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The plots thicken

The other day at lunch, a friend and colleague was recounting how, in the small town in Pennsylvania he grew up, there was suddenly a plan to build a new exit from the highway, despite the fact that there were already a couple. There were protests but the exit got built anyway. Later it came out that a number of the city councillors had bought land where it was planned.

If the film *Khosla ka Ghosla* and any number of newspaper reports are to be trusted, such chicanery is not unknown in India. And yet, curiously, the current draft of the Land Acquisition Bill seems to be entirely innocent of such unpleasant possibilities. The main goal of the current draft, which I entirely support, is to make sure that farmers do not get cheated out of their patrimony in the name of public good, especially given that a lot of what is claimed to be the public good looks suspiciously like a pure windfall for some well-placed business group.

The way it seeks to protect the landowner is by offering them a price that will be something like four times the average transacted price of land in the adjoining areas over the last three years. The idea is to allow them to share in the inevitable increase in price that will come about once the land is acquired and a factory or a highway gets built on it. The first worry with such a scheme is that it creates a strong incentive for land speculation. Those who have friends in government and can get advanced notice of government purchases will want to quietly buy up land in the area where the government will eventually buy and sell it back to the government. Assuming that the current price of land in the area is similar to that in the adjoining areas which will be used for setting the price, this would offer a cool 300% return on their investment.

Of course, the incentive to buy land where the government is planning to buy always exists; but a guaranteed minimum sale price of four times what you paid makes it really very tempting.

The one protection against this possibility is the fact that land markets in rural India tend to be thin — not many people sell in normal years — so that the amount of land you can buy up in this way may be relatively limited. On the other hand, if you try to buy more, the price can go up quite quickly, squeezing profits.

Unfortunately, the current proposal actually offers the speculator protection against this particular worry, because in effect, it allows him to set his own sale price. He can, therefore, happily pay, say, twice the going rate on the land he is buying, knowing that the price he will get paid is also getting doubled at the same time.

The way he can manipulate the buying price is by making very generous offers on any plot that comes on the market in the adjoining areas that are supposed to be used to set the price. Given that land sales are relatively rare in most of rural India, he should be able to do so without actually buying a lot of land (and in any case owning some land next to where a new project is being planned may not be a bad idea).

The net result is that when the government comes to buy land in the designated area, he will have plenty of land to sell and at the same time, he has made sure that the government pays him a price of his choosing.

Of course, it will not always be as easy as I make it out to be. There is some discretion in what gets to be called an adjoining area and the government might just choose the areas where he has not been buying land. But then again, why would they do that, especially given that he is someone who has powerful friends in government?

There is also some risk — if price gets pushed up too much the government might have to change its mind about buying land in the area. But we are talking about getting your money back many times over — some risk may be worth taking.

What to do about it? One part of the answer, at some level, is easy: break the connection between the transaction price of land in the area in the recent past and the price the government pays. It can be a multiple of the price in comparable areas all over the state or a price based on the quality of the land or its productivity, or even the historical price of the land — just not the transacted price in the last few years.

The other piece — discouraging speculation — will be harder, since the source of the problem is the government's (appropriate) generosity towards those whose land its buying. One way to try to do this is to pay a lower price per acre to those who have lots of land to sell, unless the land was in the family for more than say, 10 years. The problem with this requires us to identify the real owner of every plot of land, which is something we have historically had trouble with. Nevertheless, if we really want the benefits to go the farmers, sorting out land records may be worth the trouble.

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