Land Market Reforms*

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Any large project that requires a substantial amount of land is difficult to implement in India because of high transaction costs. It is not just that land is scarce or that negotiating the right price is difficult. The problems run deeper: negotiating with thousands of farmers in a contiguous area, sifting through incomplete land records and settling disputes that move through courts at a very slow pace, all become serious constraints for industrial and infrastructure projects.

From the point of view of farmers, land is not merely an income-generating asset but a secure form of holding wealth, an insurance policy, and a pension plan – all combined. Given that their skills are specific to agriculture, if they sell their land they will not have any other option but to work as unskilled labourers – which is not an attractive option in a labour-surplus economy. As a result, the true price of land is much higher than what would be dictated by current market prices. This has little to do with the relative

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* The note draws on joint work with Parikshit Ghosh regarding the auction proposal and the critique of the LARR Act.

profitability of industry or agriculture or the physical scarcity of land. Rather, it is driven by the absence of good insurance mechanisms and financial instruments, and low levels of human capital, all of which make switching to alternative occupations costly for farmers.

The availability of land is a general problem that affects both the private and the public sector. For the public sector, the government has the option of utilizing the legal provisions of the Land Acquisition Act. In this context, the most glaring flaw in the 2013 Land Acquisition, Rehabilitation and Resettlement Act and the subsequent 2015 Ordinance is that it takes a centralized and bureaucratic approach when it comes to determining the cost of a particular parcel of land. The arbitrary compensation formula is based on underreported values and historical data, which do not reflect the ground realities that emerge after a major industrial or infrastructural project is launched. Multiplying the existing market price by two or four, as the LARR Act does, is simply a shot in the dark that has no guarantee of hitting the mark. Instead of relying on the discretion of politicians, bureaucrats and expert committees to put a price on valuable natural resources like land, minerals, natural gas and airwaves – which requires guesswork at best and leads to corruption at worst – the best way to put a price on a scarce resource is through greater reliance on economic mechanisms.

We outline some specific proposals below:

Auctions for acquiring land

The government should buy some land in and around the project site through an auction. All landowners in the region can be required to submit asking prices for their plots and the cheapest offers accepted. Some of the project land will be acquired in the auction itself. Remaining landowners can be given plots purchased around the project site instead of paying them in cash. Determining compensation through a land auction in and around the project site, where the government acquires more land than what is needed for the project, and then allowing farmers to choose between cash and land in a nearby location instead of just cash, only stands a much better chance of satisfying farmers. It is also more likely to enable projects that maximize the economic value of land use.[1]

A recent survey of households whose lands were acquired in Singur provides evidence of the heterogeneity of land valuations to owners and the important role this played in opposition to the land acquisition[2] The compensation offered by the state government was *on average* equal to the market values reported by the owners. Yet one-third of these owners refused the compensation and opposed the land acquisition. This is partly explained by the inability of compensation offers to include information relevant to market values of individual plots, such as irrigation or multi-cropped status, or proximity to public transport facilities. The survey of acquired households in Singur cited above

1 Maitreesh Ghatak and Parikshit Ghosh (2011), 'The Land Acquisition Bill: A Critique and a Proposal', *Economic and Political Weekly of India*, 46(41), for details; a shorter version is Ghatak, Maitreesh and Parikshit Ghosh (2015), 'Empower, Don't Patronise the Farmer', *Indian Express*, 30 March.

2 Maitreesh Ghatak, Sandip Mitra, Dilip Mookherjee, and Anusha Nath (2013), 'Land Acquisition and Compensation in Singur: What Really Happened?', *Economic and Political Weekly of India*, 48(21).

found this to be a significant cause of under-compensation of owners of multi-cropped plots relative to market values. These problems would be entirely avoided if compensations were based on bids submitted by owners in auctions.

The auction-based approach can be extended in various directions. The choice of location of a factory can also be decided by extending the auction to a multi-stage process. At the first stage, the industry in question or government could set a reserve price and minimum quantity of land needed. Different communities can be asked to bid for the factory to be located in their respective regions. These bids can be set equal to the minimum price at which they can in turn procure the necessary amount of land from landowners within their areas (as elicited by a local auction).

The proposed method is designed to kill two birds with one stone. First, it determines a fair price not through government fiat but through a participatory process of competitive bidding where farmers are free to name their own price and choose their form of compensation (cash or land). Second, it fills in for missing or imperfect land markets in the region by reallocating the remaining farmland to those who place the highest economic value on such an asset.

The Indian government has considerable experience with conducting procurement auctions for dealing with private contractors on public projects. Auctions have proved very effective in several countries in recent times, albeit for much more hi-tech allocations like spectrum licenses. They are also widely employed in procurement of food grain by the Food Corporation of India as well as in private wholesale trade. Hence, the administrative expertise needed to conduct auctions for land acquisition is present in abundance. However, decentralizing responsibility to local panchayat bodies in conducting these auctions within their jurisdictions will help minimize the sense of land acquisition being foisted on local communities by state or national governments in a top-down manner. In that case panchayat leaders would have to be trained (or assisted) by bureaucrats to conduct such auctions. But this would help them acquire skills necessary for panchayats to take a more active role in business development within their respective areas.

Had the task been one of acquiring a thousand acres from the vast sea of agricultural land stretching across the country, it would have been cheapest, most efficient and least contentious to do it through an auction. The problem at hand is more restrictive – the acquisition must be a specific thousand acres of contiguous territory. We believe that with only slight modification, essentially the same principles can be applied to this more constrained problem.

Offering alternative forms of compensation

The Singur survey points to the role of income security as an important consideration for deciding to give up land. Ownership of land is associated with farming skills that are non-transferable to other professions. Households exhibited considerable preference for being compensated in alternative ways that incorporate their concern for financial security, time preference and pattern of skills. These concerns exhibited considerable diversity, with a corresponding diversity of preferences over alternative forms of compensation. Hence, a menu of alternative compensation packages and not just lump-sum cash ought to be offered.

In this context, the land pooling scheme that has been attempted in Andhra Pradesh is worth mentioning. It does not offer monetary compensation for land taken, but in exchange for village land taken today, it offers a developed piece of land in the future city. For example, for every fertile acre pooled, the state will return 25 per cent of developed area in the future city. This addresses some of the issues mentioned earlier that make farmers unwilling to give up land and also reduces the incentive to hold out on selling in the hope of benefiting from increasing prices.

Under this scheme, depending on the nature of the land and its use, the possibility of a lump-sum and/or an annual (over a ten-year period) cash compensation is also on the table. There is no need to take the consent of 70 per cent of the total affected families for undertaking a public work on agricultural land, as would be needed for land acquisition, and the terms of transfer can be negotiated with individual landowners.

There are, however, some problems with this scheme. Some farmers regret agreeing to it because cost of living goes up sharply with industrial development and urbanization. Also, there is the risk of the project being delayed or even failing altogether, in which case the land swap aspect of the deal falls through.

Speeding up the Digital India Land Records Modernisation Programme (DILRMP)

The progress of the DILRMP to computerize land records and move towards a system of government-guaranteed titles has been slow and uneven across states. It is important for reducing misallocation in the land market and for improving access to credit. Lessons from initiatives at the state level such as the Bhoomi Project in Karnataka, the 2016 Rajasthan Urban Land (Certification of Titles) Act, and the use of blockchain technology to prevent property fraud in Andhra Pradesh should be considered to speed up the process.