

# Land Acquisition in West Bengal

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# Introduction

- In the first two decades since Independence, land reform was considered one of the main policy instruments for economic development in India
- Yet very little has been achieved, and it has all but disappeared from the policy agenda nowadays
- Except for the recent focus on land acquisition policy
- Transition from (missing) land reform to (messed up) land acquisition?
- Experience of West Bengal

# Introduction

- With regard to land, West Bengal is different from other Indian states in many ways:
  - extent of land reform
  - state politics
  - recent land acquisition fiascos
- May help evaluate what other states missed by failing to implement land reforms
- Main focus will be on land acquisition
- What can be learned from the Singur experience, using results from a detailed household survey of the areas where land was acquired

# How Much Land Reforms in West Bengal?

- Large in comparison with other Indian states
- Due to a Left Front government elected in 1978, reelected for a record five terms till 2010
- By early 1990s, 6.7% of land area distributed as land titles for the poor, compared with less than 1% for most other states
- Only state to seriously implement sharecropper registration program (Operation Barga):
  - minimum share of tenant
  - protection from eviction
- Mostly happened during the 1980s

# Effects of Land Reforms on Agricultural Productivity

- Traditional view amongst economists that redistribution tends to lower efficiency/productivity
- However, context of land reform is different (owing to combination of imperfect credit markets, agency problems in land and rural labor markets)
- Theoretically, thus, land reforms have the potential to raise productivity, esp in rice-growing areas where agency problems are important and economies of scale are insignificant
- Evidence from West Bengal experience is useful

## Effects of LR on Agricultural Productivity in W Bengal

- Distribution of land titles had no significant effects (owing to small, infertile plots distributed)
- Operation Barga, on the other hand, had significant positive effect on productivity at the farm and village levels
- 1% land area distributed associated with .2–.4% rise in farm productivity, with high spillovers to owner cultivated farms
- However, contribution of Operation Barga to observed productivity growth in West Bengal in 1980s-90s was small, relative to various agricultural development programs implemented by local governments

*Source:* Bardhan and Mookherjee, American Economic Journal: Applied Economics, 2011; Banerjee, Gertler and Ghatak, Journal of Political Economy 2002.

## From Land Reform to Land Acquisition: Why?

- Agricultural productivity plateaued since the mid-90s
- Combined with considerable fall in land per household and per capita
- Most rural households cannot rely on agriculture any more for their livelihoods
- Decline in proportion of household heads declaring agricultural cultivation as their primary occupation (less than 50% by 2003)
- Corresponding rise in landlessness (almost 50% in 2003)
- And in education and aspirations of the young, who seek non-agricultural occupations

## From Land Reform to Land Acquisition

- From the early 2000s, the Left Front realized the need to expand non-agricultural employment
- So it bent over backwards to invite private industry
- Tried to lure Tata away from tax concessions offered in HP and Uttaranchal
- Tata picked a site in Singur, 90 km from Kolkata, located on the Durgapur Expressway
- WB state government used its powers of eminent domain using the 1894 Land Acquisition Act, acquired 997 acres of (mostly) prime agricultural land
- Small marginal landowners - 12000 cheques issued for owners, 3000 for registered sharecroppers



# The Fiasco

- Local community in Singur was not consulted at the outset (learnt of the acquisition from newspaper reports)
- Owners of one-third of the land protested, backed by the Trinamul party which controlled Singur
- Protests escalated, confrontation between protesters and police...
- Tata stopped building its factory in 2008, withdrew to Gujarat
- In May 2011, Left Front lost its majority in the state legislature to Trinamul for the first time in 35 years

# Understanding the Singur Fiasco

- Use a household survey to ascertain facts concerning land compensation offered to farmers whose land was acquired
- We compare actual compensations offered with market values of acquired plots, and evaluate the extent to which the offered amounts were inadequate
- What were the impacts of the land acquisition on different socio-economic groups in the affected villages?
- Implications for future land acquisition policy

## Survey Details

- In 2010-11 we conducted a survey of a random sample of households in the 5 affected villages stratified according to landholding, occupation of head, and whether directly affected or not
- Compared them with households in 5 neighboring non-affected villages located on both sides of the Durgapur Expressway

## Survey Details

- Total sample size: 1100 households, approximately one-sixth of the relevant population
- Divided equally (one third) between affected households in acquired villages, unaffected households in acquired villages, and households in unacquired villages
- Demographics, ownership of land and other assets, education etc very similar across three groups
- Compare households reports of market value of land, past market transactions and compensations offered, with government documents concerning compensations offered and basis thereof

# Proportion of Households Directly Affected in Acquired Villages

**Distribution of Households in Acquired Villages (Listing Data)**

	Percentage of Households		
	All Households	Affected	Unaffected
Owner Cultivators	16.5	8.8	7.7
Tenant Houeholds	4.0	2.5	1.5
Agricultural Labor	42.7	19.9	22.8
Non-agricultural Labor	36.8	23.3	13.5
Total:	100	55	45

## Standards of Adequate Compensation

- Legal standard (based on the 1894 Land Acquisition Act): according to market value
- *From an economic standpoint, this is inadequate for a number of reasons:*
  - Market values understate personal valuation of land for many reasons: role of land as a financial asset; those who have not sold their land have personal values that exceed the market price
  - Theoretical arguments imply compensations should be at least as large as personal valuations, on efficiency grounds alone (Ghatak and Mookherjee 2011)
  - Supplementary arguments on grounds of fairness and political sustainability

# Compensation Rates Announced: Did They Meet the Legal Standard?

- Government compensation: the stated policy
- Land rates for different kinds of land
- Additional solatium of 30%, plus allowance for irrigation, location of plots to be entertained
- We find that these were close to market values as reported by households, and above market values predicted on basis of past transactions

**Table 1: Land Market Valuation Rates  
announced by the Government**

Type of Land	Land Rate (per acre)
Sali	Rs. 6,01,718
Sona	Rs. 8,80,029
Homestead Land	Rs. 18,04,431



**Table 2: Comparing offered rates with predicted market values and reported market values**

Type of Land		Average compensation offered reported in survey	Average Reported Mkt. Price at the time of acquisition	Predicted market values for 2006 based on actual transactions since 1995
Sali	Low	Rs. 8,98,942	Rs. 8,03,957	Rs. 3,40,884
	High	Rs. 8,76,124	Rs. 8,43,729	Rs. 4,57,785
Sona	Low	Rs. 8,34,041	Rs. 8,77,883	Rs. 6,24,955
	High	Rs. 8,80,676	Rs. 8,52,385	Rs. 5,44,421

## Compensations Announced versus Actually Offered

- However we find a large discrepancy between government records of offered compensation and household reports for particular kinds of land
- According to household reports of compensations offered, average amounts actually offered for *sona* land did not include solatium, while for *sali* land they did

## Compensations Offered

- Table 2: Household reports of compensations offered were lower than announced rates plus solatium for *sona* plots by about 30%, and higher than these by about 10% for *sali* plots
- How did this happen?
- Did actual compensations offered deviate from the announced policy?

## Compensations Offered, contd.

- Examining the government documents, we find (Table 4 in the paper):
  - On one quarter of the plots, no compensation was offered, possibly owing to inability to assess market value
  - On the remaining three quarters, offered compensations matched the announced rates for about 97% of the plots
  - This suggests that the discrepancy is not explained by deviation of actual offers from announced rates

## Explanation for Discrepancy

- We believe the real reason is mis-classification of *sona* plots
- Many plots that used to be *sali* have been converted by owners to *sona* over time, but this change had not been noted in government land records
- For plots assessed a positive market value with actual compensation offers=announced rates, government records show only 5% of plots are classified as *sona*
- Whereas households in our sample report 32% of all acquired plots were *sona*
- This can account for the discrepancy (Section 3.4 of the paper)

# Under-Compensation and Decision of Landowners Whether to Accept

- Under-compensation relative to market value a significant predictor of rejection of the offer by owners
- Owners of *sona* plots and irrigated plots more likely to reject
- One standard deviation increase in under-compensation led to 12% lower probability of acceptance

# Additional Determinants of Decision to Reject Compensation Offers

- Two additional reasons for rejection of offered compensations:
- Inability of government rates to incorporate heterogeneity of plot characteristics
  - Table 9 in paper: Dispersion of land values for similar plots across villages
  - Land values also depend on cropping patterns, whether the owner has complete selling rights etc.

## Additional Determinants of Decision to Reject Compensation Offers, contd.

- Heterogeneity of owner's skill-specificity, valuation of financial security, location
- Even if the government gets the land value right, there will be a fraction of owners whose reservation values will exceed the market value
- Evidence (Table 11 a, b of the paper) of irrigation status and location as determinants of likelihood of rejection
- Those with stronger financial motives (landlords, those who bought rather than inherited) were more likely to reject the offers
- Those more dependent on agriculture for income were more likely to reject



## Impact of Acquisition on Incomes and Assets

- We find significant impact on incomes of owners of plots that were acquired: 33% reduction compared with those whose plots were not acquired
- Impact on affected tenants: about half as much (17% reduction)
- No discernible impact on earnings of workers (averaging across agricultural and non-agricultural workers)
- However, gap between earnings of agricultural and non-agricultural workers grew 24%
- Impact on growth of household assets between 2005-2010: only in the case of consumer durables (Rs 1 lakh under-compensation associated with 25% lower growth)

# Household Preferences concerning Form of Compensation

- Many concerns voiced by villagers concerning payment of compensation in the form of cash
- Concerns ranged from vulnerability to inflation, and to self-control (temptation) problems
- Considerable evidence of temptation preferences (70% of the households)
- One third of households had access to opportunities to purchase financial annuities, of which 96% said they would prefer these to cash compensation
- Yet, most households did not purchase such annuities
- Diverse preferences for alternative forms of non-cash compensation: pension versus plot of land versus shop on factory premises

# Implications for Future Land Acquisition Policy

- Strong economic arguments for over-compensation of farmers and tenants on grounds of efficiency, equity and political sustainability of industrialization programme
- Local community should welcome the acquisition
- What makes compensation tricky is the heterogeneity of plots and of personal valuations placed by different owners on land as an asset

## Implications for Future Land Acquisition Policy, contd.

- Clear that appropriate compensations should exceed the market value of the land
- Two problems with this:
  - Problems of ascertaining market values of acquired plots (mis-classification, incorporation of other relevant characteristics)
  - How much higher should the compensation be?
- LARR Bill in Parliament sets compensation at an arbitrary multiple (quadruple) of market value in rural areas

## Implications for Future Land Acquisition Policy, contd.

- This may be too high, and retard industrialization
- Key tradeoff: set compensation high enough to satisfy farmers, but not too high that it retards industrialization excessively
- Proposal of Ghatak and Ghosh: elicit households willingness to give up land by conducting auctions
- The proposal can be extended to include multi-stage auctions: at the community level and then within communities at the household level