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# Indian Wheat and Rice Sector Policies and the Implications of Reform

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# Indian Wheat and Rice Sector Policies and the Implications of Reform

**Shikha Jha, P.V. Srinivasan, and Maurice Landes**

## Abstract

During 1998-2002, India experienced record public surpluses of wheat and rice, sharply higher government grain subsidy outlays, and declining per capita consumption of wheat and rice. By 2006, despite continued high subsidies and sluggish domestic consumption, India developed a large wheat deficit because of reduced price incentives, weak yield growth, and rising subsidized consumption. The pronounced market cycles and declining per capita consumption for India's major food staples are creating pressure for Indian policymakers to adjust longstanding policies. While there has been no political consensus on more fundamental reform, recent policy changes have moved toward better targeting of food subsidies to low-income consumers, decentralization of government operations, and slowed growth in producer price subsidies. Decentralization is likely to reduce government costs with little impact on producers, consumers, or trade. Lower price supports would aid consumers at the cost of producers, and sharply lower government costs. Adoption of a U.S.-style deficiency payment program could maintain producer support with less market distortion and lower cost, but would require devising a viable system to make and monitor farmer payments.

**Keywords:** India, wheat, rice, production, consumption, trade, policy, reform

## About the Authors

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## Summary

Between 1947, when India achieved independence, and 2000, the country's food grain sector turned perennially large deficits into large surpluses of the major Indian food staples, wheat and rice. During the 1960s and 1970s, the turnaround was achieved through rapid gains in yields, combined with policies that balanced producer and consumer interests. In the 1990s, growth in yields and consumption slowed and government policy sought to sustain progress by increasing producer support and improving the targeting of food subsidies to low-income consumers. By 2000, the Government faced an unwanted combination of high domestic prices, declining per capita consumption, record grain surpluses, and soaring budgetary costs. More recently, in 2006, lower prices, weak yield growth, and rising subsidized distribution have led to the reemergence of a substantial wheat deficit.

### What Is the Issue?

Weak growth in food grain production and consumption, and pronounced recent market cycles, have created pressure for reform of India's long-standing food grain policies. Because India's food grain economy is one of the world's largest, the path India eventually takes on food grain policy is likely to have important implications for U.S. and global markets for wheat and rice. There has been considerable public debate in India on the need for changes in agricultural and food grain policy, but political consensus on major reform has proved difficult to achieve. This study examines recent developments in India's markets and policies for wheat and rice, and analyzes the impacts of several policy changes already underway or under consideration to rebalance producer and consumer interests and control budgetary costs.

### What Did the Study Find?

The Indian Government has taken steps to decentralize public food grain operations in order to reduce budgetary costs and to improve the targeting of India's large food subsidy outlays to low-income consumers. Although there has been no explicit change in price support policy, wheat and rice support prices declined in real terms between 2000 and 2006. This study analyzed potential impacts of three policy reform options that might be pursued over the next several years:

1. Complete decentralization of government wheat and rice procurement and distribution
2. Decentralization plus 10- and 20-percent real reductions in wheat and rice support prices
3. Decentralization plus a shift to use of deficiency payments rather than government purchases to support wheat and rice producers.

Results indicate that decentralizing procurement from the Central to the State Governments (option 1) can substantially reduce government costs with little overall impact on producers, consumers, or trade. Decentralization may also allow more scope for efficient private traders to participate and invest in grain marketing.

Changes in price support policy that reduce minimum support prices for wheat and rice (option 2) would yield larger impacts on domestic supply and demand than decentralization, as well as sharply lower budgetary costs. Production and producer welfare may decline, but these losses are more than offset by gains in consumption and consumer welfare, particularly among lower income consumers. Although trade impacts are minor in the scenario analyzed, lower domestic prices are likely to boost the competitiveness of Indian exports in years of surplus, while the recovery in consumption and lower stocks increase the potential for imports in years of deficit.

Replacing the existing system of supporting producer prices through government purchases with a U.S.-style deficiency payment program (option 3) would sharply reduce the budgetary costs of supporting producers while also reducing market distortion. However, this option would require development of a viable mechanism to make payments to producers and thwart corruption. This option possibly could be based on a recent initiative to create a system of verifiable and negotiable warehouse receipts.

The major options available to the Indian Government to improve performance and reduce distortions in the wheat and rice sectors appear able to deliver significant cost savings and improved overall welfare. In the medium term, these reforms also may boost consumption and lower stocks, with increased likelihood of imports in years of poor harvests, as well as competitive exports in years of surplus. Further analysis is needed to assess the longer term implications of decentralization and changes in producer subsidies in the food grain sector, including the impacts of shifting subsidy outlays to public investments, and of measures to strengthen private investment in food grain markets.

## **How Was the Study Conducted?**

Data and information used to analyze developments in India's wheat and rice sectors were taken from published literature and publicly available Indian data sources. A spatial model of India's wheat and rice sectors was developed to analyze the impacts of alternative policies on India's supply, demand, and trade of wheat and rice, including impacts on producers, consumers, and government costs across the various States of India. Support for this study was provided by the ERS-India Emerging Markets Project.