

Land Acquisition- Compensation and Rehabilitation

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[‘Economics has moved...from being a scientific discipline into becoming Free Market Capitalism’s biggest Cheerleader.’, ‘... Every prophet (of economics) can be used by his/her successors to prove their own points of view. This is religion, not science’ Joseph Stiglitz (NL) in “Freefall: America, Free Markets and the Sinking of the World Economy”]

Just a couple of years ago the land acquisition (LA) Act of 1894 was happily invoked to acquire land to be leased out to investors of sorts on the pretext of industrialization and development. Sporadic protests could easily be suppressed and diffused and the landlosers had to be content with whatever was awarded as *compensation*. Thanks to the protests made by farmers of Singur, WB and the developments that followed, India is now poised for amending new versions of the Land Acquisition (LA) and Resettlement & Rehabilitation (RR) Acts.

Of late, the Indian states are almost vying with each other in declaring the best, never-before, *unbeatable*, packages for *compensation and rehabilitation* for land to be acquired. Political parties also have joined the fray and are coming up with novel suggestions to be incorporated in the new acts waiting to be finalized and approved. Talks of Haryana and other models are in the air. It appears that the *compensation and rehabilitation* packages are likely to sound more alluring! Take, for instance, the *compensation and rehabilitation* package announced by the UP Government and declared to be the best in India (*The Statesman* 12.09.2010). As per the advertisement, in addition to *compensation* the package comprises 'lump-sum payment for loss in wages for 5 yrs + Rs 20000 per acre per yr for 33 yrs + increase in annuity by Rs 600 per acre per yr + residential space in the acquired land + space reserved (17.5%) for plots for affected farmers'. Furthermore, it also promises job for one of a family and share in the company, if land is acquired for a company.

The *compensation paid / offered* to Singur farmers, Rs 10 lakh (1 Million) per acre of land, on an average, was the best in the country as the State Govt. of West Bengal claimed at that time (2006). What it would look like in the context of the UP package?

Based on the annuity per acre (Rs 20000) and its increase at a rate of Rs 600 per acre per year up to 33 years, the compensation would be enhanced by about another Rs 10 lakh. It is not possible to calculate exactly to what extent the new packages get enhanced due to the other components in the new package (lump-sum payment for loss in wages for 5 yrs, space for residential and commercial purposes, job for one per family, company share etc) but a conservative guestimate indicates that they may add up to a further Rs 10 lakh making a total of Rs 30 lakh per acre. If this new package is still acceptable and profitable for acquisition of land then it must be said that the compensation paid/ offered to Singur farmers was too low and the farmers in general used to be grossly deprived.

ECOLOGICAL ECONOMICS

To be able to judge whether the packages for compensation and/or *rehabilitation* for acquisition of land under the forthcoming LA and RR Acts are going to be lucrative for the farmers/users of land or *prohibitive for the acquisitionists / purchasers*, one must consider the more recent developments of Ecological Economics.

The 1894 Act was anachronistic not only because it was colonial, enacted by the British rulers more than one hundred years ago, but also because it could not take into account the newer revelations on valuing natural and environmental materials and services coming up through researches in Ecology and Ecological Economics.

To appreciate the significance of new developments in valuing nature and her services it is better to have a look into what the students of ninth standard under the WB Board of Secondary Education are taught. The relevant text book was published by the State Board in 2005 and in the foreword the Secretary to the Board declared that the book has been written by experienced and competent educationists. It says "value is a highly relative term. Till today we don't know how to arrive at the perfect value of something. Occasionally, we assign a value based on the demand and supply or cost and benefit of the concerned object. But often it is fraught with some serious error or miscalculation. It is more so for natural resources." The textbook further exemplifies the issue "... when we evaluate the price of a tree, we can think only of the weight and quality of timber and the fruits it may provide, but we don't take into account the social services it may render... If a tree of fifty metric tons survives for fifty years in the environment, the social services it will provide, such as supply of oxygen, ... pollution control etc—the market value of all these taken together would be at least fifteen lakhs of rupees. If one adds to it the value of timber the value would increase by another ten thousand rupees only. But the tree is sold in the market at this price of ten thousand rupees which is only 0.8 per cent of its total value. That means, our society and people are totally ignorant about the rest 99.2 per cent of the value of the tree; we don't consider any value for it." (pp. 27-28, 'Paribesh Parichay' for Class IX, present author's translation from Bengali).

Where did the authors get this figure, namely, the *market value* of the tree is only 0.8 percent of the *total value*? Most probably, it was based on publications in peer reviewed and acclaimed journals. 'The Value of the World's Ecosystem Services and Natural Capital' by R Costanza and 12 others (*Nature*, Vol. 387, p. 253-258, 1997) is a pioneering and one of the best known papers in this respect. Based on the authors' own findings and on those of 100 published papers, it enumerated at least 17 services of which *food production* is just one and accounts for only 0.8 percent of the *total value* for land-based ecosystems, the same figure one finds in the text book referred. However, if raw materials, pollination and other yields—the materials and services that may be considered to be reflected in the value of the produce (for which Costanza et al made separate valuations)—are taken together, they account for 6.7 % of the total. One may thus take the *minimum* and the *maximum* value of *food production* to be 0.8 % and 6.7% respectively of the total value. The rest of the value (99.2%-93.3%) accrues from such ecosystem services as soil formation, water regulation, storage and retention, waste treatment, maintenance of balance of gases in the atmosphere, nutrient cycling, recreation and others. It is obvious that for an agricultural land, the farmer is concerned only with the crop / food produced that is *tangible* and has got a market value; the farmer is not directly concerned with the rest of the *total value* having no price as such in the market and is, thus, *intangible*.

When a farmer sells his land to another farmer, the character of the land is not changed; the ecosystem services other than those related to crop production, are enjoyed, as before, by the entire community and the society. But when the land is taken over for industrialization, mining, urbanization and such other activities, the character of the land is changed and it ceases to serve in the same way and the community and society is deprived of the benefits of ecosystem services accounting for anything between 93.3 percent and 99.2 per cent of the *total value*.

TOTAL VALUE VIS-A-VIS THE COST OF ACQUISITION

It is known from experience that the *market price* of an agricultural land is somehow related to the market value of what it produces. For the Singur land the market value of annual

production (based on market prices in 2006) can easily be estimated at Rs 1.0-2.0 lakhs (0.1-0.2 Million) per annum per acre. The market-price of an acre of land - about Rs 10 lakhs—was thus equivalent to the market price of 10 years' production, a more or less general picture. In estimating the *total loss due to marketable production*, it is necessary to consider the period over which the land will be out of service as agricultural land. This can be taken as 90 years, the period for which the land was leased to Tata Motors. But no, it is essential to add another period beyond for the land to regain its previous productive condition. How long can it take? Assuming a minimum of 10 yrs for restoration (actually, however, it is irreversible) one can say that the land has been diverted for a period of 100 years. During this period of 100 years, the farmer could have reaped from one acre of land crops worth Rs 100-200 lakhs (10-20 Millions) that he and his descendants could enjoy from generation to generation. The land could also have changed hands, say, ten times in 100 years. In that case too, ten farmers could realize Rs 10 lakhs each, giving a total of at least Rs 100 lakhs (per acre), ignoring any escalation of prices. This relates to anything between 0.8-6.7 percent of the *total value* of an acre of land. So the lowest *total value* of an acre of Singur land as natural asset, based on Rs 1 lakh as the market price of annual produce, should be Rs $1.0/0.067 \times 100 = 1490$ lakhs (149 Millions). The *highest total value* of an acre of land would then be Rs $1.0/0.008 \times 100 = 12500$ lakhs (1250 Millions). True, these estimates cannot be accepted on face value, and a case by case survey, study and valuation is warranted (and that is perfectly possible today). But, even these generalized gross estimates suffice to drive home the point that the so-called *compensation* awarded to farmers is only a fraction of his *loss in production* over years (ignoring livelihood losses, losses due to change in lifestyle, culture etc). For Singur land, it was Rs 10 lakhs out of Rs 100 lakhs, or, about 1/10th of the loss incurred due to production. The rest of the *total value* of the land accounting for 93.3%-99.2% was simply out of any consideration.

The proposed amendments in the LA and RR acts, as it is evident, would enhance the *compensation (including rehabilitation)* awarded to farmers (or, *the cost of acquisition*) to Rs 20 or 30 lakhs, from Rs 10 lakhs. Even then the farmers will be receiving only 2/10ths or 3/10ths of the market value of what the land would have produced and the so-called intangibles accounting for 93.3%-99.2% of the total value still remains ignored.

VALUE APPROPRIATION

The cost of acquisition thus accounts only for a small fraction of the value lost due to production and is oblivious of the rest (93.3%-99.2%) of the *total value of the natural asset*. Clearly, there is an issue, presumably more serious, to be addressed.

It is said that *value is added* to a piece of land used for industrial purposes, over the values that used to be accrued by it as an agricultural land. But how exactly is the value added? The answer is—by appropriation of the natural capital and ecosystem services. They were embodied in the local environment and were enjoyed by the surrounding community and society and also contributed to community health and production. But now, in the case of diversion for industry etc, they go to serve the industrialist or developer who does not pay for the ecological and environmental losses of the community (worth anything between Rs 139 Millions and Rs 1240 millions per acre (just Rs 10 Million less than the estimated minimum and maximum total values). The following table summarizes the information discussed above based on two different market values of annual produce of one acre of (Singur) land.

The industry not only appropriates the natural capital and ecosystem services, it is also responsible for further deterioration of the environment by polluting the surrounding land, water and air. The costs of these losses and pollution are externalized by the industry to the people around. Industries can thus keep their production costs low to maximize their profit and accumulated capital. The so-called intangibles become tangible in favor of the industrialist or developer. Collective loss gives way to individual/corporate profit and capital.

So, the amended LA and RR Acts cannot prohibit the acquisitionists / purchasers as they will still be paying only 2/10ths or 3/10ths of the market value of loss in production and, more importantly, as they are still not made to compensate for the loss of more than 90% of the *actual total value*. Occasionally, private investors would be ready to purchase land at still higher prices as they will still remain hugely profitable. The farmers /sellers of land, too, may find the compensation packages lucrative as they would now be able to enjoy a price that is twice or thrice or more of the prevailing current compensation. They may consider such prices more rewarding than strenuous farming and related activities and they would be happy to sell land at their disposal. A perfect win-win situation! The country, however, would soon plunge into severe shortages of food and fodder triggering chains of other dangers and crises - irrevocable degradation of environment, environmental disease burden (EBD) leading to disastrous public health, food insecurity and others.

It thus appears that the LA (Amendment) Bill and RR Bill revised in the manner indicated, would help enhance the market price of land and increase the pace of diversion of land; the new enactments are not going to address the environmental issues inherent in the processes and would actually expedite the processes of appropriation and capitalization of natural capital and environmental services leading to precipitation of crises of new dimensions with disastrous consequences on environment and food security.

The question of any government control over acquisition or purchase of land must also be examined from this point of view. Elected governments are likely to be more responsible and accountable than corporate and private investors even if certain governments at certain times like the LF Govt. of West Bengal have behaved to the contrary. □□□

Cost of Acquisition vis-a-vis Value lost (For one Acre of land)						
Value of produce	Value of 100 yrs' produce (Rupees, Millions)	Total Valuation	Cost of Acquisition (Rupees, Millions)		Value Lost (Rupees, Millions)	
			1894 Act	Amended Act	1894 Act	Amended Act
0.1	10	149-1250	1	3	139-1240+9	139-1240+7
0.2	20	298-2500	1	3	278-2480+19	278-2480+17