



<http://lem.cnrs.fr>

**Document de travail du LEM
Discussion paper LEM
2017-03**

**Comparing Luenberger and Luenberger-
Hicks-Moorsteen Productivity Indicators :
How Well is Total Factor Productivity
Approximated?**

Kristiaan KERSTENS
k.kerstens@ieseg.fr - LEM UMR 9221

Zhiyang SHEN
LEM UMR 9221

Ignace VAN DE WOESTYNE

URL de téléchargement direct / URL of direct download:
<http://lem.cnrs.fr/IMG/pdf/dp2017-03.pdf>



Les documents de travail du LEM ont pour but d'assurer une diffusion rapide et informelle des résultats des chercheurs du LEM. Leur contenu, y compris les opinions exprimées, n'engagent que les auteurs. En aucune manière le LEM ni les institutions qui le composent ne sont responsables du contenu des documents de travail du LEM. Les lecteurs intéressés sont invités à contacter directement les auteurs avec leurs critiques et leurs suggestions.

Tous les droits sont réservés. Aucune reproduction, publication ou impression sous le format d'une autre publication, impression ou en version électronique, en entier ou en partie, n'est permise sans l'autorisation écrite préalable des auteurs.

Pour toutes questions sur les droits d'auteur et les droits de copie, veuillez contacter directement les auteurs.

The goal of the LEM Discussion Paper series is to promote a quick and informal dissemination of research in progress of LEM members. Their content, including any opinions expressed, remains the sole responsibility of the authors. Neither LEM nor its partner institutions can be held responsible for the content of these LEM Discussion Papers. Interested readers are requested to contact directly the authors with criticisms and suggestions.

All rights reserved. Any reproduction, publication and reprint in the form of a different publication, whether printed or produced electronically, in whole or in part, is permitted only with the explicit written authorization of the authors.

For all questions related to author rights and copyrights, please contact directly the authors.

**Comparing Luenberger and Luenberger-Hicks-Moorsteen Productivity Indicators:
How Well is Total Factor Productivity Approximated**

Kristiaan Kerstens*

Zhiyang Shen*

Ignace Van de Woestyne**

This version: 10 March 2017

Abstract:

We empirically compare both the popular Luenberger indicator with the less popular Luenberger-Hicks–Moorsteen productivity indicator on an agricultural panel data set of Chinese provinces over the years 1997-2014. In particular, we test for the differences in distribution when comparing these indicators. These tests are crucial to answer the question to which extent the Luenberger indicator can approximate the Luenberger-Hicks–Moorsteen productivity indicator that has a Total Factor Productivity (TFP) interpretation.

Keywords: Luenberger indicator, Luenberger-Hicks-Moorsteen indicator, TFP

* CNRS-LEM (UMR 9221), IESEG School of Management, 3 rue de la Digue, F-59000 Lille, France. Correspondence to: k.kerstens@ieseg.fr

** Research Unit MEES, KU Leuven, Warmoesberg 26, Brussel B-1000, Belgium

1. Introduction

Total Factor Productivity (TFP) growth is an index number representing technology shifts from output growth that is unexplained by input growth (e.g., Hulten (2001)). Over the last decades, consciousness has developed that ignoring inefficiency may bias TFP measures. Nishimizu and Page (1982) is the seminal article decomposing TFP into a technical change component and a technical efficiency change component.

Caves et al. (1982) analyze discrete time Malmquist input, output and productivity indices using distance functions as general representations of technology. This index is related to the Törnqvist productivity index that uses both price and quantity information but needs no knowledge on the technology. Färe, Grosskopf, Norris, and Zhang (1994) propose a procedure to estimate the Shephardian distance functions in the Malmquist productivity index by exploiting their inverse relation with the radial efficiency measures computed relative to multiple inputs and outputs nonparametric technologies. They also integrate the two-part Nishimizu and Page (1982) decomposition. The underlying distance functions of this Malmquist productivity index have also been parametrically estimated (e.g., Atkinson, Cornwell and Honerkamp (2003)). Bjurek (1996) proposes a Hicks–Moorsteen TFP index that can be defined as the ratio of a Malmquist output- over a Malmquist input-index. These Malmquist and Hicks-Moorsteen productivity indexes are known to be identical under two strong conditions: (i) inverse homotheticity of technology; and (ii) constant returns to scale (Färe, Grosskopf and Roos (1996)). Therefore, both indices are in general expected to differ, since the conditions needed for their equality are unlikely to be met in empirical work.

While both these primal productivity indices have become relatively popular in empirical work¹, O'Donnell (2012) convincingly shows that the Malmquist productivity index is not an TFP index that is multiplicatively complete, while there is no such problem for the Hicks–Moorsteen TFP index. Peyrache (2014: p. 435) argues explicitly that the Malmquist productivity index is in fact a “technology index, i.e. a measure of local technical progress (or regress)”, which is an argument already found in Grosskopf (2003). The Malmquist productivity index thus measures the displacement of the production frontier at a specific point, but it neglects scale economies. Kerstens and Van de Woestyne (2014) show empirically that the Malmquist productivity index does not offer a good approximation to the Hicks–Moorsteen TFP index in terms of the resulting distributions and that for individual

¹ See Färe, Grosskopf and Roos (1998) for an early survey of empirical applications of the Malmquist index.

observations one may well encounter conflicting evidence regarding the basic direction of TFP growth or decline.

More general primal productivity indicators have meanwhile been proposed in the literature.² Chambers, Färe and Grosskopf (1996) introduce the Luenberger productivity indicator as a difference-based index of directional distance functions (see also Chambers (2002)). These directional distance functions generalize the Shephardian distance functions by allowing simultaneous input reductions and output augmentations and they are dual to the profit function.³ Briec and Kerstens (2004) define a Luenberger-Hicks-Moorsteen TFP indicator using the same directional distance functions. Though not as popular as the Malmquist productivity index, the Luenberger productivity indicator has recently been used rather widely as a tool for empirical analysis. Examples from a variety of sectors include: agriculture (e.g., Azad and Ancev (2014)), airlines (e.g., Barros and Couto (2013)), banking (e.g., Epure, Kerstens and Prior (2011)), construction (e.g., Kapelko, Horta, Camanho and Oude Lansink (2015)), energy (e.g., Wang and Wei (2016)), petroleum extraction (e.g., Kerstens and Managi (2012)), tourism (e.g., Goncalves (2013)), water (e.g., Molinos-Senante, Maziotis and Sala-Garrido (2014)), among others.⁴ Empirical applications using this Luenberger-Hicks-Moorsteen TFP indicator are rather scant: examples include Ang and Kerstens (2017), Barros, Ibiwoye and Managi (2008), Barros and Managi (2014), and Managi (2010), among others.⁵ Luenberger output (or input) oriented productivity indicators and Luenberger-Hicks-Moorsteen productivity indicators coincide under two demanding properties: (i) inverse translation homotheticity of technology; and (ii) graph translation homotheticity (see Briec and Kerstens (2004) for details). Therefore, one expects both indicators to differ empirically.

The claims of O'Donnell (2012) regarding the Malmquist productivity index can also be transposed to the Luenberger productivity indicator. Equally so, Peyrache (2014: p. 441) argues explicitly that the same holds true for indicators: thus, the Luenberger indicator

² The distinction between indices and indicators goes back to recent attempts to develop test and economic approaches to index number theory based on differences rather than more traditional ratios (e.g., Diewert (2005)). While economics traditionally works with ratios, business and accounting people are more familiar with analyzing differences (e.g., in terms of cost, revenue or profit). These ratio and difference approaches to index theory differ in terms of basic properties of practical significance: ratios are unit invariant while differences are not; differences are invariant to changes in the origin while ratios are not; ratios cannot cope with zero observations while differences can; etc.

³ It is possible to define input- and output-oriented versions of this Luenberger indicator that can be interpreted as difference-based versions of the similarly oriented Malmquist productivity indices.

⁴ A Google Scholar search on 4 March 2017 obtained 982 results for the expression “Luenberger productivity”. By contrast, the expression “Malmquist productivity” yields 9240 hits.

⁵ A Google Scholar search on 4 March 2017 obtained just 61 results for the expression “Luenberger-Hicks-Moorsteen productivity”. By contrast, the expression “Hicks-Moorsteen productivity” yields 198 results.

measures TFP in an incomplete way because it neglects scale economies. Nevertheless, one often finds claims in the literature that the Luenberger productivity indicator measures total factor productivity (e.g., Molinos-Senante, M., A. Maziotis, R. Sala-Garrido (2014: p. 19)). However, to the best of our knowledge, no study ever empirically verified whether the Luenberger productivity indicator offers a good empirical approximation to the Luenberger-Hicks-Moorsteen TFP indicator. This is the basic question we set out to answer in this contribution.

This paper is structured as follows. Section 2 formally introduces the Luenberger productivity indicator as well as the Luenberger-Hicks-Moorsteen TFP indicator. Thereafter, the necessary nonparametric frontier specifications are developed. Section 3 introduces the agricultural panel data set of Chinese provinces. Thereafter, it presents the empirical results in detail. A final section concludes.

2. Methodology

2.1. Technology and Distance Functions

We first review the assumptions on technology and the definitions of the distance functions providing the components for computing the productivity indicators. Assume that decision making units (DMUs) have N number of inputs (x) that can be used to produce M number of outputs (y). The classical production possibility set for each time period t can be defined as follows:

$$T(t) = \{(x^t, y^t) \in \mathbb{R}_+^{N+M}; x^t \text{ can produce } y^t\}. \quad (1)$$

Throughout this paper, this technology satisfies the following conventional assumptions: no free lunch, closedness, and strong input and output disposability. Occasionally, stronger assumptions (e.g., convexity or nonconvexity) are needed (see Hackman (2008) for details).

Efficiency is estimated relative to production frontiers using distance or gauge functions. The directional distance function $D_{T(t)}(\cdot, \cdot; g): \mathbb{R}_+^{N+M} \rightarrow \mathbb{R}$ involving a simultaneous input and output variation in the direction of a pre-assigned vector $g = (g_x, g_y) \in \mathbb{R}_+^{N+M}$ is defined as:

$$D_{T(t)}(x, y; g_x, g_y) = \max_{\theta} \left\{ \theta; (x - \theta g_x, y + \theta g_y) \in T(t) \right\}. \quad (2)$$

This directional distance function (Chambers, Färe and Grosskopf (1996)) is a special case of the shortage function (Luenberger (1992))⁶ and measures the gap between the observed production plans and the production frontier defined by the best practices. The inefficiency score θ represents the maximum possible simultaneous increase in outputs and decrease in inputs.

2.2. Productivity Indicators: Definitions

In the general case of directional distance functions, the Luenberger productivity indicator $L((x^t, y^t), (x^{t+1}, y^{t+1}); g^t, g^{t+1})$ is defined by Chambers (2002) as follows:

$$L((x^t, y^t), (x^{t+1}, y^{t+1}); g^t, g^{t+1}) = \frac{1}{2} \left[\left(D_{T(t)}(x^t, y^t; g^t) - D_{T(t)}(x^{t+1}, y^{t+1}; g^{t+1}) \right) + \left(D_{T(t+1)}(x^t, y^t; g^t) - D_{T(t+1)}(x^{t+1}, y^{t+1}; g^{t+1}) \right) \right]. \quad (3)$$

When $g^t = (x^t, y^t)$ and $g^{t+1} = (x^{t+1}, y^{t+1})$ are the direction vectors over time, then one obtains a proportional indicator, as first mentioned in Chambers, Färe and Grosskopf (1996). To avoid an arbitrary choice of base years, the arithmetic mean of a difference-based Luenberger productivity indicator in base year t (first difference) and $t+1$ (second difference) is taken. Productivity growth (decline) shows up by positive (negative) values.

Extending some basic elements developed in Chambers (1998, 2002), Briec and Kerstens (2004) define a Luenberger-Hicks-Moorsteen productivity indicator with base period t $LHM_{T(t)}(x^{t+1}, y^{t+1}, x^t, y^t; g^t, g^{t+1})$ as the difference between a Luenberger output quantity indicator $LO_{T(t)}(x^t, y^t, y^{t+1}; g_y^t, g_y^{t+1})$ and a Luenberger input quantity indicator $LI_{T(t)}(x^t, y^t, y^{t+1}; g_y^t, g_y^{t+1})$:

$$\begin{aligned} & LHM_{T(t)}(x^{t+1}, y^{t+1}, x^t, y^t; g^t, g^{t+1}) \\ &= \left(D_{T(t)}(x^t, y^t; 0, g_y^t) - D_{T(t)}(x^t, y^{t+1}; 0, g_y^{t+1}) \right) - \left(D_{T(t)}(x^{t+1}, y^t; g_x^{t+1}, 0) - D_{T(t)}(x^t, y^t; g_x^t, 0) \right) \\ &\equiv LO_{T(t)}(x^t, y^t, y^{t+1}; g_y^t, g_y^{t+1}) - LI_{T(t)}(x^t, x^{t+1}, y^t; g_x^t, g_x^{t+1}). \end{aligned} \quad (4)$$

⁶ Note that this function is defined using a general directional vector g , while we consider the special case: $g_x = x$ and $g_y = y$. The distance function with the latter choice is also known as the Farrell proportional distance function (see Briec (1997)).

When this indicator is larger (smaller) than zero, it indicates productivity gain (loss). A Luenberger-Hicks-Moorsteen productivity indicator with base period $t+1$ can be defined:

$$\begin{aligned} & LHM_{T(t+1)}(x^{t+1}, y^{t+1}, x^t, y^t; g^t, g^{t+1}) \\ &= (D_{T(t+1)}(x^{t+1}, y^t; 0, g_y^t) - D_{T(t+1)}(x^{t+1}, y^{t+1}; 0, g_y^{t+1})) - (D_{T(t+1)}(x^{t+1}, y^{t+1}; g_x^{t+1}, 0) - D_{T(t+1)}(x^t, y^{t+1}; g_x^t, 0)) \\ &\equiv LO_{T(t+1)}(x^{t+1}, y^{t+1}, y^t; g_y^t, g_y^{t+1}) - LI_{T(t+1)}(x^t, x^{t+1}, y^{t+1}; g_x^t, g_x^{t+1}). \end{aligned} \quad (5)$$

The arithmetic mean of these two base periods Luenberger-Hicks-Moorsteen productivity indicators yields:

$$\begin{aligned} & LHM_{T(t), T(t+1)}(x^t, y^t, x^{t+1}, y^{t+1}; g^t, g^{t+1}) \\ &= \frac{1}{2} [LHM_{T(t)}(x^t, y^t, x^{t+1}, y^{t+1}; g^t, g^{t+1}) + LHM_{T(t+1)}(x^t, y^t, x^{t+1}, y^{t+1}; g^t, g^{t+1})]. \end{aligned} \quad (6)$$

Again, productivity growth (decline) is signaled by positive (negative) values.

Observe that both productivity indicators differ substantially in terms of computational complexity: while the Luenberger productivity indicator requires the computation of four directional distance functions, the Luenberger-Hicks-Moorsteen indicator necessitates computing eight different directional distance functions per evaluated observation.

2. 3. Model Specification for Technologies

The empirical study conducted for this research is based on nonparametric technologies. Two returns to scale types, i.e., constant (CRS) and variable returns to scale (VRS) are combined with two shape types, i.e., convexity (C) and nonconvexity (NC) realizing four different technologies. Consider the availability at time t of K observations $(x_{1,1}^t, \dots, x_{1,N}^t; y_{1,1}^t, \dots, y_{1,M}^t), \dots, (x_{K,1}^t, \dots, x_{K,N}^t; y_{K,1}^t, \dots, y_{K,M}^t) \in \mathbb{R}_+^{N+M}$. Then, using the unified algebraic approach of Briec, Kerstens and Vanden Eeckaut (2004), technology can be represented by

$$\begin{aligned} T^{\Lambda, \Gamma}(t) = & \left\{ (x, y) \in \mathbb{R}_+^{N+M} : \sum_{k=1}^K \delta_z y_{k,i}^t \geq y_i, (i=1, \dots, N), \right. \\ & \left. \sum_{k=1}^K \delta_z x_{k,j}^t \leq x_j, (j=1, \dots, M), z \in \Lambda, \delta \in \Gamma \right\}, \end{aligned} \quad (7)$$

with $\Lambda = \left\{ z \in \mathbb{R}^K : \sum_{k=1}^K z_k = 1, z_k \in \mathbb{R}_+, (k=1, \dots, K) \right\}$ if convexity is assumed and

$\Lambda = \left\{ z \in \mathbb{R}^K : \sum_{k=1}^K z_k = 1, z_k \in \{0,1\}, (k=1, \dots, K) \right\}$ in the case of nonconvexity, and $\Gamma = \mathbb{R}_+$ in

case of CRS and $\Gamma = \{1\}$ if VRS is imposed.

Computing the directional distance function (2) relative this general technology (7) boils down to solving the following nonlinear problem:

$$D_{T(t)}(x, y; g_x, g_y) = \max_{\theta} \left\{ \begin{aligned} &\theta : \sum_{k=1}^K \delta z_k y_{k,i}^t \geq y_i + \theta g_y, (i=1, \dots, N), \\ &\sum_{k=1}^K \delta z_k x_{k,j}^t \leq x_j - \theta g_x, (j=1, \dots, M), \sum_{k=1}^K z_k = 1, z \in \Lambda, \delta \in \Gamma \end{aligned} \right\}, \quad (8)$$

In the convex case, transformation of (8) to a linear problem (LP) can easily be realized. If nonconvexity is assumed, then nonlinear mixed binary programs need to be solved. Alternatively, the LP models provided by Leleu (2009) can be used, or the enumeration method of Cherchye, Kuosmanen and Post (2001) in the VRS case.

When examining the Luenberger productivity indicator (3) in greater detail, note that observation (x^{t+1}, y^{t+1}) is compared with respect to technology $T(t)$ in the first difference, while observation (x^t, y^t) is compared with respect to technology $T(t+1)$ in the second difference. Hence, obtaining the Luenberger indicator involves computing the directional distance function for observations that can be located outside the current technology. If feasible, corresponding directional distance function values will be negative. But then, some of the output related constraints in (8) (i.e., $\sum_{k=1}^K \delta z_k y_{k,i}^t \geq y_i + \theta g_y, (i=1, \dots, N)$) may lead to negative outputs. Since negative output levels make no sense in a normal production context, Bricc and Kerstens (2009a) suggest adding the positivity constraints $y_i + \theta g_y \geq 0, (i=1, \dots, N)$ to the specifications of (8).

3. Empirical Analysis

3.1. Chinese Agricultural Data

We use a balanced panel of agricultural data from 31 Chinese mainland provinces over the years 1997-2014. These provinces can be grouped in three large economic zones: the eastern region (with 11 relatively rich provinces: Beijing, Tianjin, Hebei, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong, and Hainan), the inland region (with 8 provinces: Shanxi, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei, and Hunan), and the western region (with 12 relatively backward provinces: Inner Mongolia, Guangxi, Sichuan, Chongqing, Guizhou, Yunnan, Tibet, Shannxi, Gansu, Qinhai, Ningxia, and Xinjiang). This ignores the regions of Hong Kong, Macao and Taiwan in China.

The agricultural technology is defined with five inputs: agricultural labor, machinery, land, pesticide, and fertilizer (containing nitrogen, phosphate, potash, and compound fertilizers). These five inputs are measured by the number of rural employed persons, the total power of agricultural machinery, the total sown areas of farm crops, the use of pesticide, and volume of fertilizer respectively. The single output is the gross agricultural output value that is depreciated at the 2010 price level. The data is collected from the China Statistical Yearbook, China Rural Statistical Yearbook, and China Statistical Yearbook for Regional Economy (National Bureau of Statistics of China, 1998-2015).

The basic descriptive statistics of inputs and output are shown in Table 1. In particular, the standard deviations show that the sample reflects the wide ranging diversity among Chinese provinces. This variation in the size of the agricultural sector is taken into account in our activity analysis framework, because we use both constant and variable returns to scale models that allow for size differences between observations. Furthermore, one can also notice that the annual growth rate of gross output value (average trend 4.1%) in the Chinese agricultural sector seems mainly due to the increase in the use of machinery, pesticide, and fertilizer, while the inputs of land and labor experience an almost constant trend.

<Table 1 about here>

3.2 Empirical Results

Firstly, the cumulative Luenberger and Luenberger-Hicks-Moorsteen productivity indicators for the whole of China are plotted in Figure 1 over time for a total of eight

scenarios: convex and nonconvex technologies, and CRS and VRS technologies, respectively. Three clusters of productivity growth can be identified in Figure 1. A first group includes the Luenberger-Hicks-Moorsteen productivity indicators under Convex-CRS, Convex-VRS, and Nonconvex-CRS technologies that measure the highest cumulative growth. The second set containing Luenberger-Hicks-Moorsteen productivity indicators under Nonconvex-VRS technology, Luenberger productivity indicators under Convex-CRS, Convex-VRS, and Nonconvex-CRS technologies that all indicate a very similar trend and a moderate cumulative growth. The third cluster is the Luenberger productivity indicator under a Nonconvex-VRS technology which is the only one to display a negative trend. Therefore, when a Nonconvex-VRS technology is assumed, the two productivity indicators both seem significantly different from the other indicators and the productivity growth rates are lower than for the other combinations of assumptions.

<Figure 1 about here>

The following preliminary conclusions can be drawn. First, for any given specific technology, the absolute value of the Luenberger indicator is smaller than that of its Luenberger-Hicks-Moorsteen counterpart. This confirms the earlier interpretation that the Luenberger is a technology indicator that only captures TFP in an incomplete way: hence, the gap between both indicators. Second, the stronger the assumptions maintained on the technology, the higher the cumulative productivity growth: convexity leads to higher growth than nonconvexity, just as CRS yields higher growth compared to VRS.

We then present the annual average Luenberger and Luenberger-Hicks-Moorsteen productivity changes among 31 provinces in Table 2. We can observe that there are substantial differences among Luenberger and Luenberger-Hicks-Moorsteen productivity changes related to the precise assumptions imposed on the production technology. Three observations stand out. First, the average Luenberger-Hicks-Moorsteen productivity changes are larger than the average Luenberger productivity variations. Second, while most yearly average productivity changes are positive, a negative annual average productivity change (-0.0113) is detected for the Luenberger indicator under nonconvex and VRS technology.

Third, an analysis of contradictory results as reported by the opposite sign of each productivity indicator under the same assumptions on production technology yields the following results. Opposite signs between Luenberger and Luenberger-Hicks-Moorsteen indicators occur most when a nonconvex VRS technology is assumed: at least 18 out of 31

provinces show an opposing trend of productivity evolution in some of the years. Opposite signs occur the least under a convex CRS technology: there are at only 2 out of 31 provinces revealing a conflicting development between the two productivity indicators. These contradictory results are very similar to the ones reported in Kerstens and Van de Woestyne (2014) comparing Malmquist and Hicks-Moorsteen indices.

Fourth, as demonstrated by Briec and Kerstens (2009b) the Luenberger productivity indicator may well lack determinateness because of infeasible linear programs for the cross-period distance functions. In our sample, we find no such infeasibilities at all in the sample. The reader can consult Kerstens and Van de Woestyne (2014) for reports on infeasibilities in computing the Malmquist index for balanced and unbalanced panel data, as well as for further references in the literature reporting positive amounts of infeasibilities. By contrast, the Luenberger-Hicks-Moorsteen indicator is determinate by definition (as proven in Briec and Kerstens (2011: p. 774) by implication).

Fifth, when computing the Luenberger productivity indicator we observe no impact at all on any observation of imposing the above mentioned positivity constraints on the specifications of (8). In the literature, Juo, Fu, Yu and Lin (2016: p. 216) are the only other study we are aware of that explicitly tested for the impact of these positivity constraints: they also report no effect on their sample.⁷

<Table 2 about here>

We formally test for the differences between the densities resulting from these different productivity indicators with a test statistic defined by Li (1996) and refined by Fan and Ullah (1999) that is valid for both dependent and independent variables. Note that dependency is a characteristic of the nonparametric frontier estimators used for computing the directional distance functions (for instance, efficiency levels depend on sample size, among others). The null hypothesis of this test statistic is that the distributions of both productivity indicators are equal for a given specification of technology. The alternative hypothesis is simply that both distributions are different.

From Table 2, we can see that for any of the four specifications of technology the Li-test statistic clearly rejects the null hypothesis that the Luenberger indicator and the Luenberger-Hicks-Moorsteen indicator follow the same distribution as estimated by kernel

⁷ In a preliminary round, we experimented with a specification of 7 instead of 5 inputs (adding information on the use of plastic film and energy consumption): this specification leads to infeasibilities for a few observations.

densities. This obviously confirms the graphical cumulative results displayed in Figure 1. This is a key result of our empirical investigation: the Luenberger productivity indicator does not yield a good approximation of the Luenberger-Hicks-Moorsteen productivity indicator that has a TFP interpretation.

To observe more details over the years, in Table 3 we illustrate the Luenberger and Luenberger-Hicks-Moorsteen productivity indicators over time under a typical scenario: convex and VRS technology. These detailed results allow to conclude the following. First, the average Luenberger indicator is always smaller than the average Luenberger-Hicks-Moorsteen in absolute value. Second, the signs of average Luenberger and Luenberger-Hicks-Moorsteen indicators agree over the years, except for the year 2004-2005 when the sign is opposite. Third, the standard deviation as well as the range of the Luenberger indicator is smaller than that of the Luenberger-Hicks-Moorsteen. Finally, there are several years with only 1 out of 31 provinces showing opposing results, but at most 8 out of 31 provinces reveal contradictory results during the years 2007-2008. This is consistent with the results in Table 2 and suggests that the productivity growth estimated by Luenberger and Luenberger-Hicks-Moorsteen productivity indicators seems to show significant differences even though some of the cumulative growth paths appear very similar in Figure 1.

<Table 3 about here>

We further explore the eventual differential impact of the specifications of the technology on the Luenberger and Luenberger-Hicks-Moorsteen indicators. Table 4 reports several Li (1996) test statistics related to the various specifications of technology. The upper part of Table 4 tests for CRS versus VRS for a given indicator with or without convexity. Only for the Luenberger indicator under convexity we cannot reject the null hypothesis that CRS and VRS productivity distributions are identical. Otherwise, CRS and VRS productivity distributions are different. The lower part of Table 4 tests for convexity versus nonconvexity for a given indicator with CRS or VRS. Only for the Luenberger indicator under CRS we cannot reject the null hypothesis that convex and nonconvex productivity distributions are equal. Otherwise, convex and nonconvex productivity distributions are different, albeit only marginally so for the Luenberger-Hicks-Moorsteen indicator under CRS. In conclusion, it seems that the specifications of technology have a larger impact on the Luenberger-Hicks-Moorsteen indicator than on the Luenberger indicator. Thus, for the Luenberger-Hicks-Moorsteen indicator we would tend to give the largest weight to the TFP results obtained under the weakest possible axioms: nonconvex and VRS.

<Table 4 about here>

4. Conclusions

Using a balanced panel of agricultural data from 31 Chinese mainland provinces, this contribution is – to the best of our knowledge – the first to empirically illustrate and formally test for the differences between using either the Luenberger or the Luenberger-Hicks-Moorsteen productivity indicators. When computing these two frontier-based primal productivity indicators, the differences turn out to be significantly different for all four technology specifications. Thus, for our sample the Luenberger productivity indicator clearly does not maintain an TFP interpretation by approximation. Notice that these test statistics at the sample level may hide large differences for individual observations. Indeed, we observed regularly conflicting signs in productivity for individual observations: this problem is most pronounced under a flexible returns to scale specification.

Thus, one overall conclusion is that Luenberger and Luenberger-Hicks-Moorsteen productivity indicators empirically tend to measure somewhat different things. In case the interest centers on total factor productivity, then if one wants to be on the safe side it is probably wise to opt for the Luenberger-Hicks-Moorsteen productivity indicator. By contrast, if one contents oneself to measure local technical change (under the form of technical efficiency change and frontier change), then the Luenberger productivity indicator is an excellent choice. This conclusion confirms the empirical results from the earlier study of Kerstens and van de Woestyne (2014) regarding the Malmquist and Hicks-Moorsteen productivity indices: the Hicks-Moorsteen is the best choice of TFP index, the Malmquist is the technology index by excellence.

References:

- Ang, F., P.J. Kerstens (2017) Decomposing the Luenberger-Hicks-Moorsteen Total Factor Productivity Indicator: An Application to U.S. Agriculture, *European Journal of Operational Research*, 260(1), 359-375.
- Atkinson, S., C. Cornwell, O. Honerkamp (2003) Measuring and decomposing Productivity Change: Stochastic Distance Function Estimation Versus Data Envelopment Analysis, *Journal of Business and Economic Statistics*, 21(2), 284-294.

- Azad, A.S., T. Ancev (2014) Measuring Environmental Efficiency of Agricultural Water Use: A Luenberger Environmental Indicator, *Journal of Environmental Management*, 145, 314-320.
- Barros, C.P., E. Couto (2013) Productivity Analysis of European Airlines, 2000–2011, *Journal of Air Transport Management*, 31, 11-13.
- Barros, C.P., A. Ibiwoye, S. Managi (2008) Productivity Change of Nigerian Insurance Companies: 1994–2005, *African Development Review*, 20(3), 505-528.
- Barros, C.P., S. Managi (2014) Productivity Change of UK Airports, *International Journal of Logistics Economics and Globalisation*, 6(1), 22–41.
- Bjurek, H. (1996) The Malmquist Total Factor Productivity Index, *Scandinavian Journal of Economics*, 98(2), 303–313.
- Briec, W. (1997) A Graph-Type Extension of Farrell Technical Efficiency Measure, *Journal of Productivity Analysis*, 8(1), 95-110.
- Briec, W., K. Kerstens (2004) A Luenberger-Hicks-Moorsteen Productivity Indicator: Its Relation to the Hicks-Moorsteen Productivity Index and the Luenberger Productivity Indicator, *Economic Theory*, 23(4), 925-939.
- Briec, W., K. Kerstens (2009a) The Luenberger Productivity Indicator: An Economic Specification Leading to Infeasibilities, *Economic Modelling*, 26(1), 597-600.
- Briec, W., K. Kerstens (2009b) Infeasibilities and Directional Distance Functions: With Application to the Determinateness of the Luenberger Productivity Indicator, *Journal of Optimization Theory and Applications*, 141(1), 55-73.
- Briec, W., K. Kerstens (2011) The Hicks-Moorsteen Productivity Index Satisfies the Determinateness Axiom, *Manchester School*, 79(4), 765–775.
- Briec, W., K. Kerstens, and P. Vanden Eeckaut (2004) Non-convex Technologies and Cost Functions: Definitions, Duality and Nonparametric Tests of Convexity, *Journal of Economics*, 81(2), 155-192.
- Caves, D., L. Christensen, W. Diewert (1982). The Economic Theory of Index Numbers and the Measurement of Inputs, Outputs and Productivity, *Econometrica*, 50(6), 1393–1414.
- Chambers, R.G. (1998) Input and Output Indicators, in: R. Färe, S. Grosskopf, R. Russell (eds) *Index Numbers: Essays in Honour of Sten Malmquist*, Boston, Kluwer, 241-271.
- Chambers, R.G. (2002) Exact Nonradial Input, Output, and Productivity Measurement, *Economic Theory*, 20(4), 751–765.
- Chambers, R.G., R. Färe, S. Grosskopf (1996) Productivity Growth in APEC Countries, *Pacific Economic Review*, 1(3), 181–190.
- Cherchye, L., T. Kuosmanen, T. Post (2001) FDH Directional Distance Functions with an Application to European Commercial Banks, *Journal of Productivity Analysis*, 15(3), 201-215.

- Diewert, W.E. (2005) Index Number Theory Using Differences Rather Than Ratios, *American Journal of Economics and Sociology*, 64(1), 311–360.
- Epure, M., K. Kerstens, D. Prior (2011) Bank Productivity and Performance Groups: A Decomposition Approach Based upon the Luenberger Productivity Indicator, *European Journal of Operational Research*, 211(3), 630-641.
- Fan, Y., A. Ullah (1999) On Goodness-of-fit Tests for Weakly Dependent Processes using Kernel Method, *Journal of Nonparametric Statistics*, 11(1), 337–360.
- Färe, R., S. Grosskopf, M. Norris, Z. Zhang (1994). Productivity Growth, Technical Progress, and Efficiency Change in Industrialized Countries, *American Economic Review*, 84(1), 66–83.
- Färe, R., S. Grosskopf, P. Roos (1996) On Two Definitions of Productivity, *Economics Letters*, 53(3), 269-274.
- Färe, R., S. Grosskopf, P. Roos (1998) Malmquist Productivity Indices: A Survey of Theory and Practice, in: R. Färe, S. Grosskopf, R. Russell (eds) *Index Numbers: Essays in Honour of Sten Malmquist*, Boston, Kluwer, 127-190.
- Goncalves, O. (2013) Efficiency and Productivity of French Ski Resorts, *Tourism Management*, 36, 650-657.
- Grosskopf, S. (2003) Some Remarks on Productivity and Its Decompositions, *Journal of Productivity Analysis*, 20(3), 459–474.
- Hackman S.T. (2008) *Production Economics: Integrating the Microeconomic and Engineering Perspectives*, Berlin, Springer.
- Hulten, C. (2001) Total Factor Productivity: A Short Biography, in: C. Hulten, E. Dean, M. Harper (Eds.) *New Developments in Productivity Analysis*, Chicago, University of Chicago Press, 1–47.
- Juo, J.-C., T.-T. Fu, M.-M. Yu, Y.-H. Lin (2016) Non-Radial Profit Performance: An Application to Taiwanese Banks, *Omega*, 65, 111–121.
- Kapelko, M., I.M. Horta, A.S. Camanho, A. Oude Lansink (2015) Measurement of Input-Specific Productivity Growth with an Application to the Construction Industry in Spain and Portugal, *International Journal of Production Economics*, 166, 64-71.
- Kerstens, K., S. Managi (2012) Total Factor Productivity Growth and Convergence in the Petroleum Industry: Empirical Analysis Testing for Convexity, *International Journal of Production Economics*, 139(1), 196-206.
- Kerstens, K., I. Van de Woestyne (2014) Comparing Malmquist and Hicks-Moorsteen Productivity Indices: Exploring the Impact of Unbalanced vs. Balanced Panel Data, *European Journal of Operational Research*, 233(3), 749–758.
- Leleu, H. (2009) Mixing DEA and FDH Models Together, *Journal of the Operational Research Society*, 60(12), 1730-1737.
- Li, Q. (1996) Nonparametric Testing of Closeness Between Two Unknown Distribution Functions, *Econometric Reviews*, 15(1), 261–274.

- Luenberger, D.G. (1992) New Optimality Principles for Economic Efficiency and Equilibrium, *Journal of Optimization Theory and Applications*, 75(2), 221–264.
- Managi, S. (2010) Productivity Measures and Effects from Subsidies and Trade: An Empirical Analysis for Japan's Forestry, *Applied Economics*, 42(30), 3871-3883.
- Molinos-Senante, M., A. Maziotis, R. Sala-Garrido (2014) The Luenberger Productivity Indicator in the Water Industry: An Empirical Analysis for England and Wales, *Utilities Policy*, 30, 18-28.
- National Bureau of Statistics of China (1998-2015) *China Statistical Yearbook*.
- National Bureau of Statistics of China (2000-2015) *China Rural Statistical Yearbook*.
- National Bureau of Statistics of China (2001-2014) *China Statistical Yearbook for Regional Economy*.
- Nishimizu, M., J. Page (1982). Total Factor Productivity Growth, Technological Progress and Technical Efficiency Change: Dimensions of Productivity Change in Yugoslavia, 1965–1978, *Economic Journal*, 92(368), 920–936.
- O'Donnell, C. (2012) An Aggregate Quantity-Price Framework for Measuring and Decomposing Productivity and Profitability Change, *Journal of Productivity Analysis*, 38(3), 255–272.
- Peyrache, A. (2014) Hicks-Moorsteen versus Malmquist: A Connection by Means of a Radial Productivity Index, *Journal of Productivity Analysis*, 41(3), 435-442.
- Wang, K., Y.-M. Wei (2016) Sources of Energy Productivity Change in China during 1997–2012: A Decomposition Analysis based on the Luenberger Productivity Indicator, *Energy Economics*, 54, 50-59.

Table 1: Descriptive Statistics of Inputs and Output

Variable	Unit	Mean	Std. Dev.	Min	Max	Trend
Labor	10 ⁴ persons	1632.9	1256.3	97.5	4914.7	1.0%
Machinery	10 ⁴ kw	2378.2	2518.3	77.5	13101.4	5.6%
Land	10 ³ hectares	5081.5	3543.6	196.1	14378.3	0.4%
Pesticide	10 ⁴ tons	4.9	4.3	0.04	19.9	2.8%
Fertilizer	10 ⁴ tons	159.1	133.5	2.5	705.8	2.6%
Gross Output	10 ⁸ yuan	1022.4	842.7	27.4	4268.2	4.1%

Table 2: Descriptive Statistics for Average Luenberger and Luenberger-Hicks-Moorsteen Productivity Changes

	Luenberger		Luenberger-Hicks-Moorsteen	
	CRS	VRS	CRS	VRS
Convex				
Mean	0.0098	0.0097	0.0394	0.0277
Std. Dev.	0.0087	0.0142	0.0190	0.0189
Min.	-0.0135	-0.0436	0.0066	-0.0150
Max.	0.0256	0.0332	0.0746	0.0605
Contradictory*	2/31	7/31		
Li-test [†]	82.66***	35.41***		
Nonconvex				
Mean	0.0091	-0.0113	0.0314	0.0130
Std. Dev.	0.0085	0.0234	0.0174	0.0164
Min.	-0.0134	-0.0612	-0.0061	-0.0226
Max.	0.0219	0.0389	0.0625	0.0352
Contradictory	4/31	18/31		
Li-test	61.71***	43.83***		

* Contradictory: opposite signs of average productivity change of Luenberger and Luenberger-Hicks-Moorsteen.

[†] Li test: critical values at 1% level = 2.33. (***) ; 5% level = 1.64 (**); 10% level = 1.28 (*).

Table 3: Descriptive Statistics for Luenberger and Luenberger-Hicks-Moorsteen Productivity Changes Over Time Under a Convex VRS Technology

Year	Luenberger				Luenberger-Hicks-Moorsteen				Contradictory*
	Mean	Std. Dev	Min.	Max.	Mean	Std. Dev	Min.	Max.	
97-98	0.0154	0.0381	-0.0603	0.1055	0.0401	0.0942	-0.1547	0.3108	2/31
98-99	-0.0010	0.0413	-0.0672	0.0874	-0.0028	0.0989	-0.2185	0.1638	1/31
99-00	0.0019	0.0413	-0.1262	0.0885	0.0142	0.0951	-0.3153	0.1846	1/31
00-01	0.0113	0.0259	-0.0432	0.0659	0.0311	0.0601	-0.1896	0.1197	7/31
01-02	0.0127	0.0353	-0.0837	0.0815	0.0452	0.0913	-0.0799	0.3381	3/31
02-03	0.0014	0.0408	-0.1173	0.0638	0.0065	0.0771	-0.2954	0.0993	3/31
03-04	0.0203	0.0376	-0.0760	0.0989	0.0572	0.0670	-0.0863	0.2729	4/31
04-05	-0.0017	0.0340	-0.1284	0.0733	0.0022	0.0645	-0.1967	0.1483	4/31
05-06	0.0115	0.0374	-0.1156	0.0654	0.0405	0.0638	-0.1060	0.1418	3/31
06-07	0.0058	0.0296	-0.0808	0.0773	0.0212	0.0581	-0.0671	0.1894	2/31
07-08	0.0077	0.0225	-0.0855	0.0460	0.0316	0.0507	-0.0556	0.2120	8/31
08-09	0.0082	0.0319	-0.0662	0.1359	0.0100	0.0441	-0.1165	0.0735	2/31
09-10	0.0077	0.0147	-0.0351	0.0445	0.0252	0.0338	-0.0517	0.0897	6/31
10-11	0.0164	0.0199	-0.0507	0.0441	0.0421	0.0381	-0.0674	0.1346	1/31
11-12	0.0140	0.0107	-0.0052	0.0390	0.0339	0.0295	-0.0223	0.1245	4/31
12-13	0.0171	0.0237	-0.0746	0.0869	0.0385	0.0318	-0.0372	0.1074	1/31
13-14	0.0171	0.0233	-0.0324	0.1156	0.0346	0.0447	-0.1654	0.0877	2/31

* Contradictory: opposite signs of average productivity change of Luenberger and Luenberger-Hicks-Moorsteen.

Table 4: Li (1996) Test Statistics Related to Technology Specifications

CRS vs. VRS		
Luenberger	Convex	0.48
	Nonconvex	41.76***
Luenberger-Hicks-Moorsteen	Convex	7.2***
	Nonconvex	9.82***
Convex vs Nonconvex		
Luenberger	CRS	0.27
	VRS	43.11***
Luenberger-Hicks-Moorsteen	CRS	1.73**
	VRS	2.47***

† Li test: critical values at 1% level = 2.33. (***) ; 5% level = 1.64 (**); 10% level = 1.28 (*).

Figure 1: Cumulative Luenberger and Luenberger-Hicks-Moorsteen Productivity Indicators for China

