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# The predictive impact of climate risk on total factor productivity growth : 1880-2020

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The Predictive Impact of Climate Risk on Total Factor Productivity Growth: 1880-2020

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# The Predictive Impact of Climate Risk on Total Factor Productivity Growth: 1880-2020

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#### Abstract

In this study, we investigate the predictive impact of climate risk (as measured by average temperature changes and temperature realised volatility) on total factor productivity (TFP) growth in 23 economies over the period 1880 to 2020 while controlling for real GDP per capita growth. Standard full-sample Granger causality tests offer little evidence of a causal impact of climate change on productivity outcomes. This may be attributed to nonlinearity and structural breaks in the relationship between climate risk and TFP growth, as evidenced by the BDS (1996) test results for nonlinearity and the Bai-Perron (1998, 2003) multiple breakpoint test results. Furthermore, Rossi-Wang (2019) time-varying VAR-based Granger causality tests, which are robust in the presence of instabilities and structural changes, indicate that for a large number of countries, we observe a significant causal impact of climate change on TFP growth in the post-World War II period, with increased significance in the causal impact for the majority of countries in the post-1980 period.

#### JEL Classification: Q54, E23, C32.

*Keywords:* Total factor productivity growth, climate change, temperature realised volatility, average temperature change, time-varying Granger causality.

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#### 1. INTRODUCTION

Climate risk is a global crisis with grave repercussions for the economy, the environment, and society. One area of concern is the impact of climate change on total factor productivity (TFP) growth. TFP is a key indicator of economic growth as it measures how effectively inputs are converted into outputs (Mahadevan, 2003). In recent years the world experienced severe volatile weather conditions such as floods, heat waves, wildfires, and tremors amid other natural disasters. These natural disasters disrupt supply chains and damage infrastructure while reducing TFP growth. A study by Donadelli et al. (2021) found that a sudden temperature volatility shock in the United Kingdom reduced TFP growth by 0.4% in the long run. There is also evidence that climate change could yield positive effects on TFP growth in some sectors. For example, a study by Zhang et al. (2017) uncovered that higher temperatures could increase TFP growth in industrial state-owned firms in China. The authors argue that this effect emanates from the fact that higher temperatures can reduce the cost of energy, which is a prime input in manufacturing.

The focus of this study is the unidirectional causal effect of climate risk on TFP growth. We analyse a sample of 23 advanced economies over an extended period ranging from 1880 to 2020. Our variables include the TFP growth as the dependent variable and average temperature change and temperature realised volatility as independent variables of interest. Real GDP per capita growth is included as a control variable.

When testing the hypothesis that climate risk impacts TFP growth using a standard full-sample Granger causality test, we find little evidence of a causal impact. This may be attributed to nonlinearity and structural breaks in the relationship between climate risk and TFP growth, as evidenced by the BDS (1996) test results for nonlinearity and Bai-Perron (1998, 2003) multiple breakpoint test. Furthermore, Rossi-Wang (2019) time-varying VAR-based Granger causality tests, which are robust in the presence of instabilities and structural changes, indicate that for a large number of countries, we observe a significant causal impact of climate change on TFP growth in the post-World War II period, with a causal impact for the majority of countries in the post-1980 period.

A majority of existing studies assume that data is stationary and stable and rely on linear techniques to analyse the relationship between climate risk and TFP growth; however, these assumptions may be unrealistic given potential instabilities in the data and structural breaks and nonlinearities present in the relationship. Our contribution to the existing body of literature is, therefore, three-fold. Firstly, we add to the existing literature by remedying the presence of instabilities in data by employing the time-varying VAR-based Granger causality test of Rossi and Wang (2019) in investigating the relationship between climate risk and TFP growth. This allows us to demonstrate that climate change exerts an increasing and significant predictive impact on TFP outcomes in the latter part of the sample, notably from 1980 onwards for the majority of countries. Secondly, we control for real GDP per capita growth to ensure that results

factor in the relationship between TFP growth and GDP growth. Lastly, while this study concentrates on TFP growth, we acknowledge the importance of climate risk on labour productivity growth. For comparison purposes, we illustrate climate risk's causal effect on labour productivity.

The remainder of the paper is organised into four sections, with section 2 containing the literature review that outlines the relationship between climate risk and TFP growth. Section 3 describes the methodology and data utilised in this study, section 4 elaborates on the results of the tests described in the methodology, and section 5 concludes.

#### 2. LITERATURE REVIEW

#### 2.1 History of climate change

The history of climate change can be traced back to the early 19th century following the first and second industrial revolutions when scientists first began to study the earth's temperature and atmospheric composition. The first scientific evidence was provided by Dr Guy Callendar in 1938, who offered meteorological calculations on new detailed measurements of the infrared spectrum, rising fossil fuel emissions, and the warming trend recorded in the Northern Hemisphere (Fleming et al., 2002).

In 1964 the National Aeronautics and Space Administration in the United States Weather Bureau launched the first series of seven Nimbus satellites, and the seventh was launched in 1980 (National Aeronautics and Space Administration, 1982). By providing improved meteorological conditions, the Nimbus satellites transformed the way scientists studied the earth's the weather, atmospheric processes, and environment. The satellites offered improved data on world temperatures and the amount of greenhouse gas in the atmosphere. This provided evidence that the earth's cooler atmosphere was rising. Since the 1980s, the Along-Track Scanning Radiometer (ATSR) series was developed and calibrated by Rutherford Appleton Laboratory Space scientists and engineers. To verify daytime observations of sea surface temperature made by the ATSR on the European remote sensing satellite, the first ATSR Tropical Experiment was carded out in November 1991 over the tropical Atlantic (Smith et al., 1993). The ATSR is considered one of the most precise remote sensing devices to measure sea and land surface temperatures.

Further to the development of detecting climate change, there have been a series of temperature volatility events. Southern Europe is notorious for wildfires, with 48,000 forest fires between 2007 and 2016, where temperature and fuel moisture increases were recognised as major components of fire danger (Dupuy et al., 2020). The United States reported approximately 341 climate change disasters between 1980 and 2022, with a financial cost exceeding 2.48 trillion (National Centres for Environmental Information, 2023). On the other hand, Japan is experiencing rare natural disasters such as the July 2020 floods that claimed more

than 78 lives and collapsed several infrastructures (Okutsu, 2020). Japan has, however, implemented a climate change policy since 1980 to mitigate the effects of climate change after its high industrialisation era in the post-World War II period (Kameyama, 2016). As a consequence of global warming, over the period 1990 to 2019, worldwide, an average annual increase of 26% and 36% in the number of extreme temperatures and wildfires, respectively, has been recorded (Donadelli et al., 2022). It has become an undeniable reality that climate change poses a risk given the extreme weather conditions, natural disasters, and its impacts on productivity and the economy in countries around the globe.

#### 2.2 Relationship between climate change and TFP growth

A growing body of literature has examined the effects of climate change on TFP growth. Dell et al. (2012) conducted a panel study of over 125 countries from 1950 to 2003 using a country's temperature and precipitation rate for climate change, sourced from the World Bank World Development Indicators database. They found that the hypothesis stating climate change affects economic growth is primarily accurate for poorer countries. Likewise, Letta and Tol (2018) investigated the hypothesis that climate change affected TFP growth using panel data from 60 countries from 1960 to 2006, and these results lend support to the work of Dell et al. (2012), showing that the effect of climate change on poorer countries is more severe. These findings also further support earlier studies, such as the one published by Beg et al. (2002), which study warns that developing countries need to act fast in implementing sound policies relating to climate change because the effects will be more pronounced on their economies.

Donadelli et al. (2021) investigated if temperature volatility affects aggregate productivity, economic growth, welfare, and equity prices using United Kingdom's temperature and TFP data from 1800 to 2015. Similar to our study, this paper studies the effect the effect of temperature volatility on TFP growth by using Granger causality testing and a standard VAR analysis over different historical periods. From 1800 to 1900, there is no evidence of a causal impact, while between 1900 and 1950, a positive unidirectional causality from temperature volatility to TFP was detected. In the post-war period from 1950 to 2015, there was a negative unidirectional causality from temperature volatility to TFP.

Then the following year, Donadelli et al. (2022) published a paper analysing the effects of average temperature change on the macroeconomy worldwide. This was achieved through an empirical analysis of 114 countries where climate change was proxied by a monthly mean temperature for each country, and macroeconomic variables were represented by TFP, GDP, and physical capital for the period 1950 to 2016. The authors used a panel VAR framework to analyse the impact of temperature volatility on productivity growth. They found that intra-annual temperature volatility shocks adversely impact productivity growth in North America and Europe and have a positive effect in Asia. On the other hand, South America and

Africa do not show evidence of a movement in productivity. This contradicts Dell et al.'s (2012) findings that show developing countries are the most affected by climate change.

Studies focussing on developing countries such as Ethiopia, Latin America and the Caribbean (LAC), and Brazil add to the literature by evidencing the relationship between climate change and productivity growth. Berihun and Van Steven (2022) examined whether climate variability factors in Ethiopia, for instance, rainfall and temperature, influence the macroeconomic output. An asymmetric autoregressive distributive lag cointegration method was used to investigate time-series data from 1950 to 2014. The study found that temperature volatility significantly negatively impacts Ethiopia's economic growth in the long run. Similarly, Lachaud et al. (2021) found that climate change has adverse effects on TFP and production when analysing panel data within 54 LAC countries between 1961 and 2014 using a random-parameter stochastic production frontier model specification to capture heterogeneity in technology. In Brazil, the study by Tebaldi and Beaudin (2016) also supports the findings of Dell et al. (2012) that climate change negatively affects productivity growth in developing countries by using time-series data from 1970 to 2011.

Focussing on developed countries, Colacito et al. (2016) conducted a panel analysis investigating temperature and economic growth in the United States from 1957 to 2012 for 50 states. The study showed that an increase in the average summer temperature negatively affects the growth rate of gross state product, and an increase in the average fall in temperature positively affects growth. In Japan, Kunimitsu et al. (2014) studied how climate change affected the TFP of rice production for the period 1979 to 2009. It showed that climate change adversely affects the rice production sector's TFP; however, it is to a lesser extent than socio-economic factors.

Using Post-Keynesian growth theory, Taylor et al. (2016) examine the impact of climate change using greenhouse gas concentration on changes in income distribution, employment, and economic growth. The authors developed a demand-driven model accounting for long-run economic growth and greenhouse gas concentration while interacting with short-run employment, income distribution, and labour productivity. They found that in the presence of high economic growth and greenhouse gas concentration, there is increased productivity in terms of labour and capital in the short run. This leads to higher income distributions. Thus, emission policies will be most relevant when a state is in a high-income environment.

Sequeira et al. (2018) apply a heterogenous panel data approach to climate change and economic growth between 1950 and 2014 for all countries included in their sample. The findings of this study show that in the long run, rising temperature negatively affects industrial output per capita at the 1% significance level, and rising precipitation increased its positive effect in both the short and long run, an effect that is significant at the 5% level for most countries.

#### **3. DATA AND METHODOLOGY**

This section outlines details of data utilised in this paper, as well as empirical techniques employed in the analysis, including the BDS (1996) test for nonlinearity, the Bai-Perron (1998, 2003) multiple breakpoint test for the presence of structural breaks and the Rossi-Wang (2019) time-varying vector autoregressive (VAR)-based Granger causality test.

#### 3.1 Data

This study employs data for 23 developed countries (with the exception of Mexico)<sup>1</sup> for the period 1880 to 2020, investigating the effect of climate change on TFP growth while controlling for real GDP per capita growth, where average temperature change (*ave\_change*) and realised temperature volatility (*RV*) are used as representative measures for climate change. TFP growth (*tfp\_gr*) data was obtained from the Long-Term Productivity Database<sup>2</sup>. TFP per hour worked is computed as the Solow residual from a constant return to scale Cobb-Douglas production function with capital stock and hours worked as input.

The real GDP per capita growth data is calculated from the real GDP in constant 2011 US dollar divided by the number of the population acquired from the Maddison Project Database 2020 website (Groningen Growth and Development Centre, 2023)<sup>3</sup>.

Average temperature change (*ave\_change*) and realised temperature volatility (*RV*) data were obtained from the National Centre for Environmental Information website (National Centers for Environmental Information, 2023)<sup>4</sup>. The values were attained by extracting monthly temperature anomalies (deviation from a historical mean (1991-2020) for all 23 countries. Average temperature change (*ave\_change*) is the annual average of the first difference of monthly temperature anomalies. Realised temperature volatility (*RV*) is the sum of the squared first-differenced monthly temperature anomalies over each 12-month period to obtain an annual figure.

In addition to testing the impact of climate change on total factor productivity, we also test the impact on labour productivity growth  $(lp_gr)$ , where labour productivity is defined as the ratio of GDP over total hours worked, also sourced from the Long-Term Productivity Database.

<sup>&</sup>lt;sup>1</sup> The countries included in the analysis are: Australia, Austria, Belgium, Canada, Switzerland, Chile, Germany, Denmark, Spain, Finland, France, United Kingdom, Greece, Ireland, Italy, Japan, Mexico, Netherlands, Norway, New Zealand, Portugal, Sweden, and the United States.

<sup>&</sup>lt;sup>2</sup> http://www.longtermproductivity.com/index.html.

<sup>&</sup>lt;sup>3</sup> https://www.rug.nl/ggdc/historicaldevelopment/maddison/releases/maddison-project-database-2020?lang=en

<sup>&</sup>lt;sup>4</sup> https://www.ncei.noaa.gov/access/monitoring/climate-at-a-glance/global/time-series.

#### 3.2 Standard and Rossi-Wang (2019) time-varying VAR-based Granger causality tests

A VAR model describes the behaviour of a linear multivariate, multi-equation system where each variable is explained by its own lagged values and lagged values of all other variables in the model. Reporting results from Granger-causality tests is common in VAR analysis (Stock & Watson, 2001). Granger (1969) established the causal feedback relationship between variables while assuming a time series is stationary. A variable,  $y_{2,t}$ , is be said to Granger-cause another variable,  $y_{1,t}$ , if lagged values  $y_{2,t}$  are jointly significant in explaining variations in  $y_{1,t}$ , and vice versa. The problem with the stationarity assumption is that it excludes trends, seasonal components, and structural instabilities in the sample period (Lutkepohl, 1989). This means the results may not be robust in the presence of instabilities. Rossi (2005) developed optimal tests for model selection between models in the presence of underlying parameter instability.

Rossi and Wang (2019) expanded on the above, proposing time-varying Granger causality tests that are robust in the presence of instabilities in a VAR framework. In time-varying VAR-based causality, the idea is to estimate a VAR model in the presence of instabilities that includes all the variables of interest and then test whether the past values of one variable have a statistically significant effect on the dependent variable after controlling for the effects of all other variables in the system. Given that climate change is proxied by both the average temperature change (*avg\_change*) and realised temperature volatility (*RV*), the country-specific and time-varying reduced-form VAR models are thus represented as follows:

$$y_t = K_{1,t}y_{t-1} + K_{2,t}y_{t-2} + \dots + K_{p,t}y_{t-p} + \varepsilon_t$$

where  $K_{j,t}$ , j = 1, ..., p are functions of time-varying coefficient matrices,  $y_t = [y_{1,t}, y_{2,t}, ..., y_{n,t}]'$ represents an  $(n \times 1)$  vector, and the idiosyncratic shocks  $\varepsilon_t$  are presumed to be heteroskedastic and serially correlated. The model consists of two endogenous variables climate change (*ave\_change* or *RV*) and total factor productivity growth (*tfp\_gr*). We also include a control variable, the growth of real GDP per capita (*gdppc\_gr*), to control for the broader impact of the real economy on TFP growth.

The null hypothesis tested is that climate change does not Granger-cause total factor productivity growth in the presence of structural breaks or instabilities. The null hypothesis can be formalised as  $H_0: \Theta_t = 0$ for all t = 1, 2, ..., T, given that  $\Theta_t$  is a suitable subset of  $vec(K_{1,t}, K_{2,t}, ..., K_{p,t})$ . We employ four test statistics, suggested by Rossi and Wang (2019) to test for causality, namely the exponential Wald (*ExpW*) test, the mean Wald (*meanW*) test, the Nyblom (*Nyblom*) test, and the Quandt Likelihood Ratio (*QLR*) test<sup>5</sup>.

<sup>&</sup>lt;sup>5</sup> Andrews and Ploberger (1994) proposed the exponential Wald test (designed for testing against more distant alternatives) and the mean Wald test (designed for the alternatives that are close to the null hypothesis). Nyblom (1989) proposed the optimal *Nyblom* test which is the locally most powerful invariant test for the constancy of the

The country-specific three-variable VAR models in (1) are estimated using a lag length of 1, as suggested by the Schwarz Information Criterion (SIC), to ensure parsimony in the setup. All variables employed are stationary.

#### **3.2 BDS (1996) test for nonlinearity**

Importantly, the model may suffer from misspecification due to nonlinearity and structural breaks when assuming a linear relationship as in a standard VAR framework. To detect whether a time series came from a noisy data-generating process, Brock et al. (1987) developed a test to determine nonlinear dynamics. Later, LeBaron joined this working group to present a test of independence that may be used to check if the projected residuals of any time series model can be translated into a model with independent and identically distributed (IID) residuals (Brock et al., 1996). Subsequently, the BDS test is also known as the BDSL test. By fitting a model and testing the estimated errors of the model, the test has been applied in practice to determine whether model residuals are IID. This model is presented below:

$$\mu_{it} = X_{it} - \alpha - \beta X_{i,t-1} - \varphi K_{i,t-1} - \omega Z_{i,t-1}$$
(2)

and

$$\mu_{it} = X_{it} - \alpha - \beta X_{i,t-1} - \gamma H_{i,t-1} - \omega Z_{i,t-1}$$
(3)

where  $X_{it}$  is  $tfp\_gr$ ,  $K_{i,t}$  is  $avg\_change$ ,  $H_{i,t}$  is RV and  $Z_{i,t}$  is  $gdppc\_gr$  (i = 1, 2, ..., 23).  $\mu_{it}$  is an IID process with a zero mean and finite variance, and each  $\mu_{it}$  is independent of the explanatory variables. The assumption that a time series sample originates from an IID data-generating process is evaluated from the null hypothesis of IID residuals. The *z*-statistic and probability values are reported in section 4 to indicate the presence of nonlinearity in the relationship between climate change and TFP growth.

#### 3.4 Bai-Perron (1998, 2003) multiple breakpoint test

The multiple breakpoint test proposed by Bai and Perron (1998) is employed to detect instabilities and structural breaks in the underlying relationship under consideration, namely climate change and TFP growth. Structural changes may appear at unidentified dates in a regression model, rendering the causality test results from a linear VAR model unreliable and therefore justify the use of the Rossi-Wang time-varying Granger causality test, which is robust in the presence of instability and structural breaks. The null

parameter process against the alternative that the parameters follow a random walk process. The optimal *QLR* is based on the Quandt (1960) and Andrew's (1993) *Sup-LR* test which considers the supremum of the statistics over all possible break dates of the Chow statistic designed for a fixed point break. Refer to Rossi (2005) for detailed expressions of these statistics.

hypothesis of the Bai-Perron multiple breakpoint test is that there are no structural breaks changes versus an alternative hypothesis that states there are an arbitrary number of changes. The Bai-Perron structural break test is applied to an OLS model.

A researcher frequently wants to conclude without pre-specifying a certain number of breaks. To enable this, Bai and Perron (2003 created two tests that compare the null hypothesis of no structural break to the number of breaks given an upper bound M, where M is defined as 5. The issue is that in cases with numerous breaks, specific configurations of modifications make it challenging to reject the null hypothesis of 0 against one break but not the null hypothesis of 0 versus two or more breaks. Bai and Perron (2003) thus introduced the double maximum tests to help determine whether at least one break occurred. The first double maximum test is an equal-weighted version defined by

$$UDmaxF_t(M,q) = max_{1 \le m \le M}F_T(\widehat{\lambda_{1,1}}, \dots, \widehat{\lambda_{m}}; q)$$
(4)

where  $\hat{\lambda}_j = \frac{\hat{T}_j}{T}$  (j = 1, ..., m) are the breakpoint estimates obtained by global minimisation of the sum of squared residuals. The second test factors each of the tests so that they have equivalent marginal *p*-values for each value of *m* and are denoted as

$$WDmaxF_t(M,q) \tag{5}$$

If a structural break is detected, it means that there is a change in the underlying relationship of the time series data.

#### 4. EMPIRICAL RESULTS

In this section, we present the empirical results for standard VAR-based Granger-causality testing, tests for nonlinearity (BDS, 1996) and tests for the presence of structural breaks (Bai & Perron, 1998, 2003) as well as the time-varying VAR-based Granger causality tests which are robust in the presence of instability and structural breaks (Rossi & Wang, 2019).

#### 4.1 Standard VAR-based Granger-causality test results

Standard Granger causality test results are depicted in Table 1. The results in Table 1 are mostly statistically insignificant. In most countries depicted in Table 1, we fail to reject the null hypothesis of the no Granger-causality from  $avg\_change$  or RV to  $tfp\_gr$ . The exception is Chile, France, Ireland and the Netherlands, where  $avg\_change$  is Granger-causing  $tfp\_gr$  at the 10% level, and Sweden, where  $avg\_change$  is Granger-causing  $tfp\_gr$  at the 5% level.

	avg_change does	s not Granger-cause	<i>RV does not Granger-cause tfp_gr</i>		
Country	χ <sup>2</sup> (p)	p_gr probability	χ <sup>2</sup> (p)	probability	
Australia	1.2178	0.2698	1.0489	0.3058	
Austria	0.1770	0.6740	0.2180	0.6406	
Belgium	0.0687	0.7933	0.0897	0.7645	
Canada	0.5234	0.4699	3.4755*	0.0623	
Chile	3.8232*	0.0505	0.3447	0.5572	
Denmark	0.0006	0.9805	0.6703	0.4130	
Finland	0.0092	0.9238	1.8040	0.1792	
France	2.8977*	0.0887	1.1532	0.2829	
Germany	0.1198	0.7293	0.1454	0.7029	
Greece	0.9303	0.3348	1.5844	0.2081	
Ireland	2.8598*	0.0908	10.4329***	0.0012	
Italy	1.10600	0.2930	2.5475	0.1105	
Japan	0.8723	0.3503	5.3E-07	0.9994	
Mexico	1.1716	0.1902	0.1743	0.6763	
Netherlands	2.7542*	0.0970	0.8709	0.3507	
New Zealand	0.6103	0.4347	4.9881**	0.0255	
Norway	0.2385	0.6253	1.6305	0.2016	
Portugal	2.3746	0.1233	1.1344	0.2868	
Spain	0.4722	0.4920	0.7033	0.4017	
Sweden	3.9949**	0.0456	1.5825	0.2084	
Switzerland	0.1429	0.7054	0.0994	0.7526	
United Kingdom	0.0872	0.7678	1.4909	0.2221	
United States	1.7170	0.1901	2.1385	0.1436	

# Table 1: Granger Causality Tests, 1880-2019

Notes: \*\*\*, \*\*, and \* imply significance at the 1%, 5%, and 10% levels, respectively. VAR Granger/Block Exogeneity Wald Tests; p is the lag length (a lag length of 1 used throughout based on SIC).

Further exceptions are Canada, New Zealand and Ireland, where RV is Granger-causing  $tfp_gr$  at the 10%, 5% and 1% significance levels, respectively.

Similarly, Table A.1 in Appendix A shows that the Granger causality results relating to labour productivity growth (*labprod\_gr*) predominately displayed statistically insignificant results; thus, we fail to reject the null hypothesis of no Granger causality from climate change to labour productivity growth.

The lack of evidence of standard Granger causality motivates further testing for nonlinearities and structural breaks in the relationship between climate change and TFP growth reported in sections 4.2 and 4.3, which results may subsequently prompt the application of time-varying Granger causality tests introduced by Rossi and Wang (2019).

#### 4.2 Nonlinearity BDS test results

We use the BDS test by Brock et al. (1996) to test for nonlinearity in the relationship between climate change and TFP growth. Results are reported in Table 2. The z-statistic of the BDS test with the null of IID residuals corresponds to the entries, with the evaluation utilised for the residuals obtained from the  $tfp_gr$  equation in (2) and (3) with one lag each for  $tfp_gr$  and a particular climate factor (*ave\_change* or *RV*) as well as the control variable  $gdppc_gr$ .

				Dimension (m)		
	-	2	3	4	5	6
	Predictor					
Australia	avg_change	5.4174***	7.15439***	8.0428***	8.4197***	8.9590***
	RV	5.3769***	7.1886***	7.9627***	8.4595***	8.9918***
Austria	avg change	-0.0923	-0.1258	-0.1527	-0.1766	-0.1987
	RV _	-0.0923	-0.1258	-0.1527	-0.1766	-0.1987
Belgium	avg_change	7.8686***	8.6009***	8.6649***	8.8560***	9.1491***
	RV	8.0816***	8.7812***	8.8412***	9.0833***	0.4192***
Canada	avg_change	4.4471***	5.5241***	6.8243***	7.6343***	8.7338***
	RV	3.9058***	4.9182***	6.2491***	7.0863***	8.1429***
Chile	avg_change	3.2459***	3.4777***	3.6406***	3.7179***	3.8399***
	RV	3.6479***	3.9278***	4.2224***	4.3460***	4.6185***
Denmark	avg_change	6.0366***	7.0816***	7.1356***	7.2524***	7.1859***
	RV	5.8407***	6.8517***	6.9582***	$7.0580^{***}$	$6.9900^{***}$

Table 2: Brock et al., (1996, BDS) test of nonlinearity, 1880-2019

Finland	avg change	3.8003***	3.6773***	4.4415***	4.5322***	4.5056***
	RV C	3.3977***	3.2250***	3.9140***	3.9358***	3.7107***
	-					
France	avg_change	3.9377***	5.3984***	6.5590***	7.7206***	8.7485***
	RV	4.6165***	5.8716***	7.1994***	8.5383***	9.6579***
Comment		0.0022	0 1259	0 1527	0.17((	0.1007
Germany	avg_cnange	-0.0923	-0.1258	-0.1527	-0.1766	-0.1987
	KV _	-0.0934	-0.1258	-0.1327	-0.1/00	-0.198/1
Greece	avg change	7.1735***	8.0240***	8.6552***	9.0173***	9.4336***
	RV C_	7.7166***	8.8872***	9.4440***	9.8624***	10.3262***
	-					
Ireland	avg_change	2.9387***	3.3612***	3.1187***	2.8348***	2.3876**
	RV	1.1223	1.6087	1.8844*	1.7673*	1.2931
T. 1		<b>2 1 1 1 1 *</b> **				
Italy	avg_change	3.4016	4.5884	5.6021	6.3586	7.0178
	RV _	2.7138***	3.8566	4.8234	5.1906	5.6930
Ianan	avo chanoe	-0.0923	-0 1258	-0 1527	-0 1766	-0 1987
Jupun	RV	-0.0923	-0.1258	-0.1527	-0.1766	-0 1987
		0.0725	0.1230	0.1027	0.1700	0.1707
Mexico	avg_change	3.3712***	4.2647***	4.8985***	5.3293***	5.5996***
	RV	2.9689***	3.9147***	4.2467***	4.5014***	4.6910***
	-					
Netherlands	avg_change	3.4468***	3.8388***	3.7837***	3.5175***	3.3390***
	RV	$4.8080^{***}$	5.0254***	4.9948***	4.7369***	4.6471***
Now Zooland	ava change	1 0008	2 1276***	1 0608***	4 6726***	5 0002***
New Zealallu	avg_cnunge	0.0450	3.4270 2.6708***	4.0008	4.0230	3.0092
	<i>κν</i>	0.9450	2.0708	5.1447	5.5075	5.7602
Norway	avg change	4.6922***	5.5812***	6.0521***	6.4941***	6.7278***
	RV C	5.2503***	6.2455***	6.8554***	7.2670***	7.4789***
	-					
Portugal	avg_change	5.1649***	5.3181***	$6.0050^{***}$	6.5201***	$7.0089^{***}$
	RV	5.5788***	5.8998***	6.4331***	6.8474***	7.3227***
a .	7	4 2 4 0 5 ***		<b>-</b> 1 < 0 < ***	***	< ~ 4 ~ ~ * * *
Spain	avg_change	4.3685	4.5236	5.1696	5.5727	6.2453
	<i>RV</i> _	4.3008	4.3633	5.3669	3./36/	6.4361
Sweden	avg change	1.2429	0.9713	1.6019	1.6027	1.7253*
	RV	1.6539*	0.8897	1.5572	1.5673	1.6676*
	_					•
Switzerland	avg_change	2.0266***	3.1152***	3.8565***	4.2987***	4.5953***
	RV	2.2003**	3.2625***	3.8802***	4.2473***	4.4909***
United Kingdom	avg_change	1.9507*	1.6080	1.6338	1.5827	1.5860

	RV	2.1587**	$1.8640^{*}$	1.9868**	1.9334*	$1.9178^{*}$
United States	avg_change	1.6572***	3.2855***	3.9011***	5.2892***	6.7295***
	RV	1.8779**	3.4349***	3.9101***	5.3883***	7.0443 <sup>***</sup>

Notes: \*\*\*, \*\*, and \* imply significance at the 1%, 5%, and 10% levels, respectively.

In Table 2, the BDS test indicates predominantly proof of nonlinearity, meaning we reject the null hypothesis of IID at the conventional levels of significance across *avg\_change* and *RV* across all dimensions. We, however, fail to reject the null hypothesis of IID on both *avg\_change* and *RV* for Japan and Germany for all dimensions, Ireland's *RV* for dimensions 2, 3, and 5, New Zealand for the second dimension on *avg\_change* and *RV*, Sweden's *RV* for dimension 3, 4 and 5 as well as *avg\_change* for all dimensions except 6, and the United Kingdom *avg\_change* on all dimensions besides 2. Overall, this provides evidence of nonlinearity in the country-specific relationships between climate change and TFP growth. Interestingly, in the absence of nonlinearity for Ireland, New Zealand and Sweden, the standard Granger causality tests indicate a causal relationship between climate change and TFP growth. At the same time, the Bai-Perron (2003) multiple breakpoint test finds no breakpoint dates for New Zealand and only a single breakpoint early in the sample period for Ireland (1923) and Sweden (1921 only for *ave\_change*).

#### 4.3 Bai-Perron multiple breakpoint test results

Having observed the trivial evidence of causality for the standard Granger causality tests, we perform the multiple structural breakpoint test by Bai and Perron (2003) to identify whether the rejection may be due to the presence of structural breaks and the model, therefore, being misspecified. Structural breaks are only recorded for the twentieth century in the sampled period. This century was characterised by a series of events ranging from World War I in 1914-18, the great depression in 1929-39, World War II in 1939-45, and the oil price shocks in 1973 and 1979. During World War I, 22 of the 23 countries participated, and Mexico was the only country remaining neutral; however, all these countries were involved during World War II.

To demonstrate the structural breaks, we use the *UDmax* and *WDmax* results from the Bai-Perron test reported in Table 3. The results show that Australia, Switzerland, the United Kingdom, and New Zealand did not record structural breaks associated with both *avg\_change* and *RV*. Spain and Norway show no structural breaks for *avg\_change*, while France, Sweden and Norway have no structural break for *RV*.

		UDmax		Wdmax	
Country	Temperature		1		1
		Number	Break dates	Number	Break dates
	1	of breaks	1011	of breaks	1011
Australia	ave_change	1	1911	1	1911
	<i>KV</i>	1	1912	3	1911, 1941, 1960
Austria	ave_change	0		0	
D.L.	<i>KV</i>	0	1010 1047	0	1010 1047
Belgium	ave_change	2	1919, 1947	2	1919, 1947
<u> </u>	RV	3	1919, 1938, 1957	3	1919, 1938, 1957
Canada	ave_change		1927	0	1020
	RV	1	1930	1	1930
Chile	ave_change	2	1914, 1934	2	1914, 1934
	RV	2	1930, 1950	2	1930, 1950
Denmark	ave_change	0	1001 1046	3	1921, 1946, 1973
	RV	2	1921, 1946	2	1921, 1946
Finland	ave_change	1	1919	1	1919
	RV	1	1919	1	1919
France	ave_change	2	1927, 1946	2	1927, 1946
	RV	0		0	
Germany	ave_change	1	1947	1	1947
	RV	1	1947	1	1947
Greece	ave_change	1	1916	2	1916, 1936
	RV	1	1916	1	1916
Ireland	ave_change	1	1923	1	1923
	RV	1	1923	1	1923
Italy	ave_change	2	1946, 1966	2	1946, 1966
	RV	2	1946, 1966	2	1946, 1966
Japan	ave_change	2	1928, 1947	2	1928, 1947
	RV	2	1928, 1947	2	1928, 1947
Mexico	ave_change	0		3	1915, 1934, 1982
	RV	2	1934, 1982	2	1934, 1982
Netherlands	ave_change	2	1946, 1965	2	1946, 1965
	RV	2	1946, 1965	3	1927, 1946, 1965
New Zealand	ave_change	0		0	
	RV	0		0	
Norway	ave_change	0		0	
	RV	3	1919, 1938, 1957	3	1919, 1938, 1957
Portugal	ave_change	2	1924, 1960	3	1924, 1953, 1974
	RV	2	1924, 1947	3	1924, 1959, 1978
Spain	ave_change	0		0	
	RV	1	1937	2	1926, 1945
Sweden	ave_change	1	1921	1	1921
	RV	0		0	

# Table 3: Bai and Perron (2003) Multiple structural break test

Switzerland	ave_change	0		0	
	RV	0		0	
United Kingdom	ave_change	0		0	
	RV	0		0	
United States	ave_change	2	1916, 1947	2	1916, 1947
	RV	1	1916	2	1916, 1950

These test results also illustrate that most countries experienced structural breaks between 1910 and 1960, with the majority of the recorded breaks accounted for by the major historical events mentioned earlier, while fewer countries reported breaks outside of these events and beyond 1960 – only the Netherlands (1965), Italy (1966), Denmark (1973), Portugal (1974, 1978) and Mexico (1982), while Australia experienced a break early in the twentieth century (1911, 1912).

In Australia, a break occurred around 1911 and 1912, shown both for *avg\_change* and *RV*. During this period, Australia experienced defining events such as the introduction of the Australian pound currency, the cyclone strike in Broome, and the beginning of the evolution of the large-scale enterprise that started in 1910 and lasted until 1964 (Ville & Merrett, 2000). The structural break for Portugal around 1978 may be attributed to the change in the political regime, which included the return to democracy and the decolonisation of Angola and Mozambique, which resulted in many Portuguese citizens returning to Portugal, causing economic and political turmoil. To remedy these turbulences, the Portuguese government entered a stand-by arrangement with the IMF to receive a grant in 1978, boosting its ability to drive economic activities (Lopes, 1982). Mexico, on the other hand, experienced a debt crisis in 1982, causing uncertainty and volatile markets, ultimately impacting the real economy and productivity (Bruner & Simms, 1987).

The findings from the standard Granger causality model in Table 1 are not robust; according to these results, there is a strong indication of structural change in the relationship between climate change and TFP growth.

#### 4.4 Time-varying Rossi-Wang Granger causality test results

Given the results of the above tests, the time-varying Granger causality test, which is robust in the presence of instabilities and structural breaks, is most suitable. Table 4 reports the *ExpW*, *MeanW*, *Nyblom*, and *QLR* test statistics and their corresponding *p*-values.

Country	Null-Hypothesis	ExpW	MeanW	Nyblom	QLR
-	Climate change does not Granger-cause	-		-	-
	<i>tfp_gr</i> in the presence of instabilities				
	Climate predictor:		***		***
Australia	avg_change	36.72***	16.01***	0.82	82.68***
		[0.0000]	[0.0000]	[0.4628]	[0.0000]
	RV	102.008***	42.70***	9.60***	213.40***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
Austria	avg_change	12.10***	9.37**	0.99	31.69***
		[0.0000]	[0.0368]	[0.3825]	[0.0000]
	RV	24.37***	23.11***	26.47***	57.20***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
Belgium	avg_change	13.37***	14.92***	1.60	33.88***
		[0.0000]	[0.0000]	[0.1874]	[0.0000]
	RV	47.84***	13.98***	5.38***	104.91***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
Canada	avg_change	44.95***	15.83***	1.22	98.97***
		[0.0000]	[0.0000]	[0.2910]	[0.0000]
	RV	214.55***	35.48***	8.39***	438.33***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
Chile	avg_change	12.57***	8.57***	0.60	32.59***
		[0.0000]	[0.0000]	[0.6034]	[0.0000]
	RV	72.57***	27.23***	18.81***	153.92***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
Denmark	avg_change	31.63***	49.04***	0.68	67.97***
		[0.0000]	[0.0000]	[0.5508]	[0.0000]
	RV	32.92***	17.13***	2.98**	74.70***
		[0.0000]	[0.0000]	[0.0364]	[0.0000]
Finland	avg change	181.01***	45.41***	1.56	371.27***
		[0.0000]	[0.0000]	[0.1950]	[0.0000]
	RV	116.84***	42.13***	9.58***	242.56***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
France	avg change	134.78***	16.38***	2.04	278.80***
	00	[0.0000]	[0.0000]	[0.1089]	[0.0000]
	RV	101.75***	34.08***	7.62***	212.75***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
Germany	avg change	20.96***	19.76***	0.93	50.21***
	0_ 0	[0.0000]	[0.0000]	[0.4075]	[0.0000]
	RV	32.997***	18.30***	8.52***	74.97***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
Greece	avg change	46.35***	13.77***	1.28	101.94***
0		[0.0000]	[0.0000]	[0.2750]	[0.0000]
	RV	37.59***	22.74***	69.26***	83.33***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
Ireland	avg change	46.35***	13.77***	1.28	101.94***
nomia		[0.0000]	[0.0000]	[0.2750]	[0.0000]
	RV	50.29***	39.37***	3.69**	109.80***
	11,	[0 0000]	[0 0000]	[0 0179]	[0 0000]
		[0.0000]	[0.0000]		[0.0000]

Table 4: Time-varying Rossi-Wang (2019) Granger causality tests, 1	1880-2019
--------------------------------------------------------------------	-----------

Italv	avg change	235.12***	36.78***	2.41*	479.49***
5	0_ 0	[0.0000]	[0.0000]	[0.0689]	[0.0000]
	RV	73.46***	28.00***	22.41***	156.15***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
Japan	avg_change	544.88***	134.98***	1.05	1099.00***
-		[0.0000]	[0.0000]	[0.3547]	[0.0000]
	RV	22.20***	21.40***	29.61***	51.49***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
Mexico	avg_change	$10.80^{***}$	6.72	0.64	29.77***
		[0.0000]	[0.1271]	[0.5812]	[0.0000]
	RV	24.66***	14.74***	3.38**	57.86***
		[0.0000]	[0.0000]	[0.0243]	[0.0000]
Netherlands	avg_change	18.76***	21.25***	1.14	45.20***
		[0.0000]	[0.0000]	[0.3197]	[0.0000]
	RV	21.69***	15.73***	16.31***	51.27***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
New Zealand	avg_change	575.68***	$178.92^{***}$	1.17	1160.60***
		[0.0000]	[0.0000]	[0.3091]	[0.0000]
	RV	92.21***	30.83 ***	177.23***	195.66***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
Norway	avg_change	7.66***	9.93**	1.42	21.93***
		[0.0000]	[0.0283]	[0.2296]	[0.0000]
	RV	82.94***	26.63***	3.97**	174.84***
		[0.0000]	[0.0000]	[0.0231]	[0.0000]
Portugal	avg_change	55.56***	38.09***	0.95	120.28***
		[0.0000]	[0.0000]	[0.3993]	[0.0000]
	RV	32.71***	19.77***	67.58***	74.41***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
Spain	avg_change	27.80***	28.72***	0.97	62.76***
		[0.0000]	[0.0000]	[0.2921]	[0.0000]
	RV	39.37***	19.86***	16.49***	87.94***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
Sweden	avg_change	94.89***	38.87***	0.71	199.03
	DI		[0.0000]	[0.5285]	
	RV	104.23	28.25	3.48	217.71
<u> </u>	1			[0.0223]	
Switzerland	avg_change	253.01	65.76	1.19	515.26
		[0.0000]	[0.0000]	[0.3014]	[0.0000]
	RV	03.88 [0.0000]	59.91	14.58	136.90
				[0.0000]	[0.0000] 82.00***
United Kingdom	avg_change	57.08 [0.0000]	15./3	0.85	83.99 [0.0000]
	DV	[0.0000]	[0.0000]	[U.4394]	
	KV	89.85 [0.000]	55./6	8.91 [0.0000]	188.17
		20.51***			
United States	avg_change	59.51	19.32	5.29	88.24
	DV	[0.0000]		[0.0262]	
	KV		116.01	10.18	1981.92
			[0.0000]	[0.0000]	[0.0000]

Notes: \*\*\*, \*\*, and \* imply significance at the 1%, 5%, and 10% levels, respectively. Values in square brackets are p-values.

The *ExpW*, *MeanW* and *QLR* statistics yield overwhelming evidence of causality, meaning we reject the null hypothesis stating *avg\_change* or *RV* does not Granger-cause *tfp\_gr* in the presence of instabilities consistently across all countries at the 1% significance level. The only exception is the *MeanW* statistic for Mexico's *avg\_change* climate predictor, where we can only reject the null of no Granger causality at the 12% significance level. Conversely, the *Nyblom* statistic fails to reject the null hypothesis of climate change Granger-causing TFP growth – mainly for the *avg\_change* predictor variable. The exceptions are Italy and the United States, where the *Nyblom* statistic signifies a rejection of the null of no Granger causality for both climate predictors.

Similar results are reported in Table A.2 in Appendix A for the null hypothesis that climate change does not Granger-cause labour productivity growth (*labprod gr*).

The time-varying Granger causality test results are also represented in graphical form in Figure 1. Figure 1 reports the Wald statistics over time. For periods with statistics above the 10% critical value, we reject the null of no Granger causality from RV or  $avg\_change$  to  $tfp\_gr$  in favour of the alternative – that is of a break in Granger causality at time tm (reported on the horizontal axis). The optimal QLR statistic is the representation of the Wald statistics.

The sequence of the Wald statistic depicts that, in the majority of instances, there is an increased significance of the causal relationship between climate change and total factor productivity in the post-World War II period during the 1960s and a further increase from the 1980s onwards. In the 1950s and 1960s, most countries experienced an upturn in economic growth. The US was among these countries with several technological improvements in the 1950s while facing one of the most severe droughts. This drought, however, mainly affected the agricultural sector, which accounts for the *avg\_change* significance at a 10% level around this period (Wiener et al., 2016). Italy also shows an increase in the significance level of the causal impact of RV on  $tfp_gr$  in the post-World War II period, accounted for by its transformation from a largely agrarian, relatively poor country into an economically and socially advanced economy (Fonte & Cucco, 2015). On the other hand, the Netherlands was experiencing economic upheaval, with unemployment increasing from 1% in the first half of the 1960s to approximately 15% in 1984, caused by the substantial decline in capital formation resulting in weak economic growth (Driehuis, 1986).

### Figure 2: Wald statistics testing whether *RV* and *avg\_change* Granger-causes *tfp\_gr*, 1880-2019.

# avg\_change does not Granger-cause tfp\_gr

# *RV* does not Granger-cause tfp\_gr



#### Australia















#### Canada



#### Switzerland





#### Chile











#### Denmark











#### Finland



France





# United Kingdom



Greece





Ireland





Italy











Mexico





#### Netherlands





Norway





#### New Zealand









10% Critical value

5% Critical value Wald statistics

#### Sweden



United States of America (USA)





Furthermore, the *RV* results show Australia, Chile, Greece, Ireland, France, Italy, the United Kingdom, and New Zealand already demonstrated peaks and significance between 1880 and 1920. This can be accounted for by the history of climate change when the patterns of climate change were becoming visible and natural disasters were prevalent in these regions. The *avg\_change* predictor also demonstrates less significance towards the end of the sampled period for Switzerland, Finland, France, Greece, Ireland, Italy, Japan, and Sweden. Here there were fewer causal effects of climate change on TFP growth. However, countries such as Germany, the Netherlands, Spain, and Denmark demonstrate higher levels of significance on *avg\_change*, implying variations in climate change have a predictive causal effect on TFP growth in the long run.

#### 5. CONCLUSION

Risks associated with climate change pose a significant threat to TFP growth, affecting various sectors of the economy. A majority of studies in the empirical literature test this hypothesis using a standard Granger causality test, which provides weak evidence of a causal impact in the presence of instabilities or structural breaks. This study contributes to the existing literature by employing the time-varying Granger causality test suggested by Rossi and Wang (2019) to test the null hypothesis that climate change (measured as average temperature changes or realised volatility of temperature changes) does not Granger-cause TFP growth in the presence of instabilities while controlling for real GDP growth.

Testing for nonlinearity in the relationship between climate change and TFP growth using the BDS (1996) test and for structural breaks using the Bai-Perron (1998, 2003) test further justify and support the use of the Rossi-Wang (2019) time-varying Granger causality test. The results of these tests collectively prove that the relationship is nonlinear and subject to structural breaks. It furthermore shows an increasing impact of climate risk on productivity outcomes.

These results imply that tackling climate change and protecting TFP is not just an environmental requirement but an economic necessity for a prosperous and resilient future. Policy decisions conducive to climate change mitigation in these countries would encourage strategies to minimise climate-related disruptions. In conclusion, an extension of the current research would be to attempt to assess and quantify the climate change impact on productivity, perhaps, relying on a panel data approach due to the likely (cross-sectional) dependence across economies.<sup>6</sup> Furthermore, it would be interesting to contrast the results

<sup>&</sup>lt;sup>6</sup> We say this, given the evidence in Figures A.1 and A.2 in the Appendix of the paper, obtained from a panel VAR model that has time-varying parameters and a common stochastic volatility (as in Poon (2018), and Cross and Poon (2020)) for the 23 economies, involving average temperature changes or realised volatility of temperature change, real GDP growth and TFP growth. As shown by the two figures, the importance of a global factor relative to a country-specific factor is way more important in explaining the growth in productivity.

of the sample of developed countries by applying similar techniques to a representative sample of developing countries. A particular focus on South Africa, investigating the effect of climate change on labour productivity, would also be beneficial given the country's extremely high unemployment rate.

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# Appendix A

Table A.1:	Granger	causality t	tests, 1880-2019
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	avg_change does	s not Granger-cause	<b>RV</b> does not Granger-cause		
	labj	prod_gr	labp	rod_gr	
Country	χ <sup>2</sup> (p)	probability	<b>x</b> ²(p)	probability	
Australia	0.9415	0.3319	1.3163	0.2513	
Austria	0.0173	0.8955	0.9928	0.6087	
Belgium	1.4399	0.4868	0.1306	0.9368	
Canada	1.1838	0.5533	2.5751	0.2759	
Chile	3.2186	0.2000	0.6650	0.7171	
Denmark	3.8236	0.1478	0.5769	0.7494	
Finland	1.3701	0.5041	2.8750	0.2375	
France	2.7958	0.2471	1.5031	0.4716	
Germany	1.7908	0.4084	0.6710	0.7150	
Greece	2.4830	0.2889	5.0663*	0.0794	
Ireland	2.8877	0.2360	8.9890**	0.0112	
Italy	0.7708	0.6802	2.1380	0.3433	
Japan	1.2639	0.2609	0.1478	0.9288	
Mexico	2.2388	0.3265	0.0608	0.9701	
Netherlands	2.9283*	0.0870	1.9732	0.3728	
New Zealand	3.2703	0.1949	8.8121**	0.0122	
Norway	0.4223	0.8097	1.5821	0.4534	
Portugal	2.0385	0.3609	2.1880	0.3349	
Spain	3.0218	0.2207	2.2166	0.3301	
Sweden	6.0052*	0.0497	1.1556	0.5611	
Switzerland	0.7563	0.6851	0.4576	0.7955	
United Kingdom	1.4981	0.4728	4.9447*	0.0844	
United States	4.1027	0.1286	7.6160**	0.0222	

Notes: \*\*\*, \*\*, and \* imply significance at the 1%, 5%, and 10% levels, respectively. VAR Granger/Block Exogeneity Wald Tests; p is the lag length (a lag length of 1 used throughout based on SIC).

Country	Null-Hypothesis	ExpW	MeanW	Nyblom	QLR
	Climate change does not Granger-cause				
	labprod_gr in the presence of instabilities				
Australia	climate predictor:	20 /2***	0 02*	0.71	69 09***
Australia	uvg_chunge	29.43 [0.0000]	0.03 [0.0481]	[0.5302]	00.00 [0.000]
	RV	137 36***	39.83***	7 78***	238 75***
	,	[0.0000]	[0.0000]	[0.0000]	[0.0000]
Austria	avg change	15.21***	7.72*	0.80	39.01***
	0_ 0	[0.0000]	[0.0827]	[0.4772]	[0.0000]
	RV	53.65***	17.02***	13.68***	116.53***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
Belgium	avg_change	11.97***	11.62**	1.14	30.78***
		[0.0000]	[0.0140]	[0.2212]	[0.0000]
	RV	63.51***	21.33***	5.14***	135.54***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
Canada	avg_change	108.31***	40.46***	0.90	225.87***
		[0.0000]	[0.0000]	[0.4248]	[0.0000]
	RV	339.49***	52.80***	6.78***	688.23***
<u></u>	1	[0.0000]	[0.0000]	[0.0000]	
Chile	avg_change	30.69	12.52	0.69	70.62
		[0.0000]	[0.0000]	[0.5415]	[0.0000]
	RV	27.38	12.03	20.80	62.81 [0.0000]
Denmark	ava change	20.44***	<u>[0.0111]</u> <u>45.78***</u>	0.83	[0.0000] 68.08***
Definitark	uvg_chunge	50.44 [0.0000]	10,0001	[0 4612]	10000
	RV	64 23***	21.84***	1.52	136 42***
	,	[0.0000]	[0.0000]	[0.2036]	[0.0000]
Finland	avg change	206.50***	52.81***	1.67	421.37***
	0_ 0	[0.0000]	[0.0000]	[0.1721]	[0.0000]
	RV	137.26***	60.75***	6.65***	283.74***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
France	avg_change	115.39***	17.03***	1.99	240.02***
		[0.0000]	[0.0000]	[0.1145]	[0.0000]
	RV	165.97***	37.70***	7.56***	341.17***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
Germany	avg_change	14.63***	16.97***	0.87	36.72***
		[0.0000]	[0.0000]	[0.4348]	[0.0000]
	RV	51.04	26.56	5.95	110.45
	1	[0.0000]	[0.0000]	[0.0000]	[0.0000]
Greece	avg_cnange	41.14	12.82	1.27	91.51 [0.0000]
	DV	27.25***	[0.0000] 16.04***	[0.2730] 50.78***	[0.0000] 62.47***
	KV	27.33 [0.0000]	10.94 [0.0000]	50.78	03.47 [0.0000]
Ireland	ava change	44 67***	25.91***	3.97**	97 37***
	uvg_cnungc	[0.0000]	20.91	[0.0131]	[0.0000]
	RV	24.31***	27.53***	2.20*	77.62***
		[0.0000]	[0.0000]	[0.08997]	[0.0000]
			ь <u>з</u>	ь J	с J

 Table A.2: Time-varying Rossi-Wang Granger causality tests, 1880-2019

Italy	avg change	76.96***	23.27***	1.43	163.15***
	0_ 0	[0.0000]	[0.0000]	[0.2256]	[0.0000]
	RV	58.16***	2299***	20.23***	125.56***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
Japan	avg_change	343.30***	113.50***	1.03	695.83***
		[0.0000]	[0.0000]	[0.3654]	[0.0000]
	RV	175.72***	40.00***	5.22***	360.68***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
Mexico	avg_change	16.90***	6.45	0.68	42.98***
		[0.0000]	[0.1477]	[0.5506]	[0.0000]
	RV	42.76***	24.70***	$2.38^{*}$	93.98***
		[0.0000]	[0.0000]	[0.0716]	[0.0000]
Netherlands	avg_change	22.50***	22.39***	1.09	52.91***
		[0.0000]	[0.0000]	[0.3390]	[0.0000]
	RV	30.53***	18.31***	$15.08^{***}$	70.22***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
New Zealand	avg_change	650.37***	200.46***	1.19	1309.98***
		[0.0000]	[0.0000]	[0.2994]	[0.0000]
	RV	127.39***	41.81 ***	177.31***	264.04***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
Norway	avg_change	7.41***	8.96**	1.28	22.01***
		[0.0000]	[0.0283]	[0.2735]	[0.0000]
	RV	98.98***	28.30***	4.27***	206.66***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
Portugal	avg_change	27.95***	24.68***	0.78	62.69***
		[0.0000]	[0.0000]	[0.4849]	[0.0000]
	RV	34.53***	18.85***	27.27***	77.90***
		[0.0000]	[0.0000]	[0.0000]	[0.0000]
Spain	avg_change	35.35***	22.62***	0.85	79.24***
		[0.0000]	[0.0000]	[0.4482]	[0.0000]
	RV	19.78***	11.14**	23.61***	48.80***
		[0.0000]	[0.0173]	[0.0000]	[0.0000]
Sweden	avg_change	94.98***	38.62***	0.56	199.20***
		[0.0000]	[0.0000]	[0.6340]	[0.0000]
	RV	121.33	41.46***	1.53	251.90***
~			[0.0000]	[0.2017]	[0.0000]
Switzerland	avg_change	265.37	66.83	1.87	539.99
	DU			[0.1326]	
	RV	88.32	58.68	9.15	185.68
TT '. 1 TT' 1	1			[0.0000]	[0.0000]
United Kingdom	avg_change	29.07	14.99	0.93	66.33
	DV			[0.40/4]	[0.0000]
	KV	180.99	68.60 [0.0003	1.42	5/1.23
	1			[0.2277]	[0.0000]
United States	avg_change	94.98	58.62	0.56	199.20
			[0.0000]	[0.0340]	251.00***
	ΚV	121.33	41.40	1.35	201.90
		[0.0000]	[0.0000]	[0.2017]	[0.0000]

Notes: \*\*\*, \*\*, and \* imply significance at the 1%, 5%, and 10% levels, respectively. Values in square brackets are p-values.

**Figure A.1:** Country-specific TFP growth and posterior median values of the global indicator and country-specific indicator with average temperature changes as proxy for climate risk





**Figure A.2:** Country-specific TFP growth and posterior median values of the global indicator and country-specific indicator with realised volatility temperature changes as proxy for climate risk



