Introduction

During the 60 years since independence in 1947, progress in India's wheat and rice sectors—which supply the bulk of daily caloric food intake for a population that now exceeds 1 billion people—has made India self-reliant in its major food staples. During the 1960s and 1970s, progress was achieved through the successful adoption of yield-enhancing Green Revolution technology, supported by market interventions that sought to balance producer and consumer interests. In the 1990s, when yield and consumption growth slowed, the policy response was to combine higher producer incentives with efforts to better target consumer subsidies. Since then, the wheat and rice sectors have become more volatile. In 2000, the Government faced a combination of record grain surpluses, high domestic prices, declining per capita consumption, and soaring budgetary costs. And, by 2006, reduced price incentives, weak yield growth, and rising subsidized consumption led to the reemergence of a large wheat deficit. Concerns with the recent trends in production and consumption and sharp market cycles are creating pressure for reform of India's longstanding policy regime in the food grain sector.

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. Once a major cereal importer, India's cereal imports trended downward between the 1970s and the late 1990s when, aided in some years by export subsidies aimed at reducing surpluses, India became a major exporter of rice and a significant exporter of wheat. Future trends in wheat and rice trade will be determined not only by changes in yield growth and consumer demand, but, perhaps more importantly, by changes made in policies affecting producers and consumers.

This study examines recent trends in India's markets and policies for wheat and rice, and analyzes the impacts of several policy options—decentralizing government procurement and distribution by having State governments directly purchase grain to meet distribution needs, reductions in producer support prices, and a shift to U.S.-style deficiency payments for producer support—to rebalance producer and consumer interests and control budgetary costs. The analysis indicates that the ongoing process of decentralizing procurement from the Central to the State Governments can substantially reduce the government costs with little impact on producers, consumers, or trade. Allowing the minimum support prices for wheat and rice to decline in real terms would have even more significant impacts on costs and provide benefits for consumers, but would reduce stocks and exportable surpluses and increase the potential for future imports. Replacing the existing system that relies on government purchases to maintain cereal support prices with a U.S.-style deficiency payment program would have little impact on supply and demand and provide further significant cuts in budgetary costs, but may face prohibitive implementation problems.