

Abstract for “Poverty Impacts of Changes in the Price of Agricultural Commodities – Recent Evidence from Argentina”

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Argentina, like other land abundant countries, benefited greatly from the recent increase in the prices of agricultural commodities. For instance, for the main agricultural products exported by the country (soybeans, soybean meal, soybean oil, sunflower oil, maize and wheat), average prices in the 2002-2012 period have increased between 42% and 84% compared to the average of the preceding ten years. This increase in world prices of agricultural commodities has been part of a more general tendency which also happened in other commodity markets.

As an example of the importance of the change of prices exported by Argentina, if we decompose the change in export values between the change in prices and the change in quantities, we have that during the period 1992-2002, the price index of exports fell by a 9%, while quantities increased by 130%. On the other hand, in the period 2002-2012 instead, the increase in the value of exports was mainly driven by the change in prices with a 100% rise, while quantities increased only 58%. This change in the source of growth is also present, and even at a greater extent in the cases of agricultural commodities and manufacturers intensive in their use, and even more for fuel and energy.

Despite of the benefits, at the macro level, that followed the increase in the price of agricultural commodities, such as the important increase in exports which helped to ease the external restriction that has conditioned the long-run growth possibilities, there is a need to consider other effects that may be less desirable. One of these effects is the impact on poverty that may follow to a rise in the price of commodities that are used as intermediate inputs in the production of food goods, which explain a large share of total expenditure in poorer households.

Following Deaton (1989) and Benjamin and Deaton (1993), we obtain that, ex-ante, with a large share of the population with low and medium-low incomes, the increase in agricultural commodities prices has the potential to hurt an important part of the population through a raise in the price of goods that explain an important share of households expenditures, especially those that constitute the food-basket. A less obvious channel works through changes in factor incomes. In the case of labor income, this effect would be more beneficial to the middle income households.

The policy of heavy export taxes implemented by the government appears to potentially have a limited effectiveness, while the elimination of the VAT on the consumption of food and beverages would be enough to compensate for most of the negative effects derived from the increase in world prices of agricultural commodities.