

Beyond Nandigram: Industrialisation in West Bengal

If we are to learn the right lessons from the tragedy of Nandigram, then we must ensure that the government is involved in the land acquisition process and that we correctly deal with three sets of issues: the size and form of compensation, the eligibility for compensation and the credibility of the process.

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The future of the industrialisation agenda of the Left Front government in West Bengal hangs uncertain. Intense protests and agitations over the issue of land acquisition have resulted in violence and loss of lives. Singur and Nandigram have become household names.

We are a group of economists who had written earlier on strategies for industrial development in the state (*Anandabazar Patrika*, June 17-21, 2001 and *EPW*, October 12, 2002). We would like to take this opportunity to briefly follow up on our earlier writing in the context of the recent developments.

We, of course, unambiguously condemn the brutal assault on, and killing of, farmers resisting land acquisition by the police and cadres of the ruling party in Nandigram on March 14, 2007. Whatever the provocation they may have faced, there should be no exceptions, and no caveats on the question of abuse of human rights.

However, conflict over land use during the process of industrialisation is hardly an unfamiliar story. In 2005 alone, official data suggest that China had over 60,000 local disturbances, often provoked by attempts to put agricultural land into industrial or residential use. In West Bengal the problems have been compounded by the fact that the opposition has been

singularly self-seeking, short-sighted and irresponsible in how it has dealt with the issue of land acquisition for industrialisation. And by an inept government leadership that failed to anticipate what could happen when the state police, long inured to brutality, collaborates with local party goons, desperate to recover their lost turf in Nandigram.

Of course, Nandigram could happen elsewhere in India (as in a way it has, earlier, in Kalinganagar in Orissa), where the state plays a role in land acquisitions. Yet it would be unfortunate if the consequence of this current tragedy was to persuade governments to leave the question of industrial land use to the market, as some have recently suggested (including a recent decision of the central cabinet in the matter of the special economic zones in different parts of India).

Government Involvement

There are at least four very good reasons why we want the government to be involved in the process.

First, in some situations there are enormous windfall gains from being able to buy agricultural land and turn it to industrial and residential use – basically the buyer (or the promoter) may be able to play different groups of farmers off against each other and as a result, be able to buy the land at a fraction of what it is worth to him. There are very good reasons to try to appropriate some of these gains for the local community and the state and, given that it is currently not possible to use capital

gains taxation to do so, the next best option is to have the state negotiate for all the farmers in the area.

Second, this “solution” resolves a central dilemma by negating it in the first place: no corporate buyer needs to transact with non-owners. We return to the question of non-owner compensation below.

Third, sometimes the problem is the opposite – a few sellers can “hold-up” the buyer and make it unprofitable for him to try to invest. When a buyer has bought up most of the farmers in the area, the last people to sell typically have a lot of bargaining power, especially if they happen to be in the middle of the single contiguous piece that the buyer is trying to put together. By refusing to sell, this group of farmers might end up bidding up the price high enough to make the initial investment unviable – discouraging other investors (or perhaps the buyer would hire some goons to throw out the recalcitrant sellers, but either way the outcome is hardly what we want).

Finally, the secret of building good infrastructure is to make a lot of things happen in the same place (one good road to that location is much more useful, and much cheaper, than many bad roads to different locations). The government, which is typically in charge of building infrastructure, therefore has a stake in coordinating the locations of various investments – it cannot be entirely indifferent to private land use decisions.

It would be doubly tragic, we feel, if the conflict over land acquisition discouraged the West Bengal government (and governments elsewhere) to pursue the agenda of industrialisation. With growing population pressure on the land and stagnant yields in agriculture, as we argued in our previous piece, there is no alternative to industrialisation.

We would, of course, like that industrialisation to be as pro-poor as possible – why build a chemical hub or car factory when textiles and garments or food processing (which tend to be more labour intensive) are available – but we recognise that West Bengal at this point is so behind in the industrialisation race that it cannot really afford to be too choosy. Also, while West Bengal operates in a federal context in which interstate competition for

investment is often fierce, we would like to stress the need for greater transparency on details about the job potential (and other costs and benefits) of the various industrial projects proposed, as well as any subsidies offered to the industrialists. The longer run policy implication is clearly to give priority to investment in infrastructure that will make the state a more attractive destination for investment.

Another idea, oft-heard these days, is that West Bengal could confine all industrialisation to wasteland or uncultivated land. This does not seem very practical, at least, for the near future. Most of the better infrastructure (roads, electricity, telecommunication, access to ports or airports) in the state happens to be in areas where the land is relatively fertile (Bardhaman, East Medinipur, Hoogly, Howrah, etc) rather than where there is a lot of unused land (Purulia, West Medinipur, etc). In the longer-run, investment in developing infrastructure in these areas ought to be a priority, though, to keep things in perspective, it is worth keeping in mind that the entire land proposed to be taken over by the government in all the industrial projects announced so far, amounts to much less than 1 per cent of all the agricultural land in the state.

Key Question

The key question then is how to carry out while making sure that the rural population does not remain disaffected and, equally importantly, gets its fair share of the benefits of industrialisation. This is by no means automatic: While jobs will be created, the semi-literate peasant in Nandigram rightly worries about whether he would get one of those prize jobs in the chemical hub originally proposed.

In the long run, a part of the answer has to be more skill formation, one of the other areas where the state has done very badly. This would make the average rural Bengali more employable and therefore more willing to take a positive view if industrialisation. For the time being however, the focus has to be on actual compensation policy.

Archaic Processes

This is something that is a problem for the country as a whole, as the Narmada valley project amply demonstrated. The processes that we have all over India for compensating people for taking away their

land are archaic and, for the most part, designed by a colonial government that put very little weight on the welfare of the average person. The West Bengal government, to its credit, did recognise this and went beyond the letter of the Land Acquisition Act of 1894 both by offering a higher compensation level and by offering compensation to registered sharecroppers (who lose their livelihood when the land gets taken away).

However, very little thought seems to have gone into the design of the compensation process. This consists of three related issues.

First, how should the compensation formulae be designed? The emphasis on one-off compensation means that small differences in, say, the projected rate of inflation can swing the amounts over a large range, even if there is agreement on the annual incomes generated by the land. Also, one-off payments would replace an asset generating a flow of income with a lump sum amount that could soon be frittered away, leaving particularly women and children in many families without financial support a few years down the road. Another question: to what extent compensations should be linked to the future value of the land, so that current owners can share in its future gains?

Second, who should have claims to compensation? For example, how should de facto owners without the right legal titles be treated? What about unregistered sharecroppers and agricultural workers who stand to lose their access to tenancy or work?

Third, how should such compensations be administered? The key issue is trust and credibility. The history of land resettlement and compensation in India, whether these have to do with dams or roads or mining projects, is littered with the renegeing of promises and defrauding by middlemen. The current government has further undermined its credibility by tolerating a whole group of local and state level leaders with possible ties to local land mafias. It is therefore natural for the peasants to distrust the process and to believe in the various disinformation campaigns of the opposition. The only way to reassure them is for the government to establish a process that is entirely transparent and to distance itself immediately and as far as possible from the land-grabbers.

Compensation in the form of an inflation-adjusted monthly pension combined

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with a savings bond that can be sold on short notice (so that people have something they can sell in an emergency, just as they could sell their land), would go a significant distance towards resolving some of these issues. It limits the financial risk inherent in having to figure out what to do with large one-off payments (especially if you are a farmer who has never participated in the financial system before), and permits compensation to be tied more closely to future valuations. For example, the pension could be partially tied to the profits of the industrial enterprise being set up by putting some of the funds in the equity of that firm. Or some of the money could be invested in the proceeds of a mutual fund tied to real estate valuations in the affected area. For those who do not want this extra risk the government could also offer an option where pension is fixed (with an inflation adjustment). By making the pension a family pension, to be equally divided among at least the husband and wife, we can reduce the risk of one person absconding with the money.

The amount and nature of paid compensation should not divert attention from the central issue of who should be eligible for compensation. This involves wider issues of ethics and politics, rather than the narrower ambit of economics or the law. To put the matter simply: suppose that you own a home you are about to sell in order to relocate. What percentage of the sale price that you receive would you pass on to a domestic worker who has provided valuable service to you for the last twenty years? The willingness to pay compensation to non-owners is a bold step that is akin to your giving away a fraction of your proceeds to your domestic worker, who has no legal claims on your home and who, in the cruel economics of the free market, would be expected to find employment "elsewhere".

The idea of treating people with no demonstrable ownership rights as claimants is, of course, fraught with difficulties. To limit compensation only to owners and making all non-owners part of a broader social insurance programme seems both fairer and less liable to create perverse incentives (e.g., people going to work as a landless labourer on any land that is slated for acquisition). The problem is that the government of West Bengal cannot afford a social insurance programme that covers every poor person in the state. The alternative would be set up a temporary transition assistance programme which

operates only in thanas where there is large-scale land acquisition by the government and pays every poor adult (verified as resident) some amount of money for a fixed period (say, three years). The downside of such a programme, which it shares with most transition assistance programmes, is that it privileges the newly poor over the long-term poor.

Credibility

The last set of issues has to do with the credibility of any compensation scheme. Whatever is promised must be paid out, and there must be an institutional process in place to ensure this. There needs to be an independent regulatory commission with judicial powers to oversee the whole process, particularly with regard to the design and administration of compensations. To improve its credibility, such a commission should operate at arms-length from the government, with independently appointed officials (analogous to appointment of

judges in state high courts), and with the judicial authority to request information from the government. Such a commission would provide a natural public forum for panchayats and local community organisations to present their points of view, with the media acting as a watchdog.

Given the current environment of distrust and mutual accusations of prevarication from all sides, setting up this commission as soon as possible is probably the first imperative facing the government. If such a commission can be set up quickly and immediately starts showing a commitment to even-handedness, the reputation of the industrialisation effort may yet be salvaged.

Perhaps the lives lost in Nandigram will not have been entirely wasted if, out of this tragic mess, emerges a better model for paying compensation, something that sets new standards for how it all gets done in the rest of the country. www.bardhan@econ.berkeley.edu

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