

Conclusions

The economic environment for India's food grain sector has changed significantly since the Green Revolution of the 1960s and 1970s, but policies have not. Higher incomes are diversifying consumer demand away from staple food grains. More open borders are increasing linkages between domestic and global markets and prices. And, slowed growth wheat and rice productivity is signaling the need to boost lagging investment in new technology and improve the performance of input markets.

Government price support, procurement, and distribution policies have, in recent years, come under increasing criticism because they distort markets and have high budgetary costs. High minimum support prices for wheat and rice resulted in increased production and procurement of these crops, with the income transfers accruing to large farmers in surplus States. Coupled with subsidies on fertilizers, power, and irrigation, wheat and rice price policies have had a detrimental effect on the production of other crops, as well as on soil and water resources in major producing areas. Price and procurement policies have had adverse impacts on consumers—particularly lower income consumers—by raising prices and restricting open market supplies of wheat and rice. And, perhaps more importantly in the long run, Government policy interventions in the market have contributed to weakening investment in agricultural production technology, as well as undermining incentives for private investment to improve the efficiency of input and output markets.

Concern with the recent performance of the wheat and rice sectors has led to increased recognition of the need for reform, and considerable public debate. Although there has been no consensus on major reforms, the Indian Government has taken steps to improve the performance of the distribution system in reaching target groups and increasing the efficiency of public food grain operations through decentralization. In addition, although there has been no explicit change in price support policy, wheat and rice support prices announced since 1999/2000 have been declining in real terms.

Analysis of the potential impacts of decentralization of the procurement and distribution system by making State governments responsible for procurement indicates that the overall impacts on supply, demand, prices, and trade will be small. At the same time, this approach can lead to substantial budgetary savings by reducing procurement and public stockholding to meet public distribution needs, and also allow further scope for efficient private traders to participate in grain marketing.

Changes in India's price support policy that reduce minimum support prices (MSPs) for wheat and rice would have more significant impacts on domestic supply and demand, and on the costs of government food grain operations, than decentralization. This analysis also shows declines in domestic open market prices as a result of a reduction in wheat and rice MSPs. Although production and producer welfare decline, the results show that these losses are offset by larger gains in consumption and consumer welfare, particularly among lower income consumers. Lower procurement costs and stocks also lead to sharp declines in budgetary costs. Although trade impacts are minor in the scenario analyzed, the reduction in domestic market prices associated

with this scenario increases 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.

Introduction of a deficiency payment program, while presenting administrative problems, would provide a means of maintaining a desired level of support for wheat and rice producers with less market distortion and lower budgetary costs than the current system of physical procurement and distribution. Analysis of this option indicates that it could sharply reduce the budgetary cost of maintaining producer support while also allowing open-market prices to fall and consumption to rise.

The policy options available to the Indian Government to improve performance and reduce distortions in the wheat and rice sectors analyzed here should be able to deliver cost savings and improved overall welfare. At least in the near and medium term, for which the analytical framework used in this study is most suited, they also appear likely to deliver higher levels of consumption, lower stocks, and an increased potential for imports in years of poor harvests, as well as competitive exports in years of surplus. Further analysis is required to assess the longer term impacts on India's markets if reduced public spending on food grain operations is translated into productive public investment, and if improved incentives for private investment enhance the performance of input and output markets.