Public Abstract

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Title:The Impact on Domestic Prices and Government Costs of Limiting Wheat Procurement in India

India’s government plays a major role in the Indian wheat market, procuring wheat at a minimum support price for distribution to consumers at a subsidized rate through fair price shops. The costs of this program have been growing recently in real terms. Studies suggest different options for addressing these growing costs through means such as: reducing per-unit operating expenses, changing the scope of the program, altering pricing schemes, or limiting procurement operations. This study assesses the impact of limiting government procurements on the domestic market and government expenditures. A partial equilibrium model is developed to help estimate the impact of this policy change. The model represents the Indian wheat market and the relevant government policy variables necessary to estimate the change in government costs from this policy alternative. Results suggest that there are saving available from limiting government procurements of wheat. The domestic market would likely see lower prices because of these reduced government interventions. Sensitivity analysis suggests that limiting import could help to ease the pressure on domestic prices caused by the policy change. The market effects, including both greater use and less production, the cost savings, and potential winners and losers are all relevant facts for decision makers in India who contemplate procurement and PDS system reforms.