

Land Acquisition: Currently A Major Stumbling Block for Development Policy

By

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In the standard development economics literature a number of different constraints on industrialization has been discussed: low savings, weak domestic demand or export prospects, lack of access to credit, marketing, infrastructure, an educated labor force or technological support structure, government controls, coordination failures, and so on. Until very recently very few development economists thought that getting enough land to start factories (or to build the necessary infrastructure to support them) will be much of a problem. But, particularly in densely populated areas, this has now become a major bone of contention, between farmers and those who want more land for commercial and industrial development and mining projects (or the state that tries to acquire the land on behalf of the latter). In high-growth densely populated countries like China and India this has quickly become a politically explosive issue, sometimes leading to political unrest and violence.

On the face of it this sounds surprising. In countries like China and India the productivity in agriculture is so much lower than in manufacturing, mining, and in large parts of the service sector that a transfer of land to those alternative uses can generate a large surplus, out of which the new users can amply compensate the farmers and yet retain much of the surplus for themselves. Theoretically this seems like a win-win situation, and yet why is the situation in reality so contentious?

Some of this is no doubt because farmers in poor countries are often suspicious of the intermediaries involved in the land transaction—the commercial developers and their touts or government officials (when the state uses ‘eminent domain’ laws to requisition the land) who tend to grab much of the surplus. The history of poor countries is replete with instances of forcible dispossession with little compensation, reneged promises on resettlement and defrauding by middlemen and contractors. In China the matter has been made worse by the fact that farmers do not have land ownership rights (only user rights), and they are much more at the mercy of the arbitrary decisions of local officials in collusion with commercial developers. Some farmers are also worried about despoliation of the local environment resulting from the mines, dams and polluting factories that will come up and for which the market prices of land will not compensate them. In educationally

backward communities the farmers are not too hopeful of their children being qualified enough for the new jobs that will be created and will go mostly to outsiders. They do not want to part with the only secure asset they have viz. land, in exchange of promise of lumpsum cash compensation which, apart from being inadequate, they know will be frittered away soon, and banking habits and facilities are often too underdeveloped for them to make prudent investments out of the cash. In addition there are cultural affinities to ancestral land and to a pristine way of life based on it, which they know will be spoiled by the dislocations and uncertainties generated by the new commercialization of the area driven mainly by outsiders.

Faced with this many NGO's and environmental activists opt for the status quo and organize resistance movements of the farmers. In their romantic activist ardor they often forget that the centuries-old status quo of low productivity and poverty for these farmers consigns them to a life of misery—as Joan Robinson once quipped, what is worse than being exploited is not to be exploited at all. One way to get out of the low productivity trap of traditional agriculture is to go into new high-value labor-intensive farm products (like fruits, vegetables, livestock products, etc.), but these require large investments in cold storage, refrigerated transport, retail marketing chains, etc. which in turn

require large amounts of capital from outsiders. Surveys in India have shown that the overwhelming majority of children of farmers do not want to remain in agriculture, where productivity per person is often declining with demographic pressure. While development has become a dirty word among many activists, there is no substitute for economic development; one can only try to make the process and outcome of development more humane and broad-based.

So assuming that some land has to be acquired for non-agricultural and commercial use, what is the best way to make sure that the poor are enabled to improve their life out of the land transfer? Those who are against state acquisition of land often say that the whole process has to be left to the market (except for the necessity of the state intervening in what is called the 'hold up problem', i.e. some recalcitrant farmers in contiguous plots holding up the land transfer from a large number of willing sellers to the buyer looking for a compact land unit). They say that the intervention of the state deprives farmers of the market price for land they can get directly in bargaining with the buyers. In this sense they think the process is much cleaner than the messy political process.

But this market process can be unfair and costly. It's unfair to the farmers, as in the market process the numerous uncoordinated small

sellers are no match for the bargaining power of large corporate buyers, and the sellers will often face the intimidation and strong-arm tactics of the land mafia which will try pre-emptive buying. It is inconvenient and costly for the corporate buyer for whom the transaction costs of dealing with thousands of small sellers (particularly in densely populated areas) are large, even apart from the hold-up problem referred to earlier. So the state has to be fully involved in the land transfer process, and its usual high-handed or corrupt tendencies have to be checked by strengthening the political accountability mechanisms at the local level.

One main problem of land acquisition by the state in China and India, for example, has been that of inadequate compensation for the land acquired. In India, under the old Land Acquisition Act of 1894 the compensation has been estimated on the basis of some multiple of the recent value of the agricultural land. But everyone knows that the land value will in near future increase many times in which the current land-seller may not share (whereas neighbors or fellow villagers whose land is not being acquired will). One solution is for the state to offer sellers a compensation package in two parts: a minimum lumpsum amount related to the recent average market value of the agricultural land, and an annuity (a monthly pension as it were for the farmer's retirement)

from a trust fund where some shares of the new company are vested. This fund will collect shares from all companies in the business of buying land all over the country, so that risks are pooled on a large scale without the fund brought down by any particular project failure. The fund should be independently and professionally managed (like pension funds in many countries). A stream of annuity payments is much better for poor farmers than one-off cash payments which, as we have mentioned, often get frittered away. Given that the productivity gap between the agricultural and non-agricultural use of land is very large, a reasonable annuity may not drain much of the surplus from the new land-use at least over the long run. In projects where the land is acquired mainly for public infrastructure, a betterment levy on nearby land may be contributed to the trust fund. In the case of mining projects the mining rights should be auctioned in a transparently competitive bidding process, and the proceeds are to be deposited in this trust fund for annuity payments to the dispossessed.

The state has also to be involved in organizing training and skill-formation programs for the people giving up their land--just promising them jobs, irrespective of qualifications, in the new projects, as is sometimes proposed, is unfair to the employers and inefficient for the economy. It is imperative for the state also to arrange some

compensation schemes and welfare payments to other, often poorer, stake-holders in the land (like sharecroppers and landless wage workers) who are usually bypassed by the market process.

Given the scope for arbitrariness and corruption when government officials are involved in land transactions, and the ease with which the issue of land becomes a matter of political football among rival political parties, the whole matter of land transfer, administering of compensation and annuity, and resettlement has to be handed over to an independent quasi-judicial authority or regulatory commission for each state, sufficiently insulated from the day-to-day political process but subject to periodic legislative review. The commission should regularly hold local hearings where all parties can present their cases and grievances.

Land acquisition is clearly a delicate issue on the path to economic development, but there are ways of adequately compensating the farmers and peasants, and of involving them in a broad-based participatory process so that the transfer is voluntary and relatively friction-free.

