



Land Acquisition in India by the State for Industries

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Abstract:

In this paper we examine the theoretical foundations of land acquisition carried out by the Indian states for industries. We try to look at the implications of such acquisition on natural resources, food security and employment. We also look at the impact of such acquisition on agriculture and try to understand its role in the development of industries as well as the economy. We also look at the various concerns that arise due to current policies of land acquisition and the suitability of such policies.

Keywords: *Economy, Land acquisition, Natural resources*

1. Introduction

In our paper we will investigate the nature and the scope of acquisition carried by state for industries. While doing that, we will try to answer whether land acquisition as a policy tool for industries is justified or not. We will raise three critical issues in our paper. First we will explore the nexus and so called trade-off between agricultural and industrial sector, affected by the acquisition of agricultural land for industrial purposes. Second we will compare acquisition by state with other alternatives of obtaining land for industries (corresponds to the scope of acquisition). Lastly, we will nail down the specific concerns resulting from the execution of such policies and the trend of industrialization it promotes (This question corresponds to nature of land acquisition).

2. Literature Review

Development economics as a discipline gained considerable attention when economies started getting liberated from colonial rule. The problematic for economics then was to charter a course of development for these economies. The constraint for laying down the foundation of any growth was the quantum of physical capital. In fact Lewis's model talks about capital accumulation as a stimulator of growth. Later Lucas's and other models (1988) switched attention to investment in human capital. None of the theories looked at land constraint as an important factor for development because land was abundant. Today land issues are hard to escape. In India, initially highest proportion of land was allocated for agricultural purposes. With economic development, the viable use of land and requirement for each of these viable uses has multiplied.

Let us explore the context of surge in the land requirement created by the alternative use of land, in particular industry. It was Lewis' in 1954 to envisage economic development as a possible process of transferring labor from low productivity agricultural sector to high productivity industrial sector. This structural change of economy not only calls for movement of labor from primary to secondary sector but also change in pattern of land use. Given this theoretical framework, land use for industrial purposes is deemed today as one of the most important alternative use of land. This very framework has also created need for acquisition of land for industries. In Post- liberalization era, state is playing a pro-active role in private acquisition. State's role as a facilitator in acquisition drives for industrial purposes in specific, calls for an investigation. However, one must also keep track of general debates around state's role in any private acquisition validated in the name of public purpose. A vast body of work has questioned the dubious nature of the term "Public Purpose". (Morris and Pandey, 2007 ;

Bandyopadhyay ,2008 ; Singh 2012).The argument put forth is that the term Public Purpose may justify any attempt of encroachment on land without doing any good for development. So the role of the state on any private acquisitions is very broad area for investigation.

3. Statement of Problem

The issue caught our interest because it has deep underlying effects impacting a wide range of other sectors as well. In the light of violent outbreaks in Singur and Orissa impacted not only people but also the government and large corporations. Also entire debate surrounding the need for the new bill on land both by agriculture and industrial sector has been in the parliament, public debates and media for long. Therefore we went ahead with our research on this to find out the ground realities and how valid are all the arguments put forward.

3.1 Agriculture- Industry Nexus and Trade-Off

We will take up the first issue now. To reiterate, dualistic models (based on the likes of Lewis' model) of growth may be extrapolated to justify diversion of agricultural land for industries. The idea however is not uncontested. Diverting agricultural land will have implications for employment, food security, water and other natural resources. These concerns pertain to issue of industrialization at large and not specifically to acquisition by state. Let's consider each of these concerns separately.

3.2 Food Security

Food security is one of the chief concerns when land is used for industrial purposes. India is ranked 66 in the list of 105 countries in the global food security index by Du Pont 2012. In 2011 India was ranked 15th in Global Hunger Index (GHI). India was placed amongst 3 countries where the global hunger index between 1996 and 2011 went up. In stark contrast to this, 78 out of the 81 developing countries managed to improve their hunger condition (International Food Policy Research Institute, 2011).

Food security is a critical concern but it often mystifies the roots of food security problem in India. Food security, one must remember, is not only about production but also about distribution and availability. Let us glance at these figures. India has close to 143 million hectares under cultivation out of 328 million hectares. Country like China which is more populous country than India has much lesser proportion of land area under cultivation. Yet according to Du Pont report China is ranked better than India as far as food security is concerned. In India food security is more to do with distribution problem. The recommendation by "National Commission by Farmers" chaired by Swaminathan, (2006) identifies need for better functioning of PDS, better targeting of nutrition programs for achieving food security. The report makes no mention of production problems. Clearly production of food is not as much a concern as distribution. To inhibit industrial drive because of policy failure in managing food security is uncalled for.

3.3 Threat to Water Resources

Diversion of land for industrial purposes also has adverse effect on the water resources in the vicinity. However government makes no effort to assess the outcomes on water resources, neither it sets any benchmark on the usage. Broadly three concerns arise in this regard.

Firstly, whenever such diversions are made, government allows industries to use water resource in huge quantities, thwarting the availability of water to local people.

Secondly, diverting land for industrial purposes may mean destruction of groundwater recharge system. As mentioned in SANDRP report (2007) right to extract groundwater is a given, as soon as, ownership of land is secured. Industries even in a relatively small area can pump out huge quantities of water, drying up wells of surrounding areas. For example according to the 2005 MoU signed by POSCO-India and Government of Orissa water supply for the project will be routed from the Jobra Barrage that is fed by the upstream Hirakud dam on Mahanadi river. POSCO estimated that it will

require 3.5 cubic meters of water per second for its steel plant, which works out to a total of 7000 Crore liters per year for the plant. In the light of the fact that there is growing pressure on the Hirakud dam which is primarily meant for irrigation, any further pressure created by industrial use will only make the existing problems more acute. (Mining Zone People Solidarity Group Report, 2010)

Thirdly, the pollution of water bodies due to release of industrial effluents into them. For example, the adverse affects of industrial and mining activities in Keonjhar and Sundergarh districts of Orissa are so severe that one of the river Brahmi flowing in this region has been listed as one of the 10 worst polluted rivers in India by The Centre for Science and Environment (Mining Zone People Solidarity Group Report, 2010).

However, not only industrialization but agricultural activities also have similar impact on water resources. The modernization of agriculture is the root cause of it, tube-wells and bore-wells used for irrigation purposes lead to depletion of water table due to over extraction. The use of insecticides and pesticides in fields are made of highly toxic chemicals which when washed out by rain enter the water table and streams thus polluting water at irreplaceable levels.

4. Employment

Proponents of Industrialization admit to the fact that direct employment generated by the industries may not be substantial when seen relative to high labor land ratio in agriculture. However they point out, that downstream employment generation (indirect employment generation through backward linkages) may generate considerable employment. According to Patnaik (2007) there are problems with this argument. Firstly, the impact of destruction of small industries supplanted by new industries is generally not taken into account. For example the direct employment Nano was to create were around 2700 workers, indirect employment of 16000 to 17000 with the estimate of the prospective agricultural job loss of around 4500. Employment situation at first doesn't seem to be deteriorating. However looking at just these statistics gives a distorted picture. These statistics doesn't take into account loss of small industrial jobs that would have occurred had project taken off. For example repair shops for agricultural implements, cold storage plants for vegetables, and other agro related employment located in close vicinity (within 8 to 10 kilometer) of plant in Singur. Secondly, only one time effect of shift of labor from agriculture to industry, on net employment is considered. One also needs to consider the depressing effects of industry on net employment, as it undergoes series of technological improvement. Capital tends to innovate at a rapid pace, thus influencing the requirements of laborers. The following example will strengthen our argument. The Bajaj Auto Factory had reduced its work force from 24,000 to 10,500 for its Pune plant while doubling its output in a decade. Then it shifted the entire plant to Uttarakhand, where under lavish subsidies the Company adopted more capital intensive techniques. As a repercussion, the demand for workforce reduced even further to 2000-3000 (Chandra, 2008). Thus industrialization intensifies a trend towards labor displacement rather than employment generation. Third, skill set of displaced peasant population will always be inept to meet industrial requirement. As we see it, there are merits in these three arguments. One cannot take for granted, the premise of theoretical model (based on the likes of Lewis model) that surplus labor in agriculture will necessarily be absorbed by industry. This will imply, jobs in industry cannot be secured by the dispossessed and unemployment situation will perpetuate. Whatever meager addition to jobs happen, will largely be restricted to informal sector.

There are further complications simply because today major corporate players accumulate acres and acres of land, in lieu of constructing industrial base. However the land is ultimately channeled for speculative purposes. The scope for speculation arises because the market price of land is generally low, before any new industrial or urban development projects come up in a rural area. But thereafter, once the project comes up, the land price shoots up. This corporate wave of industrialization will not therefore make any attempt to solve the employment issue as they often deviate from the stated objective of using land for setting up industry (Fernandes, 2007; Symposium on Land Acquisition,

ISID, 2009). To substantiate the above argument we present the example of the Tata Nano factory. “The land acquired for Tata Nano factory was much more than stipulated. Maruti Udyog has a total area of 300 acres and currently produces over 7,50,000 cars a year. Tata Motors Limited in Pune now produces nearly 2,00,000 cars and along with the Jamshedpur Unit, 3,40,000 commercial vehicles; it has an area of 178 acres only. If direct employment in Singur is 2000, the factory premises and employee housing should not take up more than 300 acres. The remainder, more than one-half of the leased area, it is suspected, might be converted into commercial real estate”, (Chandra, 2008).

Employment issue in part can be addressed if we do away with unscrupulous bias against public sector. Industrialization brought under the aegis of public sector may create conducive employment situation, if public sector enterprises commit to do so. The employment scenario however looks dismal as of now.

True, employment, food security and the other concerns we expounded on, were pressing enough. The point we want to put forth however is, India has already treaded on the trajectory. Her output structure has diversified away from agriculture, Therefore merely comparing performance statistics of two sectors will not serve any purpose. If industry substantially corresponds to output, then simply blocking further diversion of land to industry cannot be the solution.

If land requirement for industries is an indispensable by product of the trajectory we are moving along, then the relevant enquiry boils down to only choosing a suitable method of obtaining land. Free market and land acquisition by states are two methods which are often pitted against each other. The believers of free market argue that conflict over land acquisition can be resolved in logic of market. Those who swear by working of free market transaction tout such transaction in land as free and fair. The Coase theorem is used for justifying absence of state intervention, strengthening market rationality. Coase theorem elucidates that mere bargaining between parties will lead to efficient outcome sans any government intervention. It's a theory which reinstates market efficiency. (Sarkar, 2011)

However we believe these arguments defy the underlying assumptions of market working. For one, the stakeholders involved in land transaction are not equal in terms of their socioeconomic positions. On one hand is a corporate giant who has vast social networks and resources, on the other is a farmer with relatively meager interpersonal network and resource. Second, Coase theorem is invalidated when there is high transaction cost. In India, agricultural land of farmers is often fragmented. This straight away shoots up the transaction cost for firms if they are to negotiate with farmers directly under market conditions. Thus market efficiency implied by Coase is not necessarily validated since the assumptions do not hold.

Let us now consider the merits of acquisition by state. Shavell explain in his paper that if there are large number of parties involved, eminent domain (refers to the power of state to seize private land without seeking consent) may save considerable cost of holding out. Holding out is phenomenon where the stakeholder as a token of protest refuse to sell their shares of land. The sizeable reduction in cost makes eminent domain a more efficient outcome vis a vis free market purchases. (Singh, 2012)

The comparison of free market transaction and purchase by government under eminent domain is especially relevant for measuring valuation of the land. Free market apologist say market transaction correctly reveals the true valuation of the owners, since it's a voluntary transaction. This ensures that effectively purchase occurs only when individual valuation of the owners outweighs the cost. They loathe government intervention on account that compulsory acquisition is bereft of any voluntary element. Therefore they pitch in strong arguments against obscuring of true valuation in land acquisition strategy.

Let us examine the case of free market apologist critically. Their exposition is that government

intervention lacks voluntary decision. If one looks at the violent outbreaks against land acquisition in different parts of country, their argument seems to stand even firmer. However we believe the notion that market transaction necessarily reflects free will is an exaggeration. Even in market transaction there is plenty scope for private players (owing to their socioeconomic position) to compel the stake holders (farmers, peasants) to succumb involuntary. Further LARR (land acquisition bill currently in draft) sanctions that eighty per cent consent is required before acquisition, except for an emergency clause. Thus we believe the land acquisition need not always be a coercive measure. On the other hand having compulsory state's intervention may act as a catalyst for negotiating, protecting the interests of the stakeholders in case state is committed to do so.

There are also alternative models which have suggested a middle ground combining eminent domain and free market transaction. The auction model is explained in Ram Singh's paper(2012) .His model starts with the assumption that are n contiguous acres of land to be acquired. Let's call n acres of intervened land core and the rest is termed as periphery. Each farmer is supposed to submit a sealed bid. The n acres with the lowest bid are purchased at uniform price. Purchase price becomes the auction price and it becomes equal to $n+1^{\text{th}}$ bid when bids are arranged in ascending order. Further n-c remain acres that remain unsold are transferred to periphery. This method has an element of eminent domain as there is a prescribed reserve price which is determined in a way that if auction the price is greater than the reserve price, the entire acquisition exercise is abandoned. To summarize the method meshes together the voluntary feature of free market and the government determined reserve price feature of eminent domain. This mechanism however is not suitable once the owners are reluctant to accept re- distributed land in periphery or otherwise. This is not an unlikely scenario because each owner is bound to have different preferences for different parcels of land.

Given the imperfection of this complex model, the choice again boils down to free market versus eminent domain again. As we attempted to explain in previous passages, Land acquisition as a policy tool may work better than free purchase negotiations. This is not to say that its effectiveness as a policy tool always translates into effective actual working.

In the next section therefore we will explore specific issues with the way land acquisition by state is being executed. Most land acquisition operation for industries take form of creation of special economic zones. (SEZ) The underlying basis of their creation is to aid inflow of private investment. This investment however comes at the expense of draining states of its funds. These zones are infused with heavy fiscal, tax incentives by states.

To make the above exposition clearer we will now present a case study of TATA's automobile Endeavour which started industrialization drive in Uttarakhand. The fiscal concessions in Uttarakhand included:

- a) 100% excise duty exemption for the first 10 years of commercial production.
- b) Full exemption from income tax for the first five years and for another five years a tax rebate of 30% for companies.

According to the work by Chandra (2008), if the plant were to be actually located in Uttarakhand, the benefits that TATA motors would have extracted out of the project, had it worked at full capacity for a period of 10 years would have stood at Rs.3341 crore (equivalent to more than twice the investment by Tata group which stood at would have accounted to Rs 2627 crore. Thus the initial investment on part of the TATA would have Rs 1500 crore). Even if one considers the present value of such flows, total tax benefits out of the two rebates been recovered in 4 years at full capacity operation. Additionally bounty gains minus investment costs would have been used to finance other plans. On some reflection, one will immediately question the rationale for providing subsidies which exceed initial cost.

The story doesn't end here. Tata motors didn't set up its factory in Uttarakhand but moved to West Bengal. It certainly implies that Bengal must have offered a better deal. The plant did not even materialize in Bengal no in .At present the plant is situated Gujarat. Simple logic informs us that subsidies in Gujarat may not be any less.

While states seem to be dotting on big capital, the heavy burden on the exchequer manifest itself into reduction in the expenditure on key social sectors. Health and education sector have been seriously undermined. This may take a toll on HDI ranking of the states. If development is a comprehensive concept this lopsided approach to promote zones needs examination.

There is another tendency which the zones promote. These zones have aggravated competition among states. But this competition is not on pretext of overall development but rather to offer intensive benefits to industries in a race to bottom. We term this struggle among states as a race to bottom because of a primary reason. This stems from the fact that if states engage in expensive game of attracting investment by bidding subsidies, then states will lose all bargaining power vis a vis the corporate giants. Firms may simply threaten to switch from one state to another if the Memorandum of understanding(MOU) does not conform to its demands .One manifestation of this lost bargaining ground is that state cannot push industrialist for its preferred site of location. Other manifestation is that states lose the right of punishing the firm in case of non-performance. Given the competitive struggle can push states to complete non action scenario, Center has to play a role in ensuring states don't engage in unhealthy competition.

Roy (2010) emphasizes in his paper, politicization of the process is a legitimate tool only if creates voice for the marginalized. Very often however execution of land acquisition reduces state to a mere facilitator of corporate's interest .Important arm of the state- the legislature and the executive sometimes align with the industrialist to corner the interests of the marginalized. Legislature has bent the laws in past for industrialist by violating laws for showering special benefits to corporates. In Posco project, the tenets of Forest Right Act were totally done away with, by law keepers of the state. (Mining Group People Solidarity Group, 2010) Executive too has failed to live up to its role in past. The Executive has to ensure there is no compromise on working condition of the labor in the zones because labor laws do not apply to these zones. It has clearly shirked from this role by letting the abysmal worker conditions prevail in the zones. Executive also created scope for undue favors' to be realized by industrialists. Executive appointed special nodal officers to speed up paperwork process for Posco project. Environmental clearances were given at an unbelievable pace. (Mining Group People Solidarity Group, 2010)

In the above few paragraphs, we traced failures which weigh down land acquisition as reasonable policy tool for acquiring land.

5. Conclusion

To sum up, to some extent (as demonstrated in section 2) land acquisition could be a reasonable policy tool for development of our economy. Yet in the last section we expounded on how execution failures weigh down its effectiveness. This result needs to be contemplated further. In other words one must try to locate the underlying reasons for policy failure of land acquisition. In a country like India with a numerous stakeholders with conflicting interests, State may find it challenging to balance various stakes and at the same time address development needs.

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