

Terms of Trade, Income Distribution, Agricultural Wages and Poverty in India

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In the context of on-going structural stabilization and adjustment programmes, it is necessary to examine the impact of changes in agricultural and foodgrains terms of trade on the incomes of various socio-economic groups, agricultural real wages and rural poverty in India. A change in agricultural terms of trade causes a considerable change in the relative distribution of income not only between agricultural producers and consumers but among income classes as well. However, the impact of changes in agricultural (foodgrains) terms of trade on the real incomes of the various groups can not be measured easily. Different groups may be affected differently. Moreover, the immediate impact may be quite different from the intermediate and long-run effects. In this paper, an attempt has been made to examine the relationship between terms of trade, on the one hand, and income distribution, agricultural real wages and poverty, on the other hand. Among the important overall tendencies, we highlight the following : (i) the agricultural terms of trade seems to be an important determinant of the distribution of income, (ii) the real agricultural wage rate is inversely related to agricultural terms of trade, at least in the short-run, and (iii) the agricultural terms of trade is positively related to the rural poverty.

1 Introduction

In the summer of 1991 a newly elected government began a structural stabilization and adjustment effort in response to severe economic crises. These adjustment programmes usually involve major economic and sector-specific changes which have direct, as well as, indirect bearing on the agricultural terms of trade. In the long-run, these adjustment programmes are expected to push up the inter-sectoral net barter terms of trade in favour of the agricultural sector. This may be brought about either through changes in sector specific prices, or through macro economic instruments such as reducing over-valuation of the exchange rate and reducing protection of the industrial sector. Moreover, these programmes often require reductions in, or the complete removal of, food subsidies, fertiliser subsidies etc. Removing such subsidies will certainly result in higher prices to consumers. Industrial consumer goods and inputs for agriculture are expected to become cheap in course of time consequent to deregulation and opening up of the economy. Though structural adjustment programmes led