

Land acquisition: First, sow the seeds of security among farmers

Abhijit Banerjee, Hindustan Times | Updated: Mar 26, 2015 23:01 IST

Many years ago, Jagdish Bhagwati, a very distinguished economist long before he became one of the patron saints of the NDA, published an important paper on what he called Directly Unproductive Activities or DUP. These bore a close relation to what his friend and well-known South Asia scholar, Anne Krueger, had called rent-seeking activities in some slightly earlier work. Both made the important point that the social cost of governments intervening into markets are potentially vastly underestimated by the inefficiency this creates in the market itself.

A big part of the real costs come from what people do once it becomes clear that the government is willing to intervene in markets to benefit some at the cost of others. This is what lobbyists, openly or secretly, do a lot of the time, and why corporates cultivate politicians. These activities are much worse than a pure waste of time — for one, they encourage and empower corrupt politicians over honest ones, because a part of the money unscrupulous politicians make by giving out favours can be used to buy votes or secure a party's nomination.

Professor Bhagwati's important insight came out of thinking about an India where government control was pervasive, but it remains deeply relevant even today. Consider the much-debated revisions to the land bill, in particular the removal of the approval norm for a range of cases of what is termed public use but will in many cases involve private for-profit investment. Under the current law, at least 70% of the sellers have to agree before the government can invoke public need and expropriate the rest of the land. This imposes a certain amount of market discipline — if the price being paid for the land is substantially less than what it is worth to the sellers (for economic or sentimental reasons) the sale will not happen. The flip side of this is that when the sale happens, the gains from getting the government to step in and take land away from its owners is relatively small (precisely because the price is fair). Therefore the incentive to try to influence the government's decision to intervene is more limited and the scope for DUP that much smaller.

Removing the approval clause will open the door to many potentially arbitrary decisions, and, therefore, expand the scope for peddling influence. A better option is to try to understand better why people don't want to sell their land and try to address those concerns.

Listening to what farmers say, two main issues come to the fore. First, where to park the money from the land sale? Cash has a way of slipping through one's fingers — when there is money at

hand, needs have a way of asserting themselves — a new car suddenly looks affordable and, therefore, necessary. This is reinforced by the fact that real interest rates paid by banks have been very low in recent years (this is, by the way, why people put their cash in things like Saradha).

The attempt to pin down inflation will help a little here, but the real problem is that our banking sector is extremely inefficient and wastes a lot of the money that is entrusted to it. On the other hand, I see the various fiscal and other compulsions that prevent the government from opening up the financial sector so that the money could be more efficiently invested. An intermediate solution may be for the government to offer annuities and other long-lived financial assets to the families that are getting compensated for their land, and guarantee a decent real return on them. To facilitate this it may want to encourage the creation of some special wealth funds that are allowed to invest worldwide but can only handle wealth from specific sources.

These funds may need to be subsidised to some extent, given the current state of the world economy and the lack of attractive and safe investment opportunities, but this would be a far better way to use the subsidy money than the idea of offering land losers guaranteed employment in the government sector (or elsewhere) that seems to be in the discussion. Why do those of us who need services from the government deserve to be served by such people?

The wealth funds could also help with the other issue that farmers often bring up — they want some part of the capital appreciation on their land that will inevitably happen. There is something here about eating your cake and having it too, but I can see why it may be galling to sell your land at `10 lakh when someone will eventually pay `10 crore for it.

One way to deal with this problem is to reserve a fraction of the land that is being acquired for future sale (say in 10 years) and assign its entire value to the same wealth funds so that it eventually goes to the farmers who have sold their land to the project.

There are other important issues with land acquisition that will not be solved just by financial engineering. Most farmers know that their children's future will probably not be in agriculture, but they have a hard time imagining a different life. Offering them the option of exchanging their land for some comparable land elsewhere (where the government does not want it) would certainly make it easier to persuade them, especially if they also get some money with it. Making it easier to migrate to cities would also help — there is a slight chicken and egg problem here since the lack of low-income urban housing is both a result of the difficulties with land acquisition and a cause. Finally, how to compensate those who live off the land without owning it is a sticky problem that the law has struggled with and there is no easy way out. But simply pretending that all of these are not real issues is not the solution, either.

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The views expressed by the author are personal

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