INDUSTRIA

AND THE LAND ACQUISITION CONUNDRUM

BY PRANAB BARDHAN
The development economics literature cites several barriers to industrialization:

- low savings,
- weak domestic demand or export prospects,
- lack of access to credit, marketing, infrastructure, an educated labor force, or technological support structures,
- excessive government controls,
- coordination failures, and so on.

Until recently, few development economists believed that acquiring enough land to start factories (or to build the infrastructure to support them) presented much of a problem. But particularly in densely populated areas, this has now become a major bone of contention between farmers and those who need land for commercial and industrial uses and for mining, or when the state tries to acquire the land on their behalf. In high-growth densely populated countries like China and India this has quickly become a politically explosive issue, sometimes leading to social unrest and violence.

Theoretically this seems like a win-win situation. So why is it so contentious in reality?

The Wolf at the Door

In part, because farmers in poor countries are often suspicious of the intermediaries involved in land transactions—commercial developers and their touts, or government officials who may apply eminent domain laws to requisition the land, are suspected of grabbing much of the surplus. The history of poor countries is filled with examples of forcible dispossession with little compensation, reneged promises of resettlement, and defrauding by middlemen and contractors. In China.
this issue is heightened by the fact that farmers have no land ownership rights, only user rights, and so they are much more vulnerable to arbitrary decisions made by local officials in collusion with commercial developers.

**PROTECTING A WAY OF LIFE**

Some farmers also worry about damage to the local environment resulting from the mines, dams, and polluting factories—damage from which the market price of land will not compensate them. In educationally backward communities the farmers fear that their children will not be qualified for the newly created jobs that will be filled mainly by outsiders. They do not want to let go of the only secure asset they have—their land—in exchange for a lump-sum cash compensation which is not only inadequate, but will soon be frittered away; and their banking habits and facilities are often too underdeveloped for them to make prudent investments. There are also cultural ties 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.

**WHAT’S WORSE THAN BEING EXPLOITED...**

In response, NGO’s (nongovernmental organizations) and environmental activists often organize resistance movements among the farmers. But in their romantic activist ardor they often forget that the centuries-old status quo of low productivity and poverty consigns these farmers to a life of misery. As the famous British economist Joan Robinson once quipped: what is worse than being exploited is not to be exploited at all. One way to escape the low-productivity trap of traditional agriculture is to produce new high-value labor-intensive farm products such as fruits, vegetables, and livestock products. But these require large investments in cold storage, refrigerated transport, retail marketing chains, and so forth which in turn require large amounts of capital from outsiders. Surveys in India have shown that the overwhelming majority of farmers’ children want to leave agriculture, since a growing population is causing productivity per person to decline. While development has become a dirty word among many activists, there is no general alternative; but the processes can be made more inclusive and the outcomes of development can be made more humane.

**ONE OF THE MAIN PROBLEMS** of land acquisition by the state in China and India is inadequate compensation. In India, under the old Land Acquisition Act of 1894, compensation is based on some multiple of the recent value of the land. But everyone knows that the land value will in the near future increase many times, and the seller will not benefit from this appreciation, whereas neighbors or fellow villagers whose land is not being acquired will. One solution is for the state to offer sellers a two-part compensation package: a minimum lump sum 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 the companies in the country that buy land, so that risk is pooled and the fund cannot be brought down by any single project failure. The fund should be independently and professionally managed, like pension funds in many countries. For poor farmers, a stream of annuity payments is much better than one-off cash payments which, as we have mentioned, are often frittered away. Given the large productivity gap between the agricultural and nonagricultural use of land, a reasonable annuity may not drain much of the revenue surplus from the new land use, at least not in 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 also deposited in this trust fund.

The state should also provide training and skill-formation programs for those giving up their land—just promising them jobs in the new projects, irrespective of qualifications, as is sometimes proposed, is unfair to the employers and inefficient for the economy. It is also imperative for the state to arrange compensation schemes and welfare payments for the other, often poorer, stakeholders like sharecroppers and landless wage workers, who are usually bypassed by the market process.

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**...AND THE WATCHDOG**

*When Government Officials* are involved in land transactions the scope for arbitrary decision making and corruption is large, and the land issue can turn into a political football among rival political parties. Therefore, the whole process of land transfer, including administering compensation and annuities and resettlement has to be handed over to an independent quasi-judicial authority or regulatory commission. This agency needs to be insulated from the day-to-day political process but subject to periodic legislative review. The commission would regularly hold local hearings where all parties can present their cases and grievances.

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

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