technology oriented	1948–1971	130
	Northern USA	Technology oriented	1948–1971	93
	Western USA	Technology oriented	1948–1971	95
	USA	Farm management research and agricultural extension	1948–1971	110
Evenson, 1987	India	Aggregate	1959–1975	100+
Evenson and Jha, 1973	India	Aggregate	1953–1971	40
Evenson and Flores, 1978	Asia-national	Rice	1950–1965	32–39
			1966–1975	73–78
		Rice	1966–1975	74–108
	Asia-International			
Flores, Evenson and Hayami, 1978	Tropics	Rice	1966–1975	46–71
Nagy	Pakistan	Aggregate	1959–1979	64.5

Notes: *Lower estimate for 13-year, and higher for 16-year time lag between beginning and end of output impact.

^bLagged marginal product of 1969 research on output discounted for an estimated mean lag of 5 years for cash grains, 6 years for poultry and dairy, and 7 years for livestock.

Source: Evenson 1988.

toward wheat and rice. It is not always appreciated that they were biased against corn (maize) and millets and other crops. This bias for industrial crops is more than offset by a bias in favour of these crops by the Indian research system. Both the HYV's and the Indian research system are biased against the coarse cereals, corn, millets, and sorghum.

On the factor demand size, the induced innovation and appropriate technology proponents who argue that domestic origin rather than imported technology (and this is domestic origin) will be labour using and machinery saving are not supported by these data. Agricultural technology over the past two to three decades, whether originating in developing or developed countries, has had a persistent bias favouring mechanization over animal labour use and favouring fertilizer use. It has not had strong labour using biases. (Extension in India appears to have stimulated labour demand but this is in the Green Revolution region.)

TABLE 5 *Estimated productivity elasticities in internal rates of return, national research and extension programmes and international agricultural research programmes – 24 country study*

	Cereal Grains ^a			Staple Crops ^b		
	Latin America	Africa	Asia	Latin America	Africa	Asia
<i>I. IARC</i>						
<i>Research Programmes</i>						
Estimated elasticity	.030	.054	.043	.041	.019	.031
Internal Rate of Return	>80	>80	>80	79	51	68
<i>II. National</i>						
<i>Research Programmes</i>						
Estimated Elasticity	.144	n.s.	.144	n.s.	.031	.129
Internal Rate of Return	44	–	50	–	19	53
<i>III. National</i>						
<i>Extension Research</i>						
Estimated Elasticity	.075	.013	.092	n.s.	.120	.069
Internal Rate of Return	>80	34	>80	–	>80	>80

Notes:

^aCereals include maize, millets, sorghum, wheat, rice.

^bStaple crops include cassava, beans, sweet potatoes, potatoes, groundnut.

CONCLUSION

The human capital studies reviewed in this paper now constitute a cohesive case for investment in several forms of human capital. Public sector policymakers in most developing countries have, in fact, responded to this body of evidence and have invested more in human capital. The general findings of high returns to research in developing country locations (and the implied low levels of spill-in) have altered national investment in research and extension programmes. National research programmes have undergone major expansion and improvement in most countries. The IARC system has also been developed in response to evidence of high returns to investment.

The record is far from complete, however. Many millions of dollars are being expanded on research, extension and many types of rural development projects. In some countries no studies of economic impact have been made. Research investments are perhaps best documented and they generally show substantial impacts. Even here, however, comparative studies of types of research activities (for example, farming systems and on-farm research) have not been made.

For extension and schooling the record is less well documented. There is a fair amount of evidence showing high impact generally from investments in settings where a research system is in place.

TABLE 6 *Estimated comparative impacts elasticities of research, HYV and extension programmes*

	North Indian Wheat HYVs			Brazil Research	Philippines	
	Research		Extension		Research	Extension
<i>Impact on Product Supply</i>						
Wheat	.312	.206	-.315			
Rice	-.083	.124	.332			
Corn – millets	-.808	-.118	.862			
Industrial crops	.272	-.093	.325	.054		
Export crops	–	–	–	.735		
Staple crops	–	–	–	.011		
Beans	–	–	–	.011		
Animal products	–	–	–	.067		
All products	(.166)	(.035)	(.159)	(.250)	.054	-.048
<i>Impact on Factor Demand</i>						
Labour	.102	.105	.142	.063	-.067	-.126
Animal labour	-.095	-.001	.253	.020	–	–
Tractors	1.364	-.042	-1.180	.106	.096	.168
Energy	–	–	–	.417	–	–
Fertilizer	1.116	.473	-1.557	.470	.635	.375
All inputs	.124	(.083)	(.020)	(.147)	–	–
Impact on total Variable Productivity	(.042)	(-.048)	(.139)	(.10)	.088	.055
Marginal IRR		72%		70+%		70%

Source: Evenson, 1988.

In contrast to the documented record for human capital investments in research, extension and schooling, there are relatively few studies of returns to investment in rural development type projects even though large expenditures on these projects have been made. Human capital studies illustrate the merit and potential for further studies documenting economic impacts of all of these projects.

NOTES

¹The Griliches study addressed several dimensions of technological change including the inherent location specificity of technology and the value of targeting hybrid corn research programmes to specific regions.

²See Tables 2–6 for a summary of internal rates of returns.

³Jamison and Lau (1982) provide a review of schooling impact studies in agriculture. Birkhauser, Evenson and Feder (1988) review extension studies.

⁴Relatively little evidence in other studies supports a positive interaction between research and extension or schooling. Several studies do show a negative interaction between extension programmes and schooling.

⁵Proponents of these research programmes point out that traditional agricultural research programmes tend to concentrate on a single commodity. Many farmers (indeed most) produce several commodities and most deal with system problems.

⁶For example, improvements in measurement technology, in models and in the general understanding of biological processes constitute germplasm that serves in a parental role to invention of the technology. Much technology itself can be seen as a form of germplasm, parenting 'follow-on' invention and sub-invention.

⁷See Herdt *et al.* (1979) for a fuller development.

⁸It is important that a distinction between obsolescence and true depreciation be made in this context. Much technology becomes obsolete, but does not truly depreciate.

⁹For purposes of estimating average time lags these methods are useful.

¹⁰See Jamison and Lau (1982) and Denison (1967) among others.

¹¹The study in question was not a full TFP decomposition study because commodity specific input data for all commodities were not available.

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DISCUSSION OPENING – JOHN M. ANTLE

Evenson's paper contributes to the ongoing study of agricultural productivity by providing a conceptual framework for the analysis of the productivity effects of human capital. In this framework, a hierarchy of specialized individuals (from scientists to extension workers to farmers) produce human capital products ranging from basic science to on-farm decisions. This approach shows clearly the interrelationships between the types of human capital involved in the invention, dissemination, and application of agricultural technology.

According to Evenson's view of human capital, each type is involved in a subprocess producing some output – be it general science, an invention, or farm decisions – which in turn is an input into a higher level in the human capital hierarchy or into the production process. This hierarchy has some specific implications for the separability structure of the production of human capital services. Let the types of human capital corresponding to the columns of Evenson's Table 1 be labeled as h_i where $i=1, \dots, 6$ denotes the type of human capital measured from left to right, and let the outputs be v_j , $j = 1, \dots, 7$. Then according to Table 1,

$$v_7 = f_7[h_5, h_6], v_6 = f_6[h_4, h_5, h_6, v_7], v_5 = f_5[h_3, h_4, h_5, v_6]$$

and so forth. Thus, higher levels of human capital are separable from lower levels of human capital, but the converse is not true. This structure has important implications for productivity measurement. It implies that human capital variables that generate technology (h_3, h_4, h_5, h_6) can be consistently aggregated and therefore proxied by a technology index. It also suggests that it may be possible to combine extension information and farmer human capital (h_1, h_2, h_3) into a meaningful index of management input. The use of such proxy variables has been widely used in the human capital literature. This hierarchy suggests that the use of such proxies can be justified by the functional structure of the production of human capital services.

This paper also makes a contribution in its categorization and compilation of studies that have attempted to measure the returns to human capital investment. The figures in Tables 2–6 show what has been documented by Ruttan and others, namely, that rates of return to agricultural research investment appear to be high compared to private rates of return in other sectors of the economy. I will direct the remainder of my comments to the question of whether we can safely conclude, as Evenson and others have done from this evidence, that rates of return to agricultural research are indeed 'high' and justify further investments of the types that have made thus far.

A first concern about the 'high' rates of return has to do with the inference of causality from static correlations. Although Evenson's framework explicitly accounts for the temporal relations among types of human capital, it does not provide a model of investment in human capital as a function of, say, technology and prices. The studies, cited in the paper, that measure the productivity of human capital do not take into account the possible endogeneity of human capital to productivity, rather, they simply correlate aggregate productivity with contemporaneous measures of human capital. Thus one can question whether all of

the effect measured by these studies should be attributed to the productivity of human capital.

A second concern about the interpretation of the 'high' rates of return to agricultural research was raised by Fox (1985). Fox argued that if one adjusts estimates of private rates of return to take into account the full social benefits of private investment, and if one adjusts the public rates to take into account the social opportunity cost of public expenditures, then private and public rates of return were roughly comparable in the US. Fox concluded that the seemingly 'high' rates of return on agricultural research in the US did not necessarily indicate an underinvestment in research. It remains to be seen whether similar calculations for developing countries would lead to similar conclusions.

A third concern that I shall raise here has to do with the remarkable fact that while the 50 studies cited in Evenson's paper go to great lengths to measure the social benefits of agricultural research and human capital, often including external benefits due to research spillovers, to my knowledge none of them – not one – makes an attempt to measure the social costs associated with modern agricultural technology. If there are significant social costs, due, for example, to the effect of agricultural chemicals on human health and the environment, then the estimated returns to agricultural research would be lower than those reported. Unfortunately, we do not know how large these social costs might be because so little research effort has gone into attempting to quantify them.

Considering the high rates of return to agricultural research presented in Evenson's paper, one might argue that social costs would have to be very large to have an impact on the allocation of resources to research, and so do not need to be quantified. In view of the concerns already mentioned above about the interpretation of the 'high' rates, I do not believe this conclusion is justified. And even if social costs are not large enough to make returns to research low or negative, the existence of significant social costs could have important implications for the setting of research priorities. Consider, for example, conventional plant breeding research and biogenetic research activities. The two might be likely to yield equally high private rates of return, but the conventional plant breeding activity might develop a variety that would require pesticides whereas the biogenetic research might develop a variety that would be resistant to pests and require less pesticide input. The social rate of return to investment in plant breeding would therefore be lower than the rate of return on the biogenetic research.

These considerations all suggest that in future research we need to go beyond the issues of the private rates of return to agricultural research in the aggregate. We need to consider both the social benefits and costs of alternative kinds of agricultural technology. We must remind ourselves that the ultimate goal of agricultural research is not to enhance yields but to enhance the well-being of the world's people. Providing information about the social benefits and costs of agricultural technology to the agricultural research establishment will help research administrators allocate research resources in a manner consistent with that goal. And one hopes that accurate information of this kind will encourage the tax-paying public to continue to support publicly funded agricultural research.

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