REEVALUATING AGRICULTURAL PRODUCTIVITY GAPS WITH LONGITUDINAL MICRODATA

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Abstract
Recent research has pointed to large gaps in labor productivity between the agricultural and non-agricultural sectors in low-income countries, as well as between workers in rural and urban areas. Most estimates are based on national accounts or repeated cross-sections of micro-survey data, and as a result typically struggle to account for individual selection between sectors. This paper uses long-run individual-level panel data from two low-income countries (Indonesia and Kenya) to explore these gaps. Accounting for individual fixed effects leads to much smaller estimated productivity gains from moving into the non-agricultural sector (or urban areas), reducing estimated gaps by roughly 67% to 92%. Furthermore, gaps do not emerge up to five years after a move between sectors. We evaluate whether these findings imply a re-assessment of the conventional wisdom regarding sectoral gaps, discuss how to reconcile them with existing cross-sectional estimates, and consider implications for the desirability of sectoral reallocation of labor. Edward Miguel is an NBER Research Associate. (JEL: J43,O13,O15,R23)

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