

# Development and Displacement Land Acquisition in West Bengal

*The article is concerned with the process through which agrarian land is acquired to build up infrastructure, industries and various services, in the process displacing people from their traditional occupations and livelihood. In particular, the focus is on the recent strife in West Bengal over such acquisition. The article argues that while such acquisition is necessary for industrialisation, which in turn is absolutely essential for the long-run development of West Bengal, its success depends crucially upon a well thought out compensation and rehabilitation programme, which has so far been seriously lacking in the state.*

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### I Land, Development and Displacement

More than 50 years ago when less developed countries all over the world were liberating themselves from colonial bondage, and economists had started to give serious thought as to what the optimal course of development would be, initiating thereby a new discipline called development economics, the primary constraint was thought to be the scarcity of capital. Accordingly, Lewis (1954), who has had an enduring influence on the subject, envisaged economic development as a process of capital accumulation. He described development as a process of transferring labour from low productivity agriculture and other traditional occupations to high productivity modern industry, made possible by capital accumulation in the modern sector. The literature that emerged around the Lewis framework of dualism subsequently emphasised the importance of raising agricultural productivity, along with industrial growth, to maintain stable terms of trade between agriculture and industry, crucial for an unhindered capital accumulation in the industrial sector [Jorgensen 1961; Dixit 1973]. But the importance of physical capital accumulation remained central.

The emphasis on physical capital accumulation shifted to human capital accumulation from the mid-1980s with the pioneering work of Romer (1986, 1990) and the emergence of endogenous growth models. In particular, Lucas (1988) used the insight of an endogenous growth model in the context of economic development and argued that investment in education and human capital formation crucially determines the long-term growth and development of an economy. According to Lucas, the huge difference in per capita incomes of nations can indeed be explained by differences in human capital formation.

However, neither of the two schools of thought, one emphasising physical capital and the other emphasising human capital as the main constraint to development, had visualised that land could become a serious constraining factor to the process of development. The underlying assumption was that land requirement is negligible for industries and therefore can be safely

ignored. At the macroeconomic level this was justified. If one looks at the physical requirement of land for building up industries, services and infrastructure like roads, townships, seaports, airports or bridges, the total requirement may not be very large compared to the total agricultural land in a less developed agrarian economy like India. There is, however, a serious microeconomic problem. When land is acquired for the aforesaid purposes, it invariably entails eviction of people from their traditional livelihood and surroundings. The recent experience of West Bengal would testify that this is a matter with grave socio-political consequences, critical enough to disrupt and perhaps even stall the pace of industrialisation. The purpose of this paper is to analyse the recent land acquisition and eviction experience of West Bengal to get a grip on the general problem of development and displacement, on the one hand, and to understand the importance of land as a factor constraining the course of development, on the other. The analysis would be relevant not only for economic development in West Bengal but also for the rest of India.

Though land has not found its proper place in the theoretical literature on economic development, the problem of industrialisation leading to displacement is by no means new. Indeed, history is full of such examples and here we shall consider one old and one recent instance of development leading to large-scale displacement. The enclosure movement in pre-industrial revolution England probably gives the earliest instance where landlords, the village gentry and a newly emerging merchant class, aided by royal power, evicted people from their traditional land and livelihood. Since the recent incidents in Singur in the Hugly district of West Bengal have some similarities with what happened in England several hundred years ago, it might be instructive to briefly go through the British experience. By the beginning of the 17th century, England had almost come out of her demographic debacles of the earlier centuries caused by bubonic plague epidemics commonly known as Black Death and by sustained agricultural repression. The growing population was creating pressure on land. At the same time international trade, especially maritime trade, opened up new possibilities. In particular, the market for manufactured woollen cloth was expanding at a

spectacular pace. This, in turn, increased the demand for land further, not for cultivation but for grazing sheep.

The emerging wool trade led to deep-rooted social and economic changes. While land was relatively plenty and labour was relatively scarce through out the 15th and up to the mid-16th centuries, leading to low rents and high wages, from the middle of the 16th century the scenario got reversed, leading to land shortage, labour surplus, high rents and declining wages. Landlords, who found it difficult to get either tenants or labour to cultivate land and as a consequence left the land fallow, could now profitably convert land into grazing grounds for their sheep. The result was the enclosure movement.

Prior to enclosures, there was common land in the manor, which was under a medieval system of land tenure and which was cultivated on a communal basis. Following the enclosure movement, the common land in the manor was divided up and fenced in, and the peasant farmer who held his tenure either by copy (a document recorded in the manor court) or by unwritten custom was evicted. This was an extremely convenient arrangement for the yeoman farmers and gentlemen sheep growers, who could have a huge saving on labour cost, for one shepherd and his dog could now do the work of half a dozen men who had previously tilled the same land. The arrangement was further supported by urban cloth manufacturers and merchant adventurers, who bought fleece from sheep raisers, took it to cottagers for spinning and weaving and finally sold the finished product to Europe.

According to some estimates 2.76 per cent of the total land was enclosed and 50,000 persons were forcefully evicted. This was no small number in a country where total population around 1600 AD was about four million. As Sir Thomas More pointed out in his famous *Utopia* (1515), the enclosure movement and the consequent eviction of tillers from land led to large-scale conversion of farmers into a mass of vagrant labour force gradually turning into beggars and thieves. The same sentiment was expressed by Polanyi more than four hundred years later in his *The Great Transformation* (1944).

The enclosure movement changed British society permanently and beyond recognition. The timeless quality of village life was gone forever. The immediate beneficiaries of this change were, of course, the village gentry and the newly emerging merchant class. The sufferers were the evicted peasants who lost not only their livelihood but also their age-old knowledge of cultivating land. Even the conditions of those who found employment in the newly emerging industrial sector did not improve for one hundred years [Hobsbawm 1975].

A more recent account of development led displacement can be found in the story of unprecedented industrial growth in China. As is well known, reliable data on China is not easy to come by, especially on controversial issues like eviction and land riots. According to a paper contributed to the World Commission on Dams, since the 1950s 10 million people have been displaced in China due to hydraulic and hydroelectric projects alone [Jun Jing nd]. According to more radical estimates [Goswami 2007] between 1992 and 2005, 20 million farmers were evicted from agriculture due to land acquisition and between 1996 and 2005 more than 21 per cent of arable land in China has been put to non-agricultural use. An article by Joseph Kahn in *The New York Times* of January 20, 2006 quotes a government statement admitting that 5 per cent of the total arable land in China has been grabbed for non-agricultural use between 1998 and 2004. Another statement made by China's ministry of public security acknowledges that 87,000 public order disturbances broke out in 2005 alone, a large chunk of which is due to land grabs.

India is on a similar path of development as China. To remain on this path and maintain the growth performance one would require, among other things, transformation of agricultural land to non-agricultural use. This will lead to evictions, riots and losses of human lives, which have already begun to happen in West Bengal.

## II

### Economic Scenario in West Bengal

The first decade of Left Front rule in West Bengal marked significant progress in the agricultural sector. The progress was based on three different phenomena. First, just after coming to power in 1977, the Left Front embarked upon a series of far-reaching land reforms. Much has been written on land reforms in the state and so here we shall recall only certain basic facts about land redistribution. Land reform in West Bengal assumed two forms, 'barga' and 'patta'. The former gave the share cropper protection against possible eviction from the land he had been cultivating for generations and assured him a fixed share of output. The latter involved redistribution of ownership of excess land acquired from rich landlords through implementation of land ceilings. Up to the year 2000, 1.6 million 'bargadars' had been officially recorded and this was 86 per cent of the sharecroppers in the state. In fact, about a third of total cultivators in the state have been recorded as bargadars. In a similar vein 1.39 million acres of land have so far been acquired by the government for redistribution and out of this 1.04 million has been actually redistributed. In fact, West Bengal accounts for 20 per cent of the total land redistribution in the country even though it accounts for only 3.5 per cent of the total land in India. Land has been redistributed among 2.745 million 'pattadars' and the state accounts for 47 per cent of all-India beneficiaries. Indeed, taken together, barga and patta have covered 41.3 per cent of the rural population of West Bengal [West Bengal – Human Development Report 2004].

Secondly, a new method of cultivation using high yielding variety of seeds, commonly known as boro cultivation, was introduced in a big way. Boro cultivation needed a lot of water and the water requirement was met primarily by privately owned shallow tube wells. The other aspect of boro cultivation is that it can be carried on in small plots of land using a lot of labour. This allowed small and marginal farmers to introduce the new technology in their land and play a dominant role in the process of the Bengal green revolution. This was certainly different from the green revolution in Punjab and Haryana where the new technology was first adopted by large farmers.

Thirdly, there was a decentralisation of rural power through the three-tier panchayat system. This, among other things, implied greater representation of the landless labourers and small cultivators in the elected bodies of the local self-government and participation of the poor in the local decision-making process. Comparing gram panchayats in 1978-83 with those in 1988-93, it is found that representation of bargadars increased from 1.8 per cent to 11.3 per cent, that of landless labour from 4.8 per cent to 16.8 per cent and the representation of cultivators with land holding below three acres along with the landless increased from 21.8 per cent to 30.17 per cent (ibid). This gave the rural poor not only a voice in the decision-making process, but, more importantly, a kind of dignity and social prestige unheard of in the previous political regime.

All this led to prosperity and growth in rural West Bengal. Land reforms, especially tenural security, provided the farmers the incentive to work harder. Boro technology helped them raise multiple crops with higher yields. Decentralisation of rural power

ensured social stability and security so crucial for growth. West Bengal emerged as the largest rice producing state in India contributing more than 15 per cent of national production. During the 1980s boro cultivation grew at an average annual rate of 12 per cent and overall foodgrains at a rate of 5.5 per cent.

Unfortunately, agricultural growth significantly slowed down in the 1990s. This was due to a number of reasons. Firstly, frontiers were reached in bringing new land under boro cultivation. Since boro is an extremely water intensive crop, expansion of boro cultivation had to stop being constrained by the availability of water. Secondly, productivity increase, which had the real potential for sustaining longer run agricultural growth, could not be achieved either. Thirdly, due to faulty marketing strategies West Bengal failed to export its rice to other states and abroad. This, coupled with a lack of demand within the state, led to a crash of foodgrains prices. This was accompanied with a rise in input prices, especially that of fertilisers, electricity and diesel. The two, taken together, made cultivation less profitable. As a result cultivators who accounted for 38 per cent of the rural workforce in 1991 fell to 25.4 per cent in 2001. According to official estimates, about 13 per cent of the beneficiaries of land reforms gave up their tenancy rights or sold off their land and moved to other occupations. Consequently, growth of boro cultivation slowed down to 5 per cent and overall agricultural growth to a little above 2 per cent in the 1990s (*ibid*).

West Bengal agriculture has an additional perennial problem. This is the problem of having a very adverse man to land ratio. Population pressure on land started building up in West Bengal from the time of independence and the associated partitioning of the country. Punjab was also partitioned but, as expected, in Punjab there was a two-way traffic flow. Along with people flowing into east Punjab as refugees, a substantial number also went to the west, maintaining the population balance in each region. In contrast, for various historical reasons, the flow of refugee traffic in West Bengal was largely unidirectional, from the east to the west. The problem got worse over time with an incessant inflow of people into the state from neighbouring countries and states continuing even today. The productivity of West Bengal agriculture is not very low. In fact, in foodgrains production it ranks right below Punjab and Haryana in terms of production per hectare. But if that production is divided by the number of heads dependent on land, the per capita availability is certainly low.

The other problem, which we have already briefly mentioned, is the absence of an adequate marketing channel for the small and marginal farmers. The marketing channel of the agricultural sector in West Bengal is still controlled by a handful of large traders who appropriate a large chunk of the price paid by the consumers. The lack of adequate marketing channels and the consequent dependence of the small and marginal farmers on the large traders have adversely affected the conditions of the former in a number of ways. First, because the farmers are compelled to sell their products through the traders, the actual tillers of the soil get a low and non-remunerative price. Second, often the farmer is dependent on the trader for production and consumption loans as well. This compels the farmer to accept an even lower price. Third, in some cases the traders themselves are not well informed about all possible markets, neither are they dynamic enough to explore new possibilities. They are quite happy with their feudal ways of living. Consequently the farmers suffer. Fourth, because the farmers are ill-informed about marketing possibilities and do not have access to spatially far away markets, they cannot take the risk of shifting to new and more remunerative

crops. Perhaps the traders could have helped the farmers to go into new ventures, but as pointed out above, their feudal mindsets have prevented them from doing so.

So the crux of the matter is that in spite of two decades of land reforms and the boro revolution, at the beginning of the new century rural West Bengal remained poor and backward. This becomes amply clear when one compares economic conditions in rural West Bengal with that of the average Indian village. According to the National Human Development Report (2001) of the government of India, in 1999-2000 all-India rural per capita consumption was Rs 486 per month and the corresponding figure for West Bengal was Rs 454. The growth rate of rural employment between 1993-94 and 1999-2000 was 1.3 per cent and 1.2 per cent for India and West Bengal respectively. In 1999-2000 the all-India rural unemployment rate was 1.5 per cent, in West Bengal the corresponding rate was 2.7 per cent. In the same year, all-India rural poverty was 27.09 per cent and rural poverty in West Bengal was 31.85 per cent. In 1993-94, 15.6 per cent of rural households in West Bengal had pucca houses while the all-India average figure was 29.2 per cent. In 1991, 30.54 per cent of rural households in India had electricity connections, for West Bengal the figure was only 17.75 per cent. Rural households with electricity connections, access to safe drinking water and private toilet facilities in West Bengal were only 11.87 per cent of the total in 1991. For the entire country the comparable figure was 28.67 per cent. On the other hand, the average West Bengal village is ahead of the average Indian village in certain other respects like literacy and life expectancy, but not significantly so. So, everything taken together, West Bengal remained just a middle ranking state in the beginning of the 21st century, in spite of decades of radical land reforms, the boro revolution and decentralisation of rural power.

### III Industrialisation and Food Security

The description in the preceding section would suggest that there are two major problems of West Bengal agriculture, an extremely adverse land-man ratio and the lack of market accessibility of the farmers leading to their unhealthy dependence on middlemen. Perhaps both these problems could be partly solved by inviting big capital, including multinationals, into the agricultural sector. This could break the feudal chains in which West Bengal agriculture is confined today. Contract farming with big corporations could help the farmers not only by providing them certain and wider markets but also make them aware about new technology, new products and, in general, helping the economy to develop agriculture-based industries. At the same time if direct links could be established between the farmers and big retail outlets, that could also help them break their dependence on the feudal traders.

There are, however, a number of problems of corporatisation of West Bengal agriculture, the most important being rehabilitation of the farmers who will become surplus and jobless once agricultural production is organised efficiently. Clearly to provide employment to these people job opportunities will have to be created outside the agricultural sector. But quite apart from whether agriculture is corporatised or not, jobs need to be created outside agriculture for the simple reason that the population pressure on land is ever increasing. If alternative employment opportunities cannot be created, the condition of the people dependent on the agricultural sector will keep on deteriorating. In other words, any long-term scheme of development of the state must involve industrialisation.

But industrialisation cannot be pulled out of thin air. Industrialisation involves not only building up of factories but also of infrastructure, of roads, bridges, seaports and airports, and also townships, shopping malls and entertainment centres for the emerging professional class. No investor would consider investing in the state if the basic infrastructure is not available. Clearly, to build all this one needs land. Where will this land come from? Given the excessive pressure of population in West Bengal, a large part of the total land of the state, 63 per cent according to the West Bengal Human Development Report, is cultivated. Therefore, any large-scale transformation of the economy requiring land has to draw from the agricultural sector. Some quarters are extremely worried that the large-scale use of agricultural land for industrial purposes and for the purpose of building up infrastructure might impose a serious threat to food security in the state.

An extended argument against the acquisition of agricultural land asserts that industries in the state should be located in the space that was occupied by old industries which have now closed down. Such land is lying vacant and so using it for new industries would not have an adverse affect on agricultural output leading to food shortage. It is further asserted that once this vacant land is all used up, one might consider acquiring agricultural land, but the choice must be restricted to the least productive soil.

The argument can be countered on two different grounds. First, it may be pointed out that the choice of land does not always lie with the government. The investor, who is investing a lumpsum and taking a risk, would typically want to make sure that the land where he is planning to build up his plant has the basic infrastructural facilities. Since this investor usually has options to set-up the same plant elsewhere in the country, he would not hesitate to shift his investment elsewhere if he were not offered the land of his choice. In other words, given the intense competition between the Indian states to attract private capital, the respective state governments are compelled to allow the investors to make their choice of land. But when an investor is choosing the land for his project, there is no guarantee that this choice will coincide with the stipulations mentioned above. In particular, the investor is unlikely to choose the land of an old closed down factory because often the workers who were working in that factory and are presently unemployed would put pressure on the new factory owner to employ them.

A recent case in point is Singur in the Hugly district of West Bengal where the Tatas have proposed to build an automobile factory. The land in Singur, which has been acquired by the government for the Tatas, is extremely fertile. The soil, on an average, produces three crops. So activists and political parties who are opposing the government acquiring land in Singur for the Tatas, urge that the automobile factory should be shifted to less fertile land where the loss of output would be much less. In fact, there are three important reasons why the Tatas have chosen Singur as the site of their project. First, Singur is right next to the Durgapur Expressway, the only proper highway of the state by international standards, which was built with central government funds as a part of the Golden Quadrilateral Project. Second, it is not far away from Kolkata. Third, the land is endowed with a lot of underground water, which is needed for an automobile factory. If the Tatas were denied the land of their choice, they would have shifted their project elsewhere. Thus the government does not have much of a choice but to deliver what the Tatas want.<sup>1</sup>

Be that as it may, the real reason for worrying about the process of transforming agricultural land for industrial use is the possibility of an ensuing threat to food security. We shall argue that such a worry is to a large extent baseless. According to the West Bengal Human Development Report of 2004, total land in the state is 88,75,000 hectares out of which 63 per cent is cultivated. So

our simple arithmetic tells us that in West Bengal 5,59,12,50,000 ha or about 14 million acres (1 hectare = 2.47 acres approximately) of land is under cultivation. The Tatas want around a 1,000 acres for their project, but undoubtedly full-fledged industrialisation in the state will require much more. Suppose West Bengal requires 1,00,000 acres of land for building up infrastructure, industries and a modern services sector. That will be less than 0.7 per cent of the total agricultural land in the state. It is highly unlikely that if this minuscule amount of land goes away from the agricultural sector, total foodgrains production of the state is going to be substantially reduced.<sup>2</sup>

Secondly, industrialisation is likely to have a favourable effect on agricultural productivity. With industrialisation, as more and more people shift to the industrial and the services sectors, pressure on agricultural land will fall and average landholding will increase as some of the emigrants going away from the rural sector will sell off their land to the people who would stay back. An increase in average landholding in the agricultural sector would, in turn, help consolidate fragmented pieces of landholding, which again would make possible the use of modern technology. Indeed, excessive fragmentation of land in West Bengal is one of the main constraints to the introduction of advanced methods of production. If land is consolidated, this constraint would be relaxed. It may be recalled that in the advanced countries 2 per cent to 4 per cent of the population is engaged in agriculture. But this small fraction of people is able to feed the entire country. This is made possible by the very high levels of productivity of labour in the agricultural sector which again is the result of advanced technology. If a similar pattern can emerge in West Bengal, the increase in productivity of labour in the agricultural sector can indeed compensate for the loss of production due to loss in acreage. Of course, as would be suggested by our earlier analysis, mere productivity increase alone cannot be the solution. Productivity increase has to be accompanied with fundamental changes in the marketing channels to improve the condition of the small and marginal farmers.

Thirdly, it is not at all clear why West Bengal, which is a part of a larger nation, should need food security or self-sufficiency in food production. One can perhaps understand that there is some justification for a nation for ensuring food security. Food self-sufficiency might be necessary due to various uncertainties in the international food market. But for a small geographical region within a country, e.g, West Bengal in India, there is no compelling reason why food security is desirable. If necessary, West Bengal can freely import foodgrains from the rest of the country. Indeed, West Bengal's comparative advantage must lie with industry and services and not with agriculture. This is so because land is the most scarce commodity in West Bengal and agriculture is the most land intensive product. Elementary trade theory teaches us that the comparative advantage of a region lies in that product which uses its abundant factors intensively. Since land is anything but abundant in West Bengal, efficiency requires that the state imports agricultural goods from the rest of India selling in return services and industrial goods.

We may, therefore, conclude that the only long-term solution to West Bengal's rural poverty and backwardness is industrialisation. This of course will involve transforming land from agricultural to industrial use. But that can hardly be a threat to overall food security of the state. There is, however, a very serious microeconomic problem. Acquisition of land entails displacing people from their land and livelihood and therefore if the acquisition exercise is not handled properly, social and political unrest will emerge which will gravely endanger the industrialisation process itself. So we shall presently turn to the problem of land acquisition.

#### IV

### Land Acquisition, Coase Theorem and Property Rights

Given that land is required for industrialisation, the first question is who will acquire this land? Broadly speaking, there are two alternative ways of acquiring land. First, the investor can go out in the market and acquire it from the owner by directly negotiating a price with him. Alternatively, the government can acquire the land on behalf of the investor and transfer it to him in exchange for some prearranged price. An ideal arrangement is certainly the one where the investor acquires land directly from the seller simply because the transaction in this case is voluntary. If, on the other hand, the government is acquiring land for industry or infrastructure, an element of coercion is often involved. While in many Indian states the practice has largely been direct purchase of land by the investor from the owners of land, in West Bengal the government has indulged in a big way in acquiring land from the farmers. This has been at the root of many political tussles. So the question arises as to why is the government of West Bengal trying to acquire land for the industrialists? Why is the investor not asked to go out to the market and acquire his own land, like it is done elsewhere?

The practice of acquiring land by the investors directly from the sellers has some apparent theoretical support. The celebrated Coase theorem, named after its originator Ronald Coase of the University of Chicago, asserts that the initial distribution of property rights does not matter as long as free buying and selling of assets are possible without transaction costs. Indeed, in the absence of transaction costs, an asset will be ultimately owned by that agent who has the highest valuation of the asset and hence can pay the highest price. This allocation, of course, will be efficient. The Coase theorem rests on a number of assumptions. In particular, high transaction costs and the involvement of multiple agents in the transaction can invalidate the theorem. Indeed the socio-economic situation in West Bengal raises doubts as to whether the idealised conditions required for the validity of the Coase theorem are really valid in the state. This, in turn, gives a theoretical justification of government intervention in the land market in West Bengal.

In West Bengal, due to land reforms and excessive population pressure, landholding is much more fragmented than in most other states. Fragmented landholding makes direct purchase of land by the investors both difficult and undesirable. First let us see why direct purchase becomes difficult when landholding is fragmented. Clearly, when landholding is fragmented, the buyer has to negotiate his purchase with a large number of landowners and this in itself can be extremely costly. Thus the assumption of zero or negligible transaction cost does not hold for West Bengal. The problem becomes more pronounced because unless the buyer can purchase the entire land or a very large portion of it, it cannot start its project.

Moreover, multiple ownership of land gives rise to the possibility of speculative hold out [Menezes and Pitchford 2004; Miceli and Sirmans 2004]. Suppose the buyer has to acquire a piece of land, which is fragmented and held by a large number of owners. All of them may not be equally eager to sell their land and typically some will sell early and others will wait. People may wait before they agree to sell because of various reasons. Some could have sentimental values attached to land; some might hesitate to sell because of lack of alternative means of livelihood. So it is likely that the buyer will acquire his land sequentially rather than all in one go. But as the buyer buys land sequentially, with each purchase his bargaining position vis-à-vis the next seller will deteriorate. This will happen because as he invests more and more money on the purchase of land, his eagerness

to get hold of the rest of the land will increase. When he has acquired most of the land by spending a lot of money, he will be desperate to get the remaining land because if he does not, his entire investment would be wasted. This, in turn, would compel him to offer a higher price for those pieces of land which he will acquire at a later stage. Anticipating all this, a speculative seller of land will hold out his land in the expectation of a higher price. If land is more fragmented, the incidence of speculative hold out is likely to be higher. As a result the entire project will get delayed. The buyer, in turn, can also anticipate this delay and if he does so, he may not be willing to start the project in the first place. In other words, when land is fragmented and owned by a large number of people, an investor will hesitate to take up a project if he is told to acquire land all by himself. The possible delay in completing transactions, which arises out of speculative hold out violates the Coase theorem. All this, taken together, has led the government of West Bengal to indulge itself in the unpleasant task of land acquisition.

The interference of the government in the land acquisition process is also *desirable* in a scenario where landholding is thinly spread over a large number of farmers which is indeed the case in West Bengal. If owners are small and scattered, they cannot bargain effectively with big industrial houses and only the government can bargain on their behalf looking after their interest. This is what the government ought to do; whether the West Bengal government has actually bargained with investors on behalf of the farmers is, of course, a completely different matter. In fact, as we shall argue below, the government of West Bengal has completely failed to perform this role.

But when government buys land for the industries it often does so by using its special powers, by force if you may, which turn out to be an open violation of property rights. So the question arises as to how seriously should one take property rights in the present context? The Left in West Bengal is now thinking of undertaking market oriented reforms and one of the most important cornerstones of the philosophy of free markets is preservation of property rights. Is it not a contradiction to talk about the efficiency of the market on the one hand and violating property rights on the other? In the existing literature, secured property rights have been viewed as one of the most important requirements of long-term sustainable growth [Dollar and Kray 2000; Besley 1995; Jacoby; Li and Rozelle 2002]. But the recent experience of China suggests that secured investor's property rights coupled with loosely defined property rights of the land owning farmers give rise to environments most suitable for long-term industrial growth [Zhang 2005; Li 1996; Che and Qian 1998]. Is the West Bengal government planning to follow the Chinese model?

During its long tenure of 30 years, the West Bengal government has at least once grossly violated property rights. This happened when it implemented land reforms. Enforcing ceiling laws, land was taken away from the rich and distributed to the poor. For obvious reasons, this had mass support. The trouble is that now the government is venturing to traverse in the opposite direction: taking away land from the poor farmers and distributing them to rich industrialists. This will require a lot of political and economic manoeuvre, especially because unlike the Chinese government the government of West Bengal has to get the mandate of the people every five years.

Of course, violation of property rights and the consequent discontent among the masses can be minimised if land transactions can be made as voluntary as possible. This, in turn, requires a well thought out compensation and rehabilitation package for the displaced. Does the government of West Bengal have a satisfactory compensation and rehabilitation package?

## V Compensation and Rehabilitation

The government of West Bengal has so far proceeded to acquire land in Singur on the basis of the Land Acquisition Act, 1894. The Act empowers the government to acquire any land for a public purpose or for the purpose of use by a company by prior notification and by paying a compensation to the owner. The compensation is based on the current market value of similar land in similar use. Apart from compensation for the land acquired and payment for certain types of damages associated with the acquisition of land, the West Bengal government has not made any provision for resettlement and rehabilitation of the displaced people. We shall argue that the compensation package offered by the government has been highly inadequate. We shall also argue that unless this inadequacy is removed, the political unrest and the resistance to industrialisation in West Bengal cannot be handled.

The first problem is about the valuation of land. The market for agricultural land in West Bengal as well as in the rest of India is thin, as transactions are not very frequent. Under these circumstances, it often becomes difficult to get a proper estimate of the market value of land. A common practice is to look at an average price at which similar land has been transacted over the last few years. But if prices are increasing, as is always the case with land, an average price over the last few years is always going to be less than the current price. In other words, the current practice of fixing the market price of land by averaging over past prices is likely to be an undervaluation.

There is, however, a deeper problem: the market price of land does not reflect the true valuation of land by the farmer-owner. This is so because of at least two economic reasons.<sup>3</sup> The market price of land should roughly reflect the discounted sum of the expected value of output produced by land in future net of material and labour costs. To an owner-farmer, however, ownership of land gives him an opportunity to work. Given widespread underemployment in the rural sector, if the farmer did not have any land of his own, probably he would have remained unemployed for a longer part of the year than he is now. This particular advantage that land is giving him will not be reflected in the market price. Thus to him the market price of land is much lower than its shadow price. Now, we get the shadow price of land by deducting the material costs and the opportunity cost of labour of the owner-cultivator from the discounted sum of the expected value of output. But given widespread unemployment, the opportunity cost of labour is less than the market wage rate. Hence the market price of land is lower than its shadow price. As a result, the owner-farmer will not be willing to sell his land at the market price.

There is yet another reason why to a small farmer the value of land is much higher than what is determined by the market. A small farmer owning a piece of land usually markets a very small part of the produce and keeps the larger part for his self-consumption. Now, if he is compelled to sell his land, he has to procure foodgrains for his self-consumption from the market at the market price. Since quite a few layers of middlemen typically exist in the market, the market price of foodgrains is likely to be much higher than the price at which the farmer sells his produce. Thus the market price of land, reflecting the low price received by the farmer for his produce, cannot properly compensate him for the much higher price he has to pay when he sells his land and buys his foodstuffs from the market.

Finally, one can also raise questions about the practice of evaluating land on the basis of earnings arising out of its present use and not on the basis of what land can earn in future if put

to an alternative use. Evidently, the value of land would be higher if it is used for industry compared to its present value when it is engaged in the agricultural sector. Social justice requires that the present owner of land should also get a share of this increased valuation. The Land Acquisition Act of 1894 in spite of all its later amendments has failed to guarantee this. The Act specifically mentions that while determining compensation "any increase to the value of the land acquired likely to accrue from the use to which the land acquired will be put" has to be *neglected*. In a proper bargaining framework, on the other hand, the present and future owners share the surplus arising out of the new use of land. This meets the standards of fairness and social justice.

Some would argue that the surplus arising out of the better use of land would be shared by society in terms of more employment opportunities. But the point to note is that the farmers are the least likely people who will benefit immediately from industrialisation. People with education, training and finance are the ones who will be able to take immediate advantage from the emerging industries and the services sectors, from new infrastructure and from the new dynamic environment. But farmers, in general, are certainly not one of these people. Thus farmers have to be compensated directly for the loss of their land and livelihood and if compensations are inadequate, as we argued they certainly are, then there will be a lot of resistance which might jeopardise the whole effort of industrialisation.

Are the compensations announced so far by the government acceptable to the farmers?

*Status Report on Singur* as on December 31, 2006 available at the government of West Bengal's web site reveal that in Singur an acre of sali land, that is, land where a single crop is raised each year, is being offered a price of Rs 8.70 lakh. For an acre of 'suna' or multi-cropping land, on the other hand, the compensation is Rs 12.76 lakh. Is it enough compensation? If we put Rs 12.76 lakh in a fixed deposit we can earn an annual interest of 9 per cent. This gives an annual return of approximately Rs 1.15 lakh or an income of Rs 9,570 per month, which is indeed a comfortable sum of money, almost thrice the income an acre of multi-cropping land can currently yield. So why should the owner disagree to sell his land?

One must realise that due to inflation while the real worth of Rs 9,750 will decay over time the nominal income from land will keep on increasing roughly at the rate of average price rise. Therefore, if the owner holds on to his land he can hope to maintain his standard of living in future, but not so when he sells his land and keeps the money in a bank to earn interest. In other words, 9 per cent does not quite reflect future return on deposits; one has to subtract the rate of inflation from the nominal rate of return of 9 per cent to arrive at the real rate of return. The current rate of inflation is over 6 per cent. So subtracting this number from the nominal rate of return one gets a real rate of return of 3 per cent. At this rate of return, the inflation adjusted monthly income from a deposit of Rs 12.76 lakh works out to be around Rs 3,000, which is unlikely to exceed the current monthly income from an acre of multi-cropping land. Compensations, therefore, are not necessarily adequate.

One may add to this the predicament of the registered bargadar or sharecropper who is the actual tiller of the soil. A quarter of a century ago, land reforms had earned him a share of 75 per cent of the produce, provided he was prepared to bear the entire cost of cultivation, along with a guarantee that he would never be evicted from his land. The Left Front government, however, is unable to keep its promise; the bargadar is now evicted from his land and he is being paid only 25 per cent of the sales proceeds. Indeed, if his rights over land were interpreted in the true spirit he

should have got 75 per cent and not 25 per cent of the compensation. One may add further to this the condition of the unregistered bargadar and the landless labourers who have been promised nothing from the sales proceeds so far and one would get a feel of the frustration and desperation prevailing in the villages where land is proposed to be acquired. Bargadars, registered and unregistered, and landless labourers constitute the overwhelming majority in the pool of village labour force in West Bengal.

To this one must also add the lack of a proper resettlement and rehabilitation policy, or R&R policy for brevity, of the government of West Bengal. In neighbouring Orissa, subsequent to the loss of human lives in police firings in Kalinganagar over land acquisition, the government has come up with a detailed R&R policy. The displaced are offered a menu of cash payment, homestead land, employment opportunities and training apart from the compensation paid for his land as per the Land Acquisition Act. One must hasten to add that this is not enough. Like compensation under the Land Acquisition Act, 1894, the beneficiaries under the R&R policy of the government of Orissa are also necessarily owners of land. No resettlement has so far been planned for the sharecroppers or the landless. A complete R&R scheme must accommodate those people as well who do not have direct property rights over land.

## VI

### Perceptions, Credibility and Development

We started this essay by giving examples of development-driven displacements, one of 17th century England and the other of contemporary China. Though West Bengal as well as other parts of India can learn important lessons from these country experiences, in one important respect the Indian scenario is different. There were no universal voting rights either in 17th century England or in present day China. This gave the governments adequate power to suppress voices of protests. This is certainly not so in India and not even in West Bengal where the ruling Left Front has been in power for the last 30 years. So here perceptions of the people regarding development are important.

In West Bengal, chief minister Buddhadeb Bhattacharjee has taken his drive for industrialisation rather seriously. He and his party associates are Marxists seeking to achieve capitalist ends. To accomplish these ends, they are using private incentives and market forces along with perhaps a bit of coercion and brute muscle power. Being brought up in the Leftist tradition of thinking, they are not too scrupulous about the methods they take to achieve their goals. For them, the ends justify the means.

The drive for industrialisation entailed wooing investors on the one hand, and acquiring land for industries and infrastructure on the other. Buddhadeb Bhattacharjee and his deputies decided to woo the investors by giving them subsidies, incentives, tax breaks and low-interest loans. They have even gone to the extent of raising money from the market at the going rate of interest to finance these huge industrial subsidies, expecting future economic activities in the state to go up and yield so much tax revenue that the debt can be easily repaid. Quite expectedly, the endeavour had a favourable effect on potential investors and on those who were sympathetic to market-oriented reforms. As entrepreneurs gradually changed their perception about the state and seriously started considering West Bengal as their next investment destination, Buddhadeb Bhattacharjee was hailed by a wide spectrum of people, cutting across party lines, industry houses and different strata of society.

The other part of the endeavour, the more important part in our opinion, was related to acquiring land for industrialisation.

Unfortunately, very little thought, energy and effort went into the planning of this part. Compensation and rehabilitation questions were largely ignored. Perhaps it was decided that the formidable political machinery of the party would take care of resentment arising out of eviction and if verbal persuasion fails, brute force would be applied. In other words, when it came to the question of land acquisition, the Stalinist self of Buddhadeb Bhattacharjee and his party raised its ugly head.

Buddhadeb Bhattacharjee's government is trying to apply the east Asian model of development for the economic betterment of West Bengal. According to this model, the investor is treated like a king as long as he performs. He gets all possible benefits, subsidies and incentives from the government on the condition that he has to deliver. If he fails to do so, he is kicked out of the market because subsidies are often time-bound and short-lived. On the other hand, humanitarian considerations are largely kept aside if they hinder investors' interest. Land is taken away from the farmers for industrial use without much compensation and by force, if necessary. Savage labour laws are imposed upon the workers. The buzzword is growth. Growth and only growth sanctifies all possible wrongdoing.

The model has produced miracles in east Asia, certainly in terms of growth, though not always in terms of human development. But it can hardly work for West Bengal even to raise the rate of growth. For one thing, being a part of a larger country, West Bengal has to compete with other states to attract investment. But if we indulge ourselves in the expensive game of attracting investments by bidding up subsidies, we cannot punish the non-performer, for if subsidies are withdrawn the investor can threaten to pack up and move to some other region. A slower but much surer way is to attract the investors by building up good infrastructure and ensuring labour market harmony. In the latter case, market forces can take care of non-performance and inefficiency. More important, the recent incidents of Nandigram and Singur and the ensuing anger and protest they have generated all over the state and the country clearly point to the fact that in a functioning democracy, the coercive method of land acquisition is untenable, not only from a moral standpoint, but also as a matter of practical policy. Coercion worked only in countries where governments were authoritarian enough to suppress voices of protest, like in east Asia.

Over the last few years, Buddhadeb Bhattacharjee and his associates have been talking a lot about investors' perception of West Bengal, about how it has improved over the years and how it ought to improve further in the near future. The Nandigram incident should send a clear message to them. It should demonstrate that like the investor's perception, the people's perception about the process of industrialisation is also important, probably more important in a functioning democracy. If the majority or even a sizeable minority perceives that industrialisation is going to hurt, then it will be impossible to carry it out. Buddhadeb Bhattacharjee should read and understand this message. If he fails to do so, it will be a disaster for the state, because it is industrialisation alone that can lift West Bengal from the depths of poverty and destitution. The Nandigram carnage should also teach the policymakers that the means are as important as the ends.

## VII

### Crux of the Matter

The basic puzzle still remains unsolved. Barring a few exceptional cases, it is certainly true that a piece of land employed in the industrial sector creates more value than it does when employed in the agricultural sector. Theoretically, therefore, it should be possible to transform land into industrial use and

from the increased value one can more than compensate the people who lose their land and livelihood. But why is this not happening? Who are to be compensated? Who is supposed to compensate them?

In the agricultural sector there are two classes of people that are to be compensated, the owners of land and the labourers. In many cases, of course, the two coincide; but for analytical purposes let us keep them separate. The present compensation packages, both compensation according to the Land Acquisition Act, 1894 and the R&R schemes, indemnify the owner of the land and not the labourer. This is one basic reason why there is so much resistance to land acquisition. Is there any moral ground of compensating the labourers? After all one can argue that land acquisition does not rob the labourer his labour power and so there is no need to compensate him. This is not true of the landowner who is certainly losing his asset, namely land, after the acquisition. But the point to note is that the agricultural labourer often has a very specific kind of expertise which has no use in other sectors. So with acquisition of land the value of this expertise is greatly reduced, which is equivalent to a fall in the value of his human capital. For this he needs to be compensated. Also, when a government factory closes down, the worker whose job is terminated is usually compensated through a retirement package. Why should not the government follow the same practice when it is acquiring land and making people jobless?

It seems that the real problem lies with states entering into an unhealthy and inefficient competition between themselves to attract private investments. That this is especially true for West Bengal is amply clear from the deal they have offered to the Tatas. On the land in Singur, where they propose to build their automobile factory, the Tatas have got a 90-year lease from the government. There is no down payment for the land. For the first five years they will pay Rs one crore a year as rent and the yearly payment will increase by 25 per cent for each five-year interval for the next 25 years. Again for the next 30 years payments will increase by 33 per cent at a five-year interval and for the final 20 years the rent would be Rs 20 crore per year. But this is not the end of the story. The government will give a Rs 200 crore loan to the Tatas at 1 per cent rate of interest and the VAT proceeds accruing from sales of cars will be handed back to the Tatas again as a 1 per cent loan for the first 10 years. On the other hand, by its own admission, the government of West Bengal will be paying Rs 130 crore as compensation to the landowners. The yearly interest on this is at least Rs 13 crore. So there is a straightforward subsidy of Rs 12 crore a year on the purchase of land. Add to this the virtual interest free loan, the tax breaks and the mild five-yearly 25 per cent increase in rent which cannot even cover an inflation of 6 per cent per annum, and it will become clear that the Tatas are getting the land in Singur on a platter, free of cost and garnished on top with additional goodies. If a debt-ridden government spends so much money on wooing investors, how can it afford to pay proper compensation to those who are losing their land and livelihood?

Therefore, the crux of the matter is that the government of West Bengal is too concerned about the investors and too little about the displaced. This is morally wrong. But more important, as a long-term industrial strategy, this is untenable. [37]

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## Notes

[The author wishes to thank, without implicating, Siuli Sarkar for discussions and suggestions.]

- 1 In an indirect but unavoidable way, however, the government of West Bengal must be held responsible for this lack of choice. If there were more highways and other infrastructural facilities in the state, the Tatas could have been given an option to set-up their plant elsewhere. Fertile land could have been spared and the present strife over agricultural land could have been avoided.
- 2 In the above calculation, we have put equal weights on a mono-crop, two-crop and multiple-crop land by simply adding them. Strictly speaking, this is not right. However, if the proportion of fertile land acquired to total land acquired is roughly the same as the proportion of fertile land cultivated to the total land cultivated, our calculation would be correct.
- 3 There could be important non-economic reasons also like psychological attachment to land which we are not going into but which would enforce our argument.

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