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Wage Determination in a Casual Labour Market:
The Case of Paddy Field Labour in Kerala

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ABSTRACT

The wage rate in a casual labour market, paddy field labour, is estimated from a reduced form version of a supply and demand model after incorporating literacy, caste and the degree of unionisation in the structural equations. The empirical evidence shows that the degree of unionisation is the only factor that affects the wage rates in one of the most important labour markets in Kerala. The adjustment of paddy output and its components, area and yield, to wage increase is brought out by comparative static analysis of profit function. The estimation of the model from district level data provides an explanation for the observed decline in output and area and increase in the yield of paddy since 1975/76.

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Wage Determination in a Casual Labour Market:
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The determinants of agricultural wage rates have been studied quite extensively in Indian agriculture. Although little on the effects of trade unionism on the industrial wage structure is available, there is hardly any similar work on the rural labour market in India. It has been singled out as one of the most important factors in the determination of agricultural wage rates in Kerala\(^1\). Any attempt to study the impact of trade unionism on agriculture wage in general has been severely handicapped by the unavailability of trade union membership among agricultural workers. Recently some estimates are available on trade union membership as a result of the study on rural militant struggles in Kerala\(^2\). The present paper makes an attempt to model the impact of trade unionism on the formation of wage rates using the above data. In the process, the paper also develops an analytical framework to explain the increase in land yield in the wake of stagnation in paddy production.

A survey on the literature suggests that two schools of thought are predominant in the characterisation of the Indian rural labour markets. While the first approach emphasises structural factors such as institutions, customs, religion etc. in the determination of wage rates, the second one tries to explain the wage rates in terms of demand for and supply of labour\(^1\). For the present analysis, we have chosen the second
approach because of its advantages for testing various hypothesis on the factors that influence wage rates in rural labour market. The limitations of the method will be discussed later.

The outline of the paper is as follows. In section 1, a reduced form equation of the wage rate is derived from the structural equation of supply of and demand for labour. The model is estimated from cross section data. Section II shows the impact of cost escalation on acreage allocation and output in the absence of technical change. It also estimates the relationship between wage rate, yield and output as a result of the cost escalation using cross section and timeseries data.

Section I

1.1 Review of Theory

There are four major theories on wage determination that use supply and demand framework: (1) classical competitive model; (2) insider-outsider theory; (3) efficiency wage theory; and (4) implicit cooperation theory.

In the competitive model, the wage rates are determined, just like in any other commodity, on the basis of supply and demand factors. In such a model, the wage rates clear the market in the sense that no involuntary unemployment exists. The prediction of the model is inconsistent with the widespread involuntary unemployment in the rural areas. Remaining three
Models were constructed to reconcile the supply-demand model of wage determination with involuntary employment.

The efficiency wage models are based on the following twin assumptions: (1) the employers set the wage rates and they have market power to do so; (2) the firms lack the perfect knowledge of the productivity of each of its workers. Moreover, the firms believe that the wage rate has positive effect on productivity and negative effect on average labour cost per time unit. Therefore, firms set higher wages as a screening devise for recruiting best workers and provide incentive for incumbent workers to put in more effort in the production process. This implies that the wage rate at the margin will be more than the opportunity cost of labour. Such a market is characterised by involuntary unemployment. Although the model explains the observed differences in the wage rates of the same type of labour in the industrial sector, it fails to provide a satisfactory explanation for the near-uniform wage rates existing in the rural labour market for a given task in a given locality (Osmani, 1988: 4). Hence, the model has very limited use in the present context.

Both the theories, efficiency wage and insider-outsider, argue that it is the market power in the wage setting that results in the wage rates above the market-clearing wage rates. Only difference is the assumption on the market power of the
agents. In the efficiency wage model the market power rests with the employers while in the insider-outsider with the incumbent labourers. The insider-outsider model classifies the labourers into mutually exclusive groups: (1) the insiders who are employed; (2) the outsiders who are unemployed. The insiders exercise their power within the firm to extract a portion of the rent from the employers$^6$. As a result, the wage rates are above the market clearing wage rates which result in unemployment$^7$. Ackerlof (1991) has hailed the theory as the best among the models on unemployment with microfoundation that have appeared during the last twenty years. The main drawback of the model is its inability, like the efficiency wage model, to explain the existence of near-uniform wage rate for a given task in a given locality in the rural sector. On the contrary, the implicit cooperation theory predicts uniform wage rates in equilibrium within the supply and demand framework.

The theory of implicit cooperation assumes that the wage rate is the outcome of individual choice based on strategic considerations (Osmani, 1988). In this story, the wage rate is based on the probability of employment which depends very much on the interaction of supply of and demand for labour. Moreover, the strategic behaviour of the workers in setting the daily wage rate has the properties of a repeated non-cooperative game. The agents have, in such a game, some incentive for implicit cooperation of a self-enforcing nature in setting the wage rate.
Given the supply and demand conditions prevailing in the market, each worker sets his wage rate so as to maximise his expected pay-off. The most important point is that the quoted wage rate depends on the wage rates demanded by other workers. The equilibrium wage rate is established when it does not pay to revise the bid. The equilibrium wage rate based on the reactions of others is the usual Nash-equilibrium in the game-theoretic literature. Naturally the equilibrium wage rate is higher than the wage rate under competitive equilibrium. The difference in wage rates explains the extent of involuntary unemployment.

Although, the game-theoretic approach characterises the non-uniform wage rates in a given locality better than the other three models, it becomes very difficult, if not impossible, to test the influence of non-economic factors on wage formation within the implicit cooperation theory. Therefore, we have chosen the competitive model, like Bardhan (1984) and Binswanger and Rosenweig (1984), on the assumption that the model approximates the rural labour market in India. This assumption is valid more in Kerala than elsewhere in India due to the increasing shortage of labour for agricultural operations in Kerala.

1.2 Wage Formation: Supply and Demand Model

The simplest formulation of the supply and demand model is to assume that it depends only on its price. But it is well
known that such a system of equations is not identified unless we impose some restrictions on the equations. One method of identification is to include additional variables that affect only the demand function but not supply and vice versa. Let us examine such factors for the specification. Hicks (1969) has shown that labour demand, under cost minimizing behaviour, is determined by the relationship between productivity and wage rate. Therefore, the structural equation of demand for labour should depend on the labour productivity. While explaining the inter-district variability in the agricultural wage rates, Raj has hypothesised that higher land-man ratio in a district can put upward pressure on the wage rates. This would imply that land-man ratio is a factor that affects the demand for labour. The structural equation of the demand for labour becomes:

\[ D = \alpha_0 + \alpha_1 W + \alpha_2 X_1 + \alpha_3 X_2 \quad (\alpha_1 < 0, \alpha_2 > 0, \alpha_3 > 0) \]

where \( D \) is the demand for labour; \( W \) is the wage rate; \( X_1 \), the labour productivity; and \( X_2 \), the land-man ratio.

The supply side, on the other hand, depends on the preference maximization of the workers given their choice between income and leisure. In addition to the wage rate, the following non-economic factors influence the supply of labour in Kerala. Although the state has the highest unemployment rate in India, it has no effect on the wage rate of paddy labour since the majority of them are educated unemployed and they are simply not available.
be to social stigma attached to such labour. As a result there
was shortage of labour along with high unemployment in Kerala
during the peak seasons of agricultural activities. Recent
studies on the educated unemployed also show that the unemployed
with educational background of high school and above do not
usually prefer to work as a paddy field labour. This would
imply that high illiteracy rate among the agricultural labour
force has a depressing effect on the wage rate. It has been
observed that the main source of supply in this labour market is
from socially backward classes especially from the scheduled
caste (SC) and scheduled tribe (ST) population. Therefore, the
proportion of the illiterates among scheduled caste and scheduled
tribe labour force has a positive impact on the labour supply.

It is well known that the labour force in Kerala is
relatively well organised. Therefore the bargaining power of the
labour force is higher in Kerala than elsewhere in India. This
would imply that supply of labour is also influenced by the
degree of unionisation. The relationship between the supply of
labour and the degree of unionisation is not straight forward. It
is established indirectly in the following way. The real wage
(salaries wage/cost of living index) is usually assumed to be
positively related to supply of labour in the literature (Lal, 1989; p.145). The real wage rate is high if the degree of
unionisation is high and low if it is low. This would imply that
the degree of unionisation has a positive impact on the labour
supply. The structural equation of supply of labour is given by

\[ S = \beta_0 + \beta_1 W + \beta_2 X_3 + \beta_3 X_4 \quad (\beta_1 > 0; \beta_2 > 0; \beta_3 > 0) \]

where \( S \), the supply of labour; \( W \), the wage rate; \( X_3 \), the degree of unionisation; and \( X_4 \), proportion of illiterates among the SC and ST agricultural labour force.

The reduced form equation of the wage rate under equilibrium is given below:

\[ W = \tau_0 + \tau_1 X_1 + \tau_2 X_2 + \tau_3 X_3 + \tau_4 X_4 + \mu \]

where \( \tau_0 = \frac{\beta_0 - \alpha_0}{\alpha_1 - \beta_1}, \quad \tau_1 = \frac{\alpha_2}{\beta_1 - \alpha_1}, \quad \tau_2 = \frac{\alpha_3}{\beta_1 - \alpha_1}, \quad \tau_3 = \frac{\beta_2}{\alpha_1 - \beta_1}, \quad \tau_4 = \frac{\beta_3}{\alpha_1 - \beta_1} \)

and \( \mu \), stochastic error term.

The source of data and the empirical results are given below.

1.2 Empirical Results

The estimation of the model is dictated purely by the availability of data, a problem which is common in applied work. The district level data on labour force are available only in the Census Survey. Therefore, we have information for the years
Mld. 1971 and 1981. But there is no data on trade union membership for the year 1961 (Kannan, 1988: Table 6.8). This means that we have district level observations for only two years, 1971 and 1981.

The variables used for the estimation are defined as follows. Although wage rates of both male and female paddy field workers are available, the female wage rates are available only from 1973 onwards. Therefore, the wage rates and the related variables in the model are, as far as possible, related to male labour only. To estimate on labour productivity, the main determinant of the demand for labour, is available neither at the district level nor at the state level. The reason being the absence of any reliable data on the actual labour force employed in paddy production. Therefore, land productivity is usually used as a proxy for labour productivity (Acharya, 1991). This assumes that the land-labour ratio is constant across the districts. The validity of the assumption is not possible to verify. To overcome the problem, we have taken total scheduled caste and scheduled tribe agricultural male labour force as an estimate of labour employed in paddy production. The degree of unionisation is defined as the ratio of the number of members in Karshaka State Thozhilali Union (controlled by the Marxist Communist Party) to total agricultural labour force. The break-up of the membership by sex is not available. Therefore, the degree of unionisation includes both the sexes. The impact of education on the wage rate is
captured by the ratio of male illiterates to the total scheduled caste and scheduled tribe male agricultural workers. The estimated equation in logarithmic variables is given below:

\[
\ln w = 2.30 - 0.66 \ln X_1 + 0.50 \ln X_2 + 0.23 \ln X_3 + 0.06 \ln X_4 \\
(7.8) \quad (-1.7) \quad (1.3) \quad (5.2) \quad (0.3)
\]

\[ R^2 = 0.76, \ D-W = 1.92, \ n = 18 \]

The degree of unionisation is the only significant variable that influences the wage rates of paddy field labour in the post land reform period. The result seems to suggest that the caste and education that keep the wages depressed have no influence in the determination of wages once the labour is unionised. The findings, however, need to be substantiated with microlevel study.

Since the wages are determined by supply factors only, the behaviour of the farmers need a careful analysis. This is dealt with in the next section.

Section II

2.1 Wage Effect on Output, Area and Yield of Paddy

2.1.1 Profit Function Approach

The adjustment of output and its components, area and yield to change in input price is examined below using comparative statics analysis of profit function (Chambers, 1988; pp.126-33)
Consider the profit function

\[(1) \quad \pi(p,w) = \max_0 \pi = p_o - c(w,o)\]

where \( p \): price of output;
\( c \): output; \( w \): the vector of input prices;
\( c(w,o) \): the minimum cost function for the production of output \( o \), given the input prices.

From Hotelling's lemma, the profit maximising level of output and the corresponding factor demand for \( i \)th input can be obtained from partial differentiation of the profit function:

\[(5) \quad o(p,w) = \frac{\delta \pi(p,w)}{\delta p}\]

\[(6) \quad -\lambda_i(p,w) = \frac{\delta \pi(p,w)}{\delta w_i}\]

Let the \( i \)th input be labour. The adjustment of output to change in the wage rate is obtained by differentiating (5) with respect to \( w_i \), the wage rate.

\[\frac{\delta o(p,w)}{\delta w_i} = \frac{\delta^2 \pi(p,w)}{\delta w_i \delta p} \]

\[= \frac{\delta^2 \pi(p,w)}{\delta p \delta w_i} \text{ (symmetry of derivatives)}\]

\[(7) \quad = -\frac{\delta \lambda_i(p,w)}{\delta p} \text{ (Shepherd's lemma)}\]
But the factor demand and the conditional demand for labour must be the same at the profit maximising level of output.

\[(8) \quad x_i(p,w) = x_i(w, c(p,w))\]

Differentiating (8) with respect to \(p\), we have

\[(9) \quad \frac{\delta x_i(p,w)}{\delta p} = \frac{\delta x_i(p, c(\cdot))}{\delta w} \frac{\delta c(\cdot)}{\delta p}\]

Substituting (9) in (7),

\[(10) \quad \frac{\delta c(p,w)}{\delta w} = -\frac{\delta x_i(p, c(\cdot))}{\delta w} \frac{\delta c(\cdot)}{\delta p}\]

Since the slope of the supply curve is positive, it is clear that the output adjustment to wage change is opposite to the change in the labour demand due to change in output. But the demand for labour due to output change is related to marginal cost in the following way.

Using Shepherd's lemma

\[\frac{\delta x_i}{\delta w} = \frac{\delta (\delta c(w, o))}{\delta w} \frac{\delta c(w, o)}{\delta o}\]

\[(11) \quad = \frac{\delta (\delta c(w, o))}{\delta w} \frac{\delta c(w, o)}{\delta o} = \frac{\delta (MC)}{\delta w}\]

Equation (11) shows that derivative of labour demand with respect to output depends on nature of change in the marginal cost due to wage change. Unfortunately, the effect on marginal cost is not unique since it depends on whether the labour input
normal or regressive. In our case, the labour is a normal input. Therefore, the marginal cost and the wage rate change in the same direction. From (10) and (11), it can be concluded that the output declines as wage increases. Let us examine the impact of wage rates on area and yield, the two components of output.

The components are derived from the multiplicative formula.

\[ \sigma = 1.0/l \]

Differentiating (12) with respect to the wage rate and expressing in terms of elasticities,

\[ \frac{\delta \sigma}{\delta w} = \frac{\delta (1.0/l)}{\delta w} \]

(13) \[ \sigma = \sigma_1 + \sigma_y \]

where \( \sigma_1 \): wage elasticity of land;
\( \sigma_y \): wage elasticity of yield;
\( \sigma_o \): wage elasticity of output.

Equation (13) means that the output elasticity of paddy is equal to the sum of land and yield elasticity. Let us examine the empirical evidence on output, area and yield adjustment to wage increase.

2.1.2 Estimation

The elasticities were estimated from the following double logarithmic specifications:
(14a) \[ \ln W = \beta_0 + \beta_1 \ln O + \beta_2 \ln Y + \epsilon \]
(14b) \[ \ln W = \tau_0 + \tau_1 \ln O + \tau_2 \ln A + \epsilon \]
(14c) \[ \ln W = \alpha_0 + \alpha_1 \ln A + \alpha_2 \ln Y + \epsilon \]

where \( W \), the wage rate of paddy field male labour; \( O \), output of paddy; \( Y \), the yield of paddy; \( A \), acreage under paddy; and \( \epsilon \), the stochastic error term.

The equations, 14a - 14c, were estimated for each of the nine districts in Kerala for the period, 1975/76-86/87, during which the paddy production has registered a dramatic decline (Kannan and Pushpangadan, 1990). If the errors were autocorrelated from Durbin-Watson test, then Cochrane-Orcutt method (CORC) was used for its correction. If CORC failed to give any significant result, then first difference versions of 14a, 14b and 14c were estimated. If the equations were still not giving any theoretically and statistically correct estimates, then simple double logarithmic functions of the following specifications, 15a-15c, were estimated.

(15a) \[ \ln A = \delta_0 + \delta_1 \ln W + \epsilon \]
(15b) \[ \ln O = \tau_0 + \tau_1 \ln W + \epsilon \]
(15c) \[ \ln Y = \alpha_0 + \alpha_1 \ln W + \epsilon \]

The estimated equations are given in Appendix and the resulting elasticities\(^{12}\) in Table 1.
Table 1. Wage Elasticity of Output, Area and Yield of paddy (1975/76-86/87)

<table>
<thead>
<tr>
<th>District</th>
<th>Area (1)</th>
<th>Yield (2)</th>
<th>Output (1) + (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trivandrum</td>
<td>-0.61</td>
<td>0.25</td>
<td>-0.36</td>
</tr>
<tr>
<td>Quilon</td>
<td>-2.57</td>
<td>1.22</td>
<td>-1.35</td>
</tr>
<tr>
<td>Alleppey</td>
<td>-0.24</td>
<td>0.07</td>
<td>-0.17</td>
</tr>
<tr>
<td>Kottayam</td>
<td>-0.18</td>
<td>0.15</td>
<td>-0.03</td>
</tr>
<tr>
<td>Ernakulam</td>
<td>-0.46</td>
<td>0.17</td>
<td>-0.29</td>
</tr>
<tr>
<td>Trichur</td>
<td>-0.48</td>
<td>0.20</td>
<td>-0.28</td>
</tr>
<tr>
<td>Palghat</td>
<td>-0.22</td>
<td>0.10</td>
<td>-0.13</td>
</tr>
<tr>
<td>Kozhikode</td>
<td>-1.43</td>
<td>0.43</td>
<td>-1.02</td>
</tr>
<tr>
<td>Cannanore</td>
<td>-0.74</td>
<td>0.25</td>
<td>-0.49</td>
</tr>
<tr>
<td>Kerala</td>
<td>-0.40</td>
<td>0.19</td>
<td>-0.21</td>
</tr>
</tbody>
</table>

Source: Table 1 in Appendix.

The elasticity estimates show that the output decline is due to the increase in the wage rates in all the districts in Kerala. The output adjustment in two districts, Quilon and Kozhikode, is more than or equal to the proportional increase in wage rates. The effect of wage rate on output is maximum in Quilon followed by Kozhikode and the least in Kottayam followed by Palghat. Since the intercept term is significant in almost all the equations the wage rates are influenced by factors other than the level of production. The estimation clearly shows that decline in paddy production is widespread in Kerala and the main source is due to area decline. At the same time the yield has shown a positive increase everywhere in Kerala. In fact, the districts with highest area decline, Quilon and Kozhikode, have registered the highest yield increase. Similarly the lowest yield increase has also been in the districts with lowest area decline under paddy.
In other words, there exists a negative association between area and yield adjustment to wage increase during the stagnation period. This finding needs an explanation which is given below.

The above analysis shows that wage rates of paddy field labour are determined by supply considerations only. In fact the wage rates of paddy field labour, both product wage and real wage, have grown very rapidly relative to productivity. In such a situation, cost minimizing farmer would substitute away the expensive input. But such cost reducing technology, mechanical and biological, is not easily available with its critical complementary inputs like irrigation in Kerala. This may be a reason for decline in area under HYV paddy in Kerala. Moreover, there is very little incentive for farmers to develop indigenous technology because of the public nature of such investment. As a result, the cost of production increases proportionately with increase in wage rates. Under such technological constraints, the observed behaviour of area and yield is the result of the cost minimizing behaviour of the farmers as demonstrated below.

In figure 1, the output is measured along the x-axis and the unit cost and price of paddy along the y-axis. The marginal producers and their unit cost of production are plotted at the beginning of the x-axis. As a result, the difference between the price and unit cost is the rental value of the paddy land. The
Use of family labour in the production of paddy creates conceptual difficulties in the calculation of unit cost. If the cost is only paid out cost, then unit cost of output will be lower for family farms since the family labour is not valued. On the contrary, if the family labour is also included in the cost calculation then unit cost will be higher for family based farms. Therefore, the small producers become marginal or not depend very much on the valuation of the family labour. Moreover, the behaviour of the family based farms to a change in the unit costs is also not predictable since the production is not motivated for profit alone. If the objective is only to produce enough for on-farm consumption, the farmers’ response to cost increase is very difficult to predict. In order to predict the impact of wage increase on output with certainty, we have, therefore, excluded the subsistence farmers from the analysis.
Let OA be the maximum output of the commercial farmers that can be produced with the available land at the initial cost-price configuration. Let the price per unit of paddy is OD which remains constant. Suppose the relative price of input, say labour, changes. In the absence of innovation in the production technology, the unit cost curve will shift outwardly. As a result, the unit cost will shift to EF. In the new price-cost situation, the farmer who produces on output becomes the marginal producer. The producers with higher unit costs incur losses. These farmers have only two options: either keep the land fallow or allocate it for the best alternative use. In either case, the area under paddy declines along with output. Since only better quality land that can sustain the cost increase is put under paddy cultivation, the yield per acre naturally goes up due to the fertility of the soil with static technology. This provides an analytical explanation for the observed negative association between area and yield elasticity. This implies that the wage rate is negatively related to output and positively to output per acre. It is also worth mentioning that the rental value of the land under paddy reduces uniformly in such a situation. This will provide an incentive for the farmers either to shift the land to other profitable uses. However the cost increase would not have any impact if the price of paddy had increased to OD1 per unit.
Conclusion

The wage formation in the rural labour market in Kerala has been examined with a case study of paddy field labour using a simultaneous equation model of supply and demand. Non-economic variables were included in the specification of the structural equations. The estimated reduced form equation shows that the wages are determined by the degree of unionisation only. In the absence of diffusion of cost-reducing innovations, mechanical as well as biological, the cost of production of paddy increases proportionately with wage rates. Therefore, the marginal land, mostly less fertile land, becomes uneconomical for cultivation of paddy without a corresponding increase in the output price. The farmers allocate only better quality land which can sustain the cost increase. Under such cost-minimising behaviour, output and area decline when wage increases. But the yield should go up as a result of cultivating only better quality land. The estimated elasticity of output and its components, area and yield, with respect to wage rate supports the validity of the hypothesis at the district level.

The widespread decline in the profitability of paddy cultivation has uniformly reduced the rental value of paddy land. Therefore, the land owners have an incentive for allocation of such land for the next best use. This may also work as a catalyst to develop a land market in Kerala and further
contribute to the decline in area under paddy. In such a situation, cost reducing innovation in production technology is the only way to reverse the declining trend in paddy production in Kerala.
The estimated regressions with theoretically correct sign and statistically significant are given below:

Table 1. Output, Area and Yield response to Wage change

<table>
<thead>
<tr>
<th>District</th>
<th>Regression Equation</th>
<th>$R^2$</th>
<th>D-W</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trivandrum</td>
<td>$\ln W = 31.2 + 4 \ln Y - 2.8 \ln O$</td>
<td>0.93</td>
<td>1.73</td>
</tr>
<tr>
<td></td>
<td>$\ln W = 6.2 - 8.24 \ln \ln Y - 7.6 \ln O$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alleppey</td>
<td>$\ln A = 0.2 - 0.24 \ln W$</td>
<td>0.56</td>
<td>1.64</td>
</tr>
<tr>
<td></td>
<td>$(3.1) (-3.3)$</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$\ln O = 12.3 - 8.17 \ln W$</td>
<td>0.39</td>
<td>1.49</td>
</tr>
<tr>
<td></td>
<td>$(71) (-2.5)$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kollam</td>
<td>$\ln A = 10.9 - 0.18 \ln W$</td>
<td>0.34</td>
<td>0.55</td>
</tr>
<tr>
<td></td>
<td>$(54) (-2.3)$</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$\ln Y = 0.3 + 0.15 \ln W$</td>
<td>0.34</td>
<td>1.40</td>
</tr>
<tr>
<td></td>
<td>$(16) (2.3)$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ernakulam</td>
<td>$\ln W = 4.2 + 5.9 \ln Y - 3.5 \ln O$</td>
<td>0.94</td>
<td>1.69</td>
</tr>
<tr>
<td></td>
<td>$(6.6) (12)$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trichur</td>
<td>$\ln W = 43.9 + 4.9 \ln Y - 3.6 \ln O$</td>
<td>0.83</td>
<td>1.91</td>
</tr>
<tr>
<td></td>
<td>$(2.1) (7.0)$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malghat</td>
<td>$\ln W = 95 + 10.3 \ln Y - 7.9 \ln O$</td>
<td>0.59</td>
<td>0.34</td>
</tr>
<tr>
<td></td>
<td>$(4.4) (5.5)$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kozhikode</td>
<td>$\ln W = 15 + 2.3 \ln Y - 1.0 \ln O$</td>
<td>0.91</td>
<td>1.50</td>
</tr>
<tr>
<td></td>
<td>$(13) (4.3)$</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$\ln O = 12.7 - 0.49 \ln W$</td>
<td>0.74</td>
<td>2.20</td>
</tr>
<tr>
<td></td>
<td>$(44) (-5.3)$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kerala</td>
<td>$\ln W = 67.7 + 5.3 \ln Y - 4.8 \ln O$</td>
<td>0.87</td>
<td>1.40</td>
</tr>
<tr>
<td></td>
<td>$(5.5) (5.3)$</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Cochrane-Orcutt method: the values in the brackets are t-ratios*

Source: 1) BES. Season and Crop Reports (various issues).
2) BES. Statistics for Planning (various issues).
Durbin-Watson Statistic for Sample size less than 15 with and without intercept term for positive autocorrelation at 5% and 1% level are given below:

<table>
<thead>
<tr>
<th>Level of Significance</th>
<th>Sample</th>
<th>$K' = 1$</th>
<th>$K' = 2$ (with intercept)</th>
<th>$K' = 2$ (without intercept)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>$d_l$</td>
<td>$d_u$</td>
<td>$d_l$</td>
</tr>
<tr>
<td>5%</td>
<td>12</td>
<td>0.697</td>
<td>1.023</td>
<td>0.569</td>
</tr>
<tr>
<td></td>
<td>11</td>
<td>0.653</td>
<td>1.01</td>
<td>0.519</td>
</tr>
<tr>
<td>1%</td>
<td>12</td>
<td>0.971</td>
<td>1.331</td>
<td>0.812</td>
</tr>
<tr>
<td></td>
<td>11</td>
<td>0.927</td>
<td>1.324</td>
<td>0.758</td>
</tr>
</tbody>
</table>

Source: 1) Johnson (1984), Table B5: pp. 554-557.  

The t-values for two-tailed test at 10% and 5% are given below:

- $t(0.05,10) = 1.81$; $t(0.025,10) = 2.23$
- $t(0.05,9) = 1.83$; $t(0.025,9) = 2.26$. 

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NOTES


Districtwise membership of Kerala State Karshaka Thozhilali Union (KSKTU), trade union in agriculture controlled by Communist Party of India (Marxist), is given in Kannan (1988: Table 6.5).


3 Here only the most important models are examined. A complete survey is given in Lindbeck and Snower (1988: Chapter 2) and Blanchflower et al. (1991).


5 See Lindbeck and Snower (1988: 68) for the sources of the market power of the employees.

6 For a simple diagrammatic exposition of the theory, see Lindbeck and Snower (1988: 71).


9 Professor Vaidyanathan was very critical about the use of yield per acre as a proxy for labour productivity. He has suggested total agricultural labour force as an estimate of actual labour employed in paddy production. However, this proxy again assumes the ratio of paddy workers to agriculture labour force remains constant across the districts.

10 The sources of data are the following:

X1: Season and Crop Report and Census of India (1971, 1981);
X2: Same as for X1;
X3: Kannan (1988: Table 6.8);
The elasticity with respect to wage from the multiple regression is the inverse of the regression coefficient. In the case of simple regression, the elasticity is the same as the regression coefficient.

The annual growth rate in yield per acre of paddy has been 1.1% but the product wage has grown about 7.7 per cent during the period 1975/76-1985/86 (Kannan and Pushpangadan, 1990, Table 3: 1990). In the case of real wage, nominal wage deflated by cost of living index, Kerala has the third highest wage rate in the country, after Punjab and Haryana (Krishnan, 199, Table 1: A83). The diagram is first introduced by Steindl (1976: 44).

See Bharadwaj (1974: Chapter 3) for detailed discussion of this problem.

The analysis is valid even if the price of paddy changes. The only condition is that the price increase is less than the cost increase.
REFERENCES


———. Statistics for Planning (various issues), Trivandrum.


