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Productivity measurement with adjustments for variations in capacity utilization and other forms of temporary equilibrium â˜†

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Abstract

One of the most persistent puzzles addressed by recent productivity research is the substantial decline in measured productivity growth during the 1970's. In this paper we trace a substantial part of the measured decline to the fact that traditional methods of productivity measurement assume that producers are in long-run equilibrium when in fact they may be in short-run or temporary equilibrium. We utilize the Marshallian framework of a short-run production or cost function with certain inputs quasi-fixed to provide a theoretical basis for accounting for temporary equilibrium. Within this theoretical framework it is the *value* of services from stocks of quasi-fixed inputs which should be altered rather than the *quantity*. The empirical application to U.S. manufacturing data 1958â€“81 shows that, depending on the measurement procedure, one can attribute somewhere between 18% and 65% of the traditionally measured

decline in TFP growth between 1965â€“73 and 1973â€“81 to the effects of temporary equilibrium.

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Productivity measurement with adjustments for variations in capacity utilization and other forms of temporary equilibrium, the inhibitor is dense.
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