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Lessons from the US, Indian, and China**

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**On the Question of Land Acquisition for Private Development:
Lessons from the US, India, and China¹**

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Abstract:

In most countries the government is empowered by the Constitution to acquire privately owned land for public use on payment of fair compensation for the land acquired. For infrastructure projects like a highway or a dam, the land acquired remains under public ownership. In many cases, however, private land is often taken for industrialization or even construction of commercial and residential real estate in the name of urban redevelopment. In such cases, the acquired land is transferred to a private party. This paper draws upon the parallel between different incidents of forcible acquisition of private land in the US, India, and China. The cases of General Motors in Poletown near Detroit, MI in the 1980s and the recent events relating to Tata Motors and the agricultural land in Singur, West Bengal raise a number of questions about government taking of land for private development. A brief review of the history of land acquisition through Eminent Domain in the US serves as the background for a discussion of the different important questions like the problem of strategic holdouts and fair compensation. The essay also looks into the special problems of land acquisition in China.

JEL Classification: R14, R52

Keywords: Eminent Domain; Fifth Amendment; Strategic Holdout;

Fair compensation; Land Use Rights; Industrialization

¹ This paper is based in part on my paper “*Detroit theke Singur*” (in Bengali) published in *Desh Patrika* in 2009. It also extends the earlier UCONN Working Paper 2010-09.

On the Question of Land Acquisition for Private Development:

Lessons from the US, India, and China

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Models of economic development and growth- ranging from the Lewis Model of economic development in a labor surplus economy(1954) to the rigorously mathematical neoclassical models in the tradition of Solow (1956) - focus exclusively on capital formation as the primary source of economic growth and pay little attention to availability of land. Yet, industry cannot be built on thin air and unless abundant land is freely available for reclamation and settlement (as was the case in the US) setting up new plants requires acquisition of land from present owners and transferring such land from its present use. This is a particularly difficult problem in countries like India and China where per capita availability of usable land is already low. Further, industrialization goes hand in hand with urban development for housing and infrastructure and cities and towns continuously encroach upon the nearby rural communities. In a well developed market for land, voluntary transactions between the buyer and the seller on mutually agreeable terms should facilitate transfer of land from agricultural or residential use to a different industrial or commercial use. Unfortunately, however, when land is being acquired from a large number of small landowners, if some individual owners decline to sell, the entire deal will collapse because the plant or the real estate to be developed requires the consolidated land without holes in between. This is a case where the government intervention may be needed to make the entire project viable.

A different kind of public projects may require the government to forcefully acquire land from unwilling owners. Construction of dams, highways, and other such projects fall in this category. The fundamental difference is that such infrastructure projects are not in the interest of any private commercial enterprise and typically remain in the public sector. Construction of a hydro-electric power plant does require eviction of a large number of people. The Three Gorges Dam in China or the Sardar Sarovar Dam in India are examples of large scale infrastructure building that requires mass eviction. The morality

of making one group of people pay for the benefit of a different group of people (even though beneficiaries may outnumber the evicted) may be debated. However, if non-polluting technology of power generation is to be promoted, there are few alternatives. Any reform hurts some people and helps others. The question in those cases is how the adversely affected people are not only fairly and fully rehabilitated but also awarded a share of the net benefit that accrues to the society.

This essay does not address the question of land acquisition for public use (either directly, as in the case of a road, or indirectly, as in the case of a power plant). Instead, the focus is entirely on government acquisition of land for private enterprises often justified on the ground that it would generate local economic benefit for the population. The rest of the paper unfolds as follows. The paper starts with a brief narration of the recent experience of land acquisition for a small car project in Singur, West Bengal (that ultimately failed due to political agitations) and a remarkably similar precedent involving the General Motors in Poletown near Detroit, Michigan. This is followed by a broader discussion of different instances of land acquisition through the exercise of the Eminent Domain authority of local governments in the US starting from 1945 in Washington DC all the way to the recent experience in New London, Connecticut. The next section considers the question of land acquisition and fair compensation from an Indian perspective. Finally, the special problems relating to farm land acquisition in China (where there is no land ownership and only land use rights) are addressed. The paper concludes with a summary of the lessons from the experiences in the three countries.

Tata Motors and Singur, West Bengal, India

After decades of presiding over the systematic decimation of manufacturing in what once used to be one of the leading industrial states of India, Buddhadev Bhattacharya, the Marxist Chief Minister of West Bengal woke up to his new found faith in industrial reform and laid out the red carpet for Tata Motors to set up an automobile manufacturing plant in the fertile paddy fields of Singur near Calcutta. Months earlier, the Tatas had hit the headlines across the world announcing their plan to roll out in the near future their newest model priced under \$2500. The land in Singur was the preferred choice of the auto manufacturer because of its railway and highway links as well as its proximity to the

city of Calcutta. In an effort to sweeten the deal, the state government resorted to the Indian version of the Eminent Domain law (the Land Acquisition Act) under which the state would procure and assemble the land and make it available to the company at most favorable terms. Incidentally, the government refused to publicly disclose the terms of the deal. Agricultural land holdings in India are typically very small and the project involved a large number of small land owners. What made the problem more complex was the fact there were thousands of share tenants and landless laborers who would lose their livelihood if the agricultural land is taken away. Not surprisingly, a large segment of the landowners refused to sell. This, by itself, is nothing unusual. In virtually all cases of land acquisition through the exercise of the Eminent Domain laws, the government faces resistance from unwilling sellers. What was unique about the case of Singur was that it immediately became a major political issue in the state. While there were many genuinely idealistic supporters of the resistance movement, Mamata Banerjee, the firebrand leader of the Trinamul Congress party seized on this opportunity to assail her arch enemy the Marxist Chief Minister for high handedness and for cuddling up to Big Business in total disregard for the interests of the rural poor. Political confrontations in India in general (and in West Bengal in particular) easily escalate to widespread violence leading to loss of human lives. Singur was no exception. Moreover, there were several incidents of suicide by landowners and farm workers who could not deal with the prospect of losing their livelihood. Supporters of the resistance group with ample help from the cadres of Trinamul Congress (TMC) set up road blocks on the busy highway nearby paralyzing road transportation. There were acts of vandalism at the factory site. The Marxist party cadres with the help of the police engaged in rampant intimidation of the unwilling landowners and the protesters. The situation worsened and posed a major law and order problem. Meanwhile the Tatas were fast losing patience with the hostility from its neighbors. Within months they abandoned the project at Singur and moved their operations to the business friendly state of Gujarat.

The events in Singur followed earlier incidents of violence in Nandigram, another rural community where forcible acquisition of agricultural land for the planned development of a special economic zone had culminated into state police gunning down unarmed villagers including women.

Riding on the wave of popular discontent with the corrupt Marxist regime, Mamata Banerjee defeated the Left Front led by CPI(M) in the elections for the state legislature held in 2011 and ended their 34-year old control of the state government. One of the electoral promises of Mamata Banerjee was restoration of farm land taken for the Tata factory in Singur by the earlier previous government to the original owners. However, even as of now, the acquired land remains a virtual wilderness with a fenced off unfinished factory in the middle of what once was a fertile farm land. Putting Humpty Dumpty together again has proven to be a goal beyond the reach of the present regime.

Public opinion in India on the question of acquisition of agricultural land for industrial development is deeply polarized. Both the supporters and the opponents of exercising Eminent Domain powers for land acquisition are quite vocal. Unfortunately, however, given the highly politically charged environment of the state, people are driven to one position or another on this question mainly by their political affiliation with one party or another.

The sole objective of this paper is to raise a number of questions that one needs to address before taking a position on the issue of land acquisition. The discussion in the following pages is politically neutral and refrains from judging which side bears how much responsibility for the violence in Singur.

General Motors and Poletown, Michigan, USA²

The year 1980 was especially difficult for the city of Detroit, MI in the automotive heartland of the US. The unemployment rate exceeded 18%. In fact, most of the traditional smokestack industries in the American Northeast and Midwest were mired in a deep recession. Companies were lining up to leave the wasteland of the union-dominated Snowbelt in search of greener pastures in the Sunbelt of the emerging South. In Detroit, as in many other metro areas in the region, urban decay was evident in the deserted factory buildings and other real estates in disrepair. The eroding tax base that resulted from this economic slowdown, was taking a heavy toll on the fiscal coffers of the city administration making it impossible to provide the level of public services like law enforcement and education that the citizens have been used to in the past.

² This narration draws heavily from Corsetti (2004).

In the midst of all this appeared their own Prince Charming in the shape of General Motors. They were looking out for land for expanding their production facilities for their most prestigious model, Cadillac. Without additional land, they would have to move their production elsewhere. On the other hand, if suitable land became available, they would prefer to locate their expanded production facility in Detroit itself. This would create 6500 new jobs. Of course, there were conditions attached. They needed 500 acres of fully assembled land close to the highway and railroad. Most important of all, should any individual landowner refuse to sell, persuading and evicting the unwilling owner would be the responsibility of the City and not of General Motors.

At this point in the narrative, the average reader in West Bengal may feel that they have read all about this episode as it was unfolding in the local daily newspapers and have seen live coverage of all this only recently on the local TV channels. Given the close similarity between what happened in Singur near Calcutta and the experience of Detroit, this would be a pardonable error. One may easily confuse Tata Motors in India with General Motors in the US or mix up Durgapur Expressway near Singur with the Chrysler Expressway (I-375) in Detroit.

Cinderella's birthmother could never have refused a marriage proposal from the Royalty. Nor could the city council miss such a golden opportunity. Search for land that meets these specifications was launched in full swing immediately. It was decided before long that the community of Poletown would fit the bill. Most of the residents of this lower middle income working class neighborhood were either of Polish descent or African American. The authorities chose this community as the preferred location to be offered to General Motors.

There was, however, one roadblock standing in the way to such an easy solution to the problem. Evacuating Poletown would require the eviction of the 3500 residents of that neighborhood. About 1500 homes, 144 shops and businesses, 16 churches, a school, and a hospital – nothing could remain. It would certainly be most unfortunate. But, what else could be done? Some sacrifice becomes unavoidable for a worthy public cause!

Evacuation of Poletown turned out to be far from easy. Resistance by the residents soon became national news keenly followed by people all over the country. A church became

the headquarters of the movement. Ralph Nadar, the well known activist for consumers' rights, came to Poletown in support of the locals. The residents went to the Michigan supreme court challenging their eviction. In the court, the Town argued that acquisition of the land for the proposed Buick-Oldsmobile-Cadillac plant of General Motors will help to address (at least partially) the unemployment problem contributing to regional economic development and thus benefit the population overall. Hence, exercising the government's rights to acquire land under the Eminent Domain laws is perfectly legitimate. Michigan Supreme Court concurred with the Town.

Armed with the court's decision, the Town continued its evacuation campaign with greater enthusiasm often resorting to arson and other means of intimidation by hired agents. With much lower stakes in the resistance to start with, the tenants were the first to move out. Even the home and other property owners also began to lose heart and started leaving gradually. Towards the end, the Immaculate Conception Church was the lone survivor remaining the last bastion of the resistance. But the superiors in the church hierarchy decided to sell out and instructed the priest accordingly. In the very end a dramatic raid by the police evicted the elderly priest and his few remaining parishioners throwing them out in a mighty show of force. Next day, the church, and with it the last vestige of what once used to be Poletown, was razed to the ground.

In the end, however, the Town closed its books deep in the red. Despite its victory against the resistance committee in the state Supreme Court, in many cases the Town lost to individual claimants on the question of the amount of compensation for the acquired property. For example, it had to pay the owner of an oil depot 5 million dollars instead of the 350 thousand dollars it had originally paid. The Town ended up paying 300 million dollars in litigation costs, compensations paid to evicted owners, and consolidation and preparation expenses on the land acquired for General Motors. As the buyer, the automobile company paid only 800 thousand dollars for the land. Further, they were granted partial tax relief for years to come.

Most regrettably, the 6500 new jobs that was the goal of the entire effort by the Town never materialized. Even at its peak levels of production, General Motors never employed more than 3000 people in the new plant.

Land Acquisition through the Eminent Domain Laws in the US: A brief history

The US is often viewed as the ultimate sanctuary of private property rights. It is often argued that one person's right to property would prevail over another person's right to life under US laws. Then, how could something like Poletown happen in this country? What lies behind this is the Eminent Domain Law. In India the Land Acquisition Act under which the state can condemn and acquire private land from unwilling owners is generally regarded as an anachronistic leftover from the British colonial period. However, similar laws under different names are actually in place in all countries in the present time. The Fifth Amendment to the US constitution makes it illegal for the state to acquire privately owned land for public use without paying due compensation to the owners. Interestingly, nowhere does it explicitly mention that *it is legal* for the government to acquire land for public use from unwilling private owners. But it is clear from the warning about payment of fair compensation that it is, indeed, legal to do so. One needs to be reminded in this context that in the post-war history of the US, Poletown was not the first instance of exercising the Eminent Domain Law by government. Nor was it the last. In litigations regarding such land acquisition different courts in different regions of the country and in different years have ruled in different ways. Let's look at some of the important cases.

Many sections of Washington DC in 1945 were in a shocking state of urban decay. There were areas with streets lined with dilapidated housing units without sanitation infested with rats and other rodents and were completely unfit for human habitation. Facing a grave threat of diseases spreading from these neighborhoods, the US Congress enacted a law authorizing the City to condemn properties in many such localities for urban redevelopment. Within one such area of urban blight earmarked for condemnation stood a supermarket that was just as clean and functional as others in the rest of the city. The owner objected to its demolition with the rest of the real estates in that area and went to court where he argued that because the store did not pose any health hazard like other buildings in the area, his store should be exempt from demolition. In this landmark case

well known in the legal archives as *Berman v. Parker*³, the court ruled against the store owner on the ground that the redevelopment project could not be carried out if his property was allowed to remain its existing location. Therefore, even though the store itself did not pose any public health hazard by itself, in the greater interest of the overall project it had to be condemned like other buildings in the area involved. It should be noted here that the developer of the new housing units was a private entity and the new residents would also become private owners of the property.

Fast forward another two decades. In the 1960s nearly half of the land in Hawaii was owned by only 72 families. These landlords engaged tenants to cultivate their land. In an effort to bring their feudal monopoly to an end, the government decided to acquire their land and redistribute it among smaller owner cultivators. Needless to say, the landlords went to court. But the court⁴ ruled that although such land acquisition was not specifically for *public use*, expropriating the landlords resulted in *public benefit*. Hence, it constituted a legitimate use of the Eminent Domain law.

After many years of uninterrupted prevalence, land acquisition under Eminent Domain received its first major setback in 2004. Again it was Detroit. Again it was the Michigan Supreme Court⁵. This time, Wayne County in Michigan was trying to acquire 853 acres of land adjacent to Detroit International Airport. The objective was to develop a modern shopping mall and an office park in that area. The justification was the usual one – public benefit from regional economic development. This time, however, the court sang a different tune. The justices ruled categorically that acquiring land from one private party for the profit of another private party was illegal and unconstitutional. This was true even if such transactions yield any public benefit as a by product because the primary motivation remains the pecuniary benefits accruing to a private party. Moreover, the court effectively reproached itself by recording that its earlier decision in the Poletown case had been unjust.

³ US Supreme Court (1954)

⁴ US Supreme Court (1984) *Hawaii v Midkiff*

⁵ Michigan Supreme Court (2004) *Wayne County v. Hathcock*

As such, the court decision in the Wayne county litigation was not the last word on Eminent Domain issues. Another major landmark was the famous *Kelo v. New London* that started in the Superior Court in New London, CT and ultimately got decided in favor of the City in the Supreme Court. In this case, as in most others motivated by regional economic development, the city wanted to acquire a number of private homes and land parcels in the Fort Trumbull area adjacent to the Thames River for the purpose of developing shopping malls, office buildings, and upscale condominiums. Once a vibrant and thriving metropolis, New London suffered a reversal of fortune through a prolonged period of economic downturn. By the 1990s, it was officially declared to be a depressed region. On top of this, in 1996 the US Department of the Navy closed down its Submarine Training Center located in the Fort Trumbull area leading to loss of another 1500 jobs. This further aggravated the economic crisis in the region. By 1998, years of unemployment and poverty had lowered the population of the city to only 24,000. The city government was now desperate to do something that would stop the drain. It was in such a grave situation that the New London Development Council was formed. A project to develop a state park in Fort Trumbull was launched with a budget of 10 million dollars.

In February Pfizer, the pharmaceutical giant, announced its plans to build a 300 million dollar research center in the Fort Trumbull area. The town council became optimistic that other major companies might follow the lead of Pfizer and locate their business in this area. Getting the nod from the town, New London Development Council charged ahead with new zeal.

The Fort Trumbull area in the city of New London juts into the Thames river like a peninsula. At that time it contained 155 homes besides the 32 acre property where the recently closed Submarine Training Center of the US Navy was located. In the Master plan for redevelopment, the whole area was divided into 7 sectors. One sector adjacent to the river had provisions for a boardwalk along the river, parks, restaurants, and souvenir shops for tourists. Another was earmarked for luxury condominiums. Others were designed for shopping malls, office and technology parks, and parking lots. The land acquisition campaign started in full swing. Most of the targeted 90 acres of land was acquired without much difficulty. But 9 families owning 15 homes and parcels of land in

this area confronted the Goliath trying to evict them from their homes. Among them were Susette Kelo and Wilhelmina Dery.

Susette had been living in her home in Fort Trumbull since 1997 and had spent a considerable sum on home improvements. She was very attached to her home, the adjacent garden, and loved their proximity to the river. At no price would she like to give her home up. Wilhemina was born years ago in the same home and had been living with her husband Charles with whom she was married 60 years back. All her life's memories were there within the confines of her house. Selling her home would be like selling off her entire past!

Failing to reach any agreement with these unwilling homeowners, the Development Council (effectively, the town) tried to evict them by invoking the Eminent Domain law. It should be noted here that these homes were not blighted or otherwise condemnable. Nor was there any reason to suspect that the owners were holding out hoping to get a better deal on their homes.

With no other options left, Susette and her fellow homeowners went to court. In the law suit filed against the town at New London superior court in 2000, they argued that the town was seeking to acquire their homes with the sole objective of developing commercial and residential property to be sold to other private parties. The Fifth Amendment permits exercise of Eminent Domain for acquiring private homes and land only for public *use*. Their homes were not being acquired for public *use*. Hence, evicting them from their homes was unconstitutional. It is worth noting that even as the litigation was in progress, the town was negotiating with Corcoran Jennison, a private real estate developer, over a 99 year lease of the property for an annual rental of \$1. Of course, no final deal had yet been signed.

After 7 days of hearing, the court ruled in favor of the homeowners in respect of 12 out of the 15 parcels under litigation. Even though the verdict was favorable overall, the homeowners appealed to Connecticut High court against the negative ruling regarding the remaining 3 properties. On its part, the town naturally went to the High court.

Surprisingly, this time the wheel turned in exactly the opposite direction and the ruling was against the homeowners in respect of all of the 15 parcels. The judges argued that the Development Council had legal rights to acquire all of those properties for the sake of

economic development. In their judgment, the redevelopment plan had not been drafted specifically for the benefit of Pfizer or the developer. Because the main objective was regional economic development, such acquisition was for public *benefit* even though not explicitly for public *use* like building a highway or a post office. Therefore, eviction of the unwilling homeowners on payment of fair compensation was by no means unconstitutional.

Hoping for an ultimate vindication, Susette and her fellow plaintiffs went to the US Supreme Court as their last resort. In the court they argued that while it was true that there will be jobs created due to economic development leading to public benefit, the main beneficiaries would be specific companies and individuals. Any benefit accruing to the population in general was a minor by-product of the project. The new owners of the acquired land would be under no legal obligation whatsoever to make it available for use by the public. For this reason, the court should declare the practice of acquiring private land for economic development as illegal.

The 2005 decision in the famous *Kelo v. New London* case at the US Supreme Court⁶ also went against the homeowners albeit by the majority of only one vote. Voting in favor of the Development Council were Justices Steven, Souter, Breyer, Kennedy, and Ginsburg. Dissenting with the majority opinion were Justices O'Connor, Scalia, Rehnquist, and Thomas.

Those in favor argued that numerous courts of law in different places and at different times have upheld the decision to evict unwilling landowners through the exercise of Eminent Domain powers for economic development has been considered. It is apparent, therefore, that the legal system of the country does not regard this practice as unconstitutional. The evicted homeowners are always the victims in some form or other. The Court is definitely under obligation to ensure that the evicted owners are fairly compensated for their property. But both the right and the responsibility to decide how exactly an urban development plan should be implemented in any specific context rests with elected popular representative and not with the Court. The only obligation of the Court is to ensure that land is not acquired for the sole benefit of a specific person or institution. It has already been determined at the State Supreme Court of Connecticut that

⁶ U.S. Supreme Court *Kelo v New London* (2005)

the development plan in New London had not been designed for the benefit of any particular business entity. The Supreme Court, therefore, has nothing else to add. Condemnation of these properties will ultimately lead to jobs for a large number of people. Therefore, evicting the owners has been a legitimate exercise of the Eminent Domain law by the local government.

The dissenting Justices argued that every time a new business is started somebody gets a job and tax collection goes up. It would, therefore, be possible to acquire any piece of private real estate in the name of economic development. This, effectively puts a citizen's fundamental right to own property at risk!

Unfortunately the dissenting votes brought no redress to Susette and the other homeowners because the majority opinion in the Supreme Court decision drew the final curtain on their valiant fight. However, the debate goes on even though this particular case was closed. Efforts are under way in many states to enact laws restricting land acquisition through Eminent Domain laws.

Kelo's Revenge?

In an ironic turn of events, in 2009 Pfizer decided to move its R&D operations from New London, CT to a nearby facility in Groton, CT leaving the homes and land acquired by the city government through the exercise of the Eminent Domain Rights a wasteland.

As Patrick McGeehan reported in *New York Times* (Nov 12, 2009)

“Pfizer said it would pull 1,400 jobs out of New London within two years and move most of them a few miles away to a campus it owns in Groton, Conn., as a cost-cutting measure. It would leave behind the city's biggest office complex and an adjacent swath of barren land that was cleared of dozens of homes to make room for a hotel, stores and condominiums that were never built.

The announcement stirred up resentment and bitterness among some local residents. They see Pfizer as a corporate carpetbagger that took public money, in the form of big tax breaks, and now wants to run”.

An Indian Perspective on Land Acquisition for Private Development

Generally, the central government or the state governments resort to “taking” of private land from unwilling owners for one of two objectives: for *public use* or for *public benefit*.

When private land is taken for the construction of a post office, a railroad, or a highway, the infrastructure remains available for use by the public (sometimes at a cost as in the case of a railroad or a toll road). In some other cases, the acquired land is not directly available for public use. This happens when private land is taken for the construction of an irrigation project, a dam for flood control, a hydro-electric power plant for electric supply, or even the construction of a steel plant in the public sector. But the beneficiaries of these projects are all people and not selected individuals. These are examples of taking for *public benefit* even though not for *public use*. Moreover, in both types of takings, the land taken and the construction on such land remains under public ownership.

There can always be difference of opinion regarding exactly where a dam or a public sector steel plant should be located. In the 1950s, under the First Five Year Plan, the dam on the Damodar river and the hydro-power plant were built by the Damodar Valley Corporation (a semi-autonomous government enterprise) in the Maithon-Panchet area in the state of West Bengal. This caused the immersion of a large land mass in that particular area evicting landowners in the affected region. One may reasonably argue that building the same project at a different location in what was then the state of Bihar would have been a better decision. In some cases, whether a dam should be constructed at all may remain a controversial issue. On the question of building the Sardar Sarovar Dam on Narmada river in Gujarat, Narendra Modi (then the Chief Minister of the state) and environmental activists like Medha Patkar and Arundhati Roy (the famous author who won the Booker Prize for her novel *The God of Small Things*) hold diametrically opposite views. Which side is right on this question is still being debated. But everybody concedes that if a dam has to be built at all, people in that area will necessarily be evicted. In the interest of national economic development, building some infrastructure projects like dams and highways will be unavoidable. In such cases, unwilling property owners *have to be evicted through the exercise of the Eminent Domain laws*. In all such cases, the priority should be on the proper relocation of the displaced owners and fair compensation for the property taken. None of the few cases of taking land in the US that were discussed in the previous section pertained to construction of infrastructures. But even in the US (as in all other countries) there have been instances of taking land for building highways, dams, or airports.

Sometimes the acquired land does not remain under public ownership but is transferred to a new private owner. But even in those cases, the sole objective of taking is *public benefit*. A prime example of such taking in the US is the *Berman v. Parker* example in Washington D.C. described above. In that instance, the newly constructed housing units that replaced the dilapidated rows of unhygienic houses became the personal properties of the new occupants. As already noted, this condemnation led to the demolition of a supermarket that posed no health hazard. But, because the entire project was undertaken to protect the population from the threat of a potential epidemic spreading from those old rundown houses, taking the supermarket was a legitimate (though unfortunate) collateral damage that was unavoidable. Similarly, in the Hawaiian case, land appropriate from the big landlords was redistributed to new owners. This was clearly an example of taking property from one private owner and handing it over to another private owner. But, here again, the objective was to effect a more equitable distribution of land by breaking the feudal monopoly of the *latifundia*. Personal gains accruing to the newly settled owners were incidental. Hence, the taking was justified.

In most cases, however, land is taken from private owners in the name of regional economic development. In such instances, the rationale for exercising Eminent Domain powers is by no means obvious. In Poletown, land was taken for General Motors. In Singur, land was taken for Tata Motors so that they would build their the automobile plant for manufacturing their new model, *Nano*, in the industrially depressed state of West Bengal. It goes without saying that the new General Motors plant in Michigan or the Tata Motors plant in Singur would create jobs. But the main benefit of the land acquisition in both cases would go to the auto manufacturer. Then why should not the automaker purchase the land at fair market price from the owners through direct negotiation? After all, when the plant is built (no matter how the land is acquired), jobs would be created anyway! Why should then the state or the local government act like a real estate agent for the buyer? On the face of it, the question seems to be a simple one. But there are more complex issues in the background. In such cases, one cannot buy land like buying livestock in the country fair.

Economics and Law experts have given this problem considerable attention. In many cases, it so happens that the price offered by the buyer is more than the minimum amount

of money that the owner would be willing to accept for his land *if he knew that it was a 'take-it-or-leave-it' final offer*. But he may still refuse to sell hoping for an even higher offer from the buyer. This kind of stalling tactic and refusal to sell expecting a better price is often described as *strategic hold out*. This can become a serious problem when a well known company seeks to assemble a large number of small properties from many different owners. The owner of a factory does not negotiate with each individual worker about the wage rate. Typically, the labor union bargains as the collective voice of all workers. Once a wage agreement is reached, who ever agrees to work for this employer accepts this wage rate. Anyone who finds the wage unacceptable refuses to work for this firm. In the case of purchasing land, however, there is no representative body speaking for all the property owners and the buyer has to negotiate with each owner individually. This can entail enormous cost in terms of time and money. If the government acts as an intermediary, transaction costs for such land purchases can be minimized. But it would not be enough for the government to simply to reach an agreement on what the fair price (per acre of land) should be. It has to persuade any unwilling owner to sell his land. The fundamental difference between labor and land as inputs in this situation is that if own worker refuses employment, the firm can get a replacement and does not need to close its factory down. But, if the owner of a plot of land located critically at the center of the planned factory site refuses, the whole project may have to be jettisoned. If most owners have already sold or are ready to sell, the government may be forced to take coercive measures in order to evict the remaining hold outs. This is often cited as the main argument in favor of 'taking' by the government.

There is another and an even more serious problem. As more and more properties get sold, the importance of the remaining properties for the viability of the project continues to increase. Suppose 87 of the 100 properties involved have already been sold. By this time, the remaining 13 owners fully realize that their land is enormously more valuable to the buyer than before. Having already spent a fortune on those 87 parcels of land, the buyer would not be ready to jeopardize the entire project for the remaining 13. Naturally, they keep delaying in the hope of a large gain. The only way such strategic holdout problem can be resolved is by evicting the remaining owners.

Those who oppose the use of Eminent Domain for commercial development point out that there is a way to use the market to assemble land without resorting to eviction by law. Land owners have an incentive to hold out strategically only when they know that the buyer is a big company with deep pockets. One way out of this would be for the buyer to employ agents (like smaller local property dealers) to buy and assemble the land on its behalf⁷. If the buyer remains in the background and the seller does not know that he is ultimately selling his land to the big buyer like General Motors in the US or Tata Motors in India, he would be more willing to sell out when the price offered is acceptable to him. One may argue that this line of reasoning is only theoretical and cannot actually work in real life. It should be pointed out to them that Harvard University and Disney World did acquire and assemble thousands of acres of land through buying agents without disclosing their own identities as buyers. Again, it may be argued that what was feasible for a large and savvy organization like Harvard or Disney, may not be so for another smaller organization. But here again counter examples can be cited. In Las Vegas, a smaller development company used this method to buy a large number of small properties (none greater than 5 acres) and assembled them into a 2400 acre commercial district. In another instance, a developer assembled 11 parcels of land to construct a 1400 square shopping mall with space for 160 retail outlets in Providence, Rhode Island. Similarly, in West Palm Beach, two developers used 20 separate buying agents to 300 parcels of land from 240 different owners and developed a 26 block subdivision consisting of offices and shops.

There is ample evidence that it is possible, indeed, to acquire and assemble large tracts of land without involving the government. It is, therefore, not fair to use state authority to evict individuals from their homes for the profit of other private interests. A market transaction free of coercion by state or local government should be desirable.

Another important question naturally arises in this context. Irrespective of how the property is acquired (i.e., by government taking or market deal), how should the fair compensation for the property be determined? One may argue that a fair price would be the average value of similar properties sold in the area in the recent past. This, however, is not the case.

⁷ The discussion here draws extensively from Kelly.(2003).

Consider the following scenario. Suppose that the underground railway network known as Metro Rail in Calcutta is being expanded and a subway station is to be built in a new locality. Both *A* and *B* are homeowners in the targeted area. Their homes are quite similar and would fetch the same market price at this moment. But one of the two homes needs to be demolished for the construction of the station. Metro Rail is really indifferent between the two properties – either of the two homes would be a suitable location. Suppose *A*'s home was taken for demolition and based on the market valuation of comparable properties, he was to be paid Rs.700,000 in compensation. This was, indeed, a fair valuation *prior to the extension of the Metro Rail*. The moment the neighborhood gets connected by the underground railway network, home values sky rocketed in that locality. Now the market value of *B*'s property (the home not taken) jumps to Rs.1.2 or Rs.1.8 million. Had *A*'s home been spared and the other property been taken, *A* would have received a windfall gain exactly the way *B* does now. Hence, the fair compensation payable to *A* should include a share of the anticipated increase in property values of which he is deprived because he was the unfortunate victim of the taking. What should constitute a fair compensation should be determined in light of the projected increase in home values. But the important point is that the displaced homeowner should have a share in the economic gains due to the development.

Finally, another point needs serious attention. In Poletown, General Motors had promised 6500 new jobs. In Singur, the Tatas may also have promised the creation of thousands of new jobs. Enticed by such promises, the city government in Detroit and or the state government in West Bengal went full steam to acquire the land for the companies. But where is the guarantee that the companies will actually deliver on these promises of creating these jobs? In reality, there cannot be a binding contract between a company and the government about the number of jobs to be created. Nor should there be one. The corporate management is accountable only to its shareholders. The actual number of workers employed would depend on the demand conditions in the automobile market, prices of energy and raw materials (like steel), variations in the wage rate, and a host of other factors. The promise of 6,000 or 10,000 new jobs is only a projection that needs to be revised in response to changes in economic conditions. Addressing the unemployment problem in the city or the state is not the responsibility of the company. It is the

responsibility of the elected government. Of course, the government can offer special tax and other concessions to attract new business. But only those concessions and facilities should be extended which can be easily terminated if the company does not live up to its promise. In that case, the company will try to deliver on its promise out of its own self interest. If the company decides to fold and move away, another company may be courted with similar concessions. When real estate is made available to them at a heavily subsidized price, a company has much less at stake and can move out without suffering a great loss (exactly as Tata Motors did in Singur). But if it has to pay market rates for the land, it would be much more costly for the company to move out.

Land Questions in the People's Republic of China: 90 years Later

In November 1928 Mao wrote his famous Report on the Struggle in The Chingkang Mountains in which he divided the agricultural population into three classes by land ownership: (a) the class of big and middle landlords, (b) the intermediate class of small landlords and rich peasants, and (c) the class of middle and poor peasants. After the Communist Party came to power in 1948 (and even before the Revolution in the Red area held by the revolutionaries) a massive land reform was implemented in the vast countryside of China. All land previously owned by the big (and typically absentee) landlords described as the *Evil Gentry* and a portion of land held by small landlords and rich peasants was confiscated and redistributed to small peasants and landless workers. The Party encouraged farmers to form Mutual Aid Teams that made it possible for the poor peasants to use farm animals owned by the more affluent farmers in exchange of labor provided to them during the harvesting season. Membership of such Mutual Aid Teams was entirely voluntary. After the Revolution, several Mutual Aid Teams in a region were combined to form a Primary Agricultural Producer's Cooperatives. However, participating families still owned their land and farm animals and had the right to opt out. At the next phase of the reforms, these Primary Agricultural Producer's Cooperatives were transformed into Advanced Agricultural Producer's Cooperatives where ownership of land and animals was transferred from the participating families to the Cooperative itself without an option for a member family to stay out of these Cooperatives.

Subsequently, the Advanced Cooperatives were organized as Communes wielding political power at the local level. Thus collective farming replaced family farming and by 1958 private ownership of land ended in China. As obligatory members of a Commune the farmers worked on the collective farm but had no say on what crops were to be produced, where the output would be sold, and how much of the revenue would be awarded to the members. Decision making was entirely in the hands of the Party bureaucracy.

Introduced on an experimental basis as a part of the post-Mao economic reforms, the Household Responsibility System (HRS) permitted farming households to cultivate small plots of land where they could decide what crops to raise and could retain the surplus after paying the due levies. Encouraged by the success of the HRS, the government institutionalized this nation-wide. Even though land ownership was retained by the collective, farmers were given *land use right* to a plot of land for 15 years. Subsequently the revised Land Management Act (LMA) of 1998 extended such land use right to a period of 30 years. Also, land use rights became transferable and reallocation of land use rights was permitted if supported by two thirds of the members of a collective. In 2003 the Rural Land Contract Law (RLCL) provided further details on the rights and duties concerning household land use rights. In particular, it imposed strict restrictions on land reallocation by the village collective in its capacity as the formal owner of the land. All this would suggest that even though the land is formally owned by the collective, a farmer's rights are ensured (at least for the 30-year term).

Why, then, is there so much social turmoil and political unrest all across China against land grabbing?

Between the Idea ...

Between 1990 and 2002, 66.3 million Chinese farmers are reported to have lost their land. Many displaced farmers have voiced their anger about eviction through public demonstrations. The massive scale of this problem can be judged by the fact that there were 85,000 public demonstrations involving more than 3 million people just in the year 2005! The Chinese government is visibly concerned about this widespread discontent all across the country and has given a high priority to the question of illegal and arbitrary land acquisition. In fact, Premier Wen Jiabo grimly cautioned that the farmland seizure

problem was fomenting social unrest and the Party “can’t commit an historic error over land problems”. It is an irony of history that the Chinese Communist Party that won political power by fighting for the poor and landless farmers and redistributed land from the rich to the poor has now to worry about how to protect the poor farmers being expropriated by a newly emerging class of entrepreneurs and bureaucrats at lower levels of government.

In the pre-reform era, all agricultural land was owned by Collectives and non-agricultural land was under state ownership. When urban development called for more land, municipal governments would acquire such land by a transfer from the collective to state ownership. However, such acquisition would result in displacement of farmers cultivating the relevant tracts of land. Because there was no land market, evicted peasants were compensated with a package that included job offers allowing them to work on the new state-owned enterprise established on that land, a resettlement fee, and a *hukou* (an urban residency permit) which entitled a migrant from the rural areas to settle in a town and enjoy the benefits of healthcare, access to local public goods (like schools) and crops at subsidized prices, and retirement benefits enjoyed by city residents⁸. Overall, a *hukou* rather than any cash compensation made this quite an attractive prospect for the displaced farmer.

Under the Household Responsibility System, farmers were assigned land use rights initially for a period of 15 years (extended subsequently to 30 years). They were free to make their crop choice and were allowed to retain all income from farming once they met their “responsibilities” of quota or taxes to the collective every year in the form of grain or cash. Now the farmer had a bigger stake in the land he cultivated and insecurity of land use rights soon became a major cause of social unrest in rural China.

The root cause of the problem was that although in principle a farmer had the land use right on the land he cultivated for a specified number of years, in reality the Village Collective engaged in periodic redistribution of land for a variety of reasons. A distinction is made between a ‘big’ and a ‘small’ redistribution. In a ‘big’ redistribution *all land* was taken from the families and redistributed typically after farm land was

⁸ Ding (2003, 2007)

acquired for industrial use and the total remaining agricultural land was reduced. In a ‘small’ redistribution land was taken from only a few families and most other families were unaffected. A ‘small’ redistribution could occur either due to demographic changes in individual family sizes (due to birth, death or marriage) or for a local construction project (like building a school or a temple). In many cases, there is very little participation by the villagers in the decision making process of land redistribution and at times a handful of powerful cadres make redistribution decisions simply to demonstrate their political power. Article 14 of the Land Management Law of 1998 clearly states that within the duration of the contract for operation of land, any appropriate readjustment of the land between isolated households shall be made with the agreement of at least two-thirds of the members of the village assembly and submitted to the township government and the agricultural administration department of the county for approval. This restriction on land readjustment was reiterated in Article 27 of the Rural Land Contracting Law of 2002.

Thus, by all accounts, the farmer’s right to land seems to have become more and more secure through the recent legislations. Why then is the Chinese countryside threatening to become a volcano of simmering discontent?

... and the reality, falls the shadow

There are several factors within the legal-institutional structure that have fostered the land-grab campaign by a coalition of developers and local government bureaucrats in China.

In the first place, all non-agricultural land is state-owned and any urban industrial or commercial development can take place only on land that is already under direct state-ownership or agricultural land acquired from the collectives. This has endowed the state (township) governments with an immense monopoly power in the market for urban land use rights⁹. The fact is that when agricultural land is taken, the directly affected people are the farmers who are being evicted. But they have little (if any) input in such land acquisition decision.

⁹ Compensation for acquired of urban properties on land covered by a city plan is determined under the Urban Buildings Demolition Relocation Administration regulations (UBDRAR) 2001. For a brief discussion of compensation for urban properties see Chan (2003)

In some cases, the problem is further complicated by the fact that there is considerable ambiguity about which particular government body holds the ownership right over the land under consideration¹⁰. During the collectivist regime, Chinese agriculture was organized hierarchically as the *commune* divided into several *production brigades* and each production brigade sub-divided into a number of *production teams*. In the post-reform years, the town/township generally corresponds to the former commune, an administrative village is the equivalent of a production brigade, and a natural village or the villager's group to a production team. While it is categorically recognized that the village farmers' collective has the managerial and administrative rights over the land the farmers cultivate, it does not have the right to directly transfer such land use right to an urban developer despite being the notional owners of such land. At times, the town government has been able to take advantage of this ambiguity to make profits from village land it does not legally own.

By far the most critical feature of all land use legislation is the provision that agricultural land may be acquired for *public interest*. This has enabled local governments to acquire land not only for infrastructure projects like roads, railway, and dam construction but also for commercial industries and even private real estate development. There is no denying the fact that the spectacular rate of growth in China's manufacturing has created enormous economic benefit for the country as a whole. Side by side with industrialization, the nation has experienced urbanization at rapid rate. Shenzhen was a small village of 3 square kilometers in 1979. By 1999 it had grown into a city covering an area of more than 140 square kilometers. The built up area in Yantai city in Shandong province expanded from 120 to 340 square kilometers within a 3 year period (2001 to 2004)¹¹. Needless to say, such geographical expansion of urban areas took place at the cost of agricultural land in the peri-urban villages.

What motivates the local government officials to facilitate transfer of farm land to urban development is the immense gap between the value of agricultural land based on agricultural output and the value of land used for construction based on the real estate market. In the village of Licun in Yunnan province the leaders got rich by acquiring farm

¹⁰ Ho (2001)

¹¹ Ding (2007)

land for 12,000 RMB per *mu* (approximately \$12,000 per acre) and then leasing it as construction land for 80,000-90,000 RMB per *mu*. In Fujian province a local government paid 10,000 RMB per *mu* to farmers and then leased out the land to developers for 200,000 RMB per *mu* (and even up to 750,000 RMB per *mu* in some cases). In Hangzhou province the farmers were paid 160,000 RMB but the land was sold for 2-4 million RMB per *mu*.

While some corrupt politicians and bureaucrats at the local levels have made personal gains from such land deals, the main beneficiaries have been the local governments because such grab-and-sell activities have provided them with a rich source of revenue in the face of mounting debts. As the central government shifted the burden of providing urban public services to state governments, budgetary pressures increased enormously at these lower levels of administration. Local governments have tried to cope with such budgetary pressure by raising revenue through land use conveyance fees received from public land use deals. In the city of Hangzhou, for example, land conveyance fees amounted to 20% of the total receipts of the municipal government in 2002.

But in all cases the surplus comes largely from the extremely low price paid for the farm land acquired based on the original use of the land in farming without any relation to how much it is worth subsequently as construction land.

The fundamental problem is that there is no market for agricultural land in China because transactions in land rights have remained forbidden since 1949. The guiding principle of *fair and just compensation* in case of farm land acquisition has been merely to ensure that the evicted farmer is not left any worse off. But there is no clear definition of what constitutes non-worse-off standard of living. Without any market prices to provide guidance land values are determined by the annual yield. Such valuation of land, in its turn, determines the amount of compensation payable and an estimate of the minimum income security that the repossessed land would have provided to the evicted farmer. The Land management Act provides for a standard compensation of 6-10 times the average annual output value from the three preceding years and a resettlement fee of 4-6 times the average output. The combined compensation would not exceed 15 times the annual output (or 30 times the output when approved by provincial authorities). This may not sound too unfair except for several reasons. Even after years of reforms the local

governments exercise substantial control over what to grow on farmlands. Also, rigid price control and market disequilibrium keep agricultural prices artificially low. Such undervaluation of agricultural output, in its turn, lowers the amount of compensation payable.

The law permits application of different standards and levels of compensation for land acquired for major projects of national interest like highways and power plants. Local governments typically exploit this legal provision to under compensate for land taken for such projects. This raises a question of horizontal fairness and only fuels further discontent among farmers. For example, farmers in the suburbs of Bingjiang district of Hangzhou city received 23,000 RMB per *mu* for the land taken for a segment of the highway from Hangzhou to Ningbo. In other commercial projects land compensation paid was in the range of 200,000 – 300,000 per *mu*. Apart from horizontal fairness, compensation should also meet the criterion of vertical fairness and take into account inflation that erodes the purchasing power of payment received which may be inadequate even at existing prices as the uprooted farmers face higher living costs in an urban area. The overwhelming evidence is that most of the conflicts about land acquisition in China are caused by dissatisfaction with the amount of compensation. The local governments are balancing their budgets on the back on one of the weakest sections of the population in the Peoples' Republic and unless appropriate steps are taken the tear in the social fabric may be beyond repair.

The way forward in China

In principle, farmers potentially affected by land acquisition have a right to be notified about the proposed repossession of land and to voice their opinion on the compensation offered through political and legal channels. As repeatedly noted above, land redistribution requires consent of at least two-thirds of the members of the village council. That would be applicable both for redistribution within the village as well as transfer of land for urban development. In fact, in a majority of the cases, villagers are aware of their legal rights. But its actual implementation presents a completely different picture. In some extreme cases like in the village of Licun in Yunnan province the village leadership simply order the villagers to buy certain seeds and grow certain crops which

are then sold collectively to some export company without any involvement by the farmers *even though they hold land use rights and legally own the crops they raise*¹². As reported above, the villagers were robbed outright through illegal land deals conducted in the name of the village council but did not find it worthwhile to contest because the same local elite families have controlled the village for years, manipulate elections to the village council, and, above all, enjoy the protection of the government officials at higher levels. In other parts of the country, even though the situation may be somewhat better, villagers cannot afford to engage a lawyer to represent them in the Court. Also, lawyers are reluctant to take a case opposing the local government. Even in the rare cases where the court decides in favor of the farmers, the land is not automatically return to them. Villagers are more often than not forced to reach an out-of-court settlement with the local government trying reach a better compensation package as the best feasible solution of the problem. Another popular method of expressing grievance against the local government is to directly petition to a higher authority. In fact, various government departments in China maintain specialized bureaus with service counters to receive petitions from citizens. In Beijing in 2003 there were 3984 court cases related to real estates. By contrast, during the first half of 2004 the Ministry of Construction had received 18,620 petitions¹³. However, in other areas individuals organizing petition drives are often intimidated and arrested on false charges to dissuade them from such activities.

Ultimately relief from illegal and arbitrary land expropriation would require making the local governments more accountable to the citizens at the grassroots and at the same time subjecting them to a greater degree of control from the higher levels of government. As things stand, the local governments function as rogue elements within the overall political hierarchy in China and the perception that the Politbureau of Chinese Communist Party controls all layers of government all the way down to the village does not correspond to the reality.

By far the most important reform needed is in the amount of compensation payable for the land acquired. Under the present rules the local governments pay a minimal amount

¹² Van Rooji (2007) page 216.

¹³ Van Rooji (2007) p 227.

stipulated under law for the farm land they acquire while the real estate conveyance fees they charge from developers is driven by the market forces for urban land. This has proven to be a goldmine for them to extract revenues from as they please.

The market forces of demand and supply drive the land conveyance fee that a local government can charge from a developer. A similar market for rural land can be developed by permitting transfer of land use rights directly between users. This will allow the land to be put to its most productive use. At the same time, the 'price' will reflect the relative scarcity of farm land in a specific region. If the acquiring local government has to pay a compensation for acquired land in competition with other potential bidders the prices of rural land will be better aligned with its price in urban use.

While a more rational compensation for acquired land alongside a more strictly enforced policy on acquisition will serve to protect the farmers from exploitation by local government officials, that will not be enough to successfully rehabilitate the evicted farmer in a new urban setting.

Most of these farmers, especially the older and less educated ones, will lack the skills necessary to secure gainful employment outside agriculture. This implies that they are unlikely to enjoy a stream of income that will enable them to maintain their earlier standard of living. Moreover, they are unlikely to have the ability to invest any lump sum payment received in exchange of land wisely to yield future incomes. It would serve them better if the compensation is made in the form of a stream of payments over years.

Also to induce them to acquire marketable skills, future payments may be made conditional on job training. The expropriated farmers need to be provided with urban housing and have to be integrated into the urban government's social security scheme. Under a present arrangement the government requires that some of the land grant fee received by the evicted farmer to be reserved for building expropriated farmers' social security fund and the rest comes from a national fund¹⁴. But the pension fund is grossly inadequate to serve them in their old age. China's high rate of growth in manufacturing has been supported by a form of 'primitive capital accumulation' extracting the surplus from agriculture. Social justice warrants that there should be some form of payback and

¹⁴ Zhang and Lu (2011)

helping to create a solvent pension fund for these evicted farmers would be an appropriate step in that direction.

Lessons from the Three Countries

Problems of land acquisition in the US, India, and China are unique in their own ways. The US with clearly defined property rights is one extreme while China with no private ownership of land is the other extreme. India represents an interesting case where even though the landlord has clear title to the land, the share tenant has secure tenancy right to cultivate the land as a tenant but has no say in the land transaction. But the worst off are the landless laborers who lose their livelihood as the agricultural land is acquired for industry or some other kind of urban development.

Taking of private property in the US mostly involves residential or pre-existing commercial property for urban redevelopment. The case of New London is a classic example. While strategic hold out for a better price is definitely a possibility, often the unwilling seller holds out for personal reasons. While the exercise of the Eminent Domain powers to acquire land for public use may be justifiable in the interest of greater social welfare at the cost of individual welfare, the Pfizer case in New London illustrates the danger of land acquisition in the name of public interest where the private beneficiary of such land taking cannot be forced to deliver on the promise of economic benefit to the community that prompted such land acquisition.

In emerging economies like India and China urban expansion at the expense of rural communities is inevitable. The role of the government should be to ensure that the farmers losing their land along with the large number of share tenants and farm workers are fully compensated and rehabilitated in a non-agricultural occupation.

Let me clarify one thing in conclusion. This essay is about government acquisition of land for economic development. Passing judgment on the incidents at Singur (or similar incidents in Nandigram), New London, or Kunming is not the objective. As an economist, I have tried to raise and discuss the pertinent issues with the hope that the reader will form his own opinion having considered all sides of the problem.

I personally feel that for the overall benefit of the society, land or factories should be utilized in that line of production where its productivity is the highest. I am not ready to take the vow that agricultural land should never be transferred to industrial use.

There are people who believe that while farming cannot be done unless the land is suitable for cultivation, industry can be located anywhere in the state. This is a false perception. One needs adequate transportation facility, literate workers, and uninterrupted supply of power. Without these, factories will not be able to break even. At the same time, as land gets transferred from agriculture to industry, efforts should be made to maintain adequate supply of food and raw materials through productivity increase in agriculture.

There is another important aspect of the problem. Every economic reform produces winners and losers. An overall improvement in social welfare can never be achieved unless the gains from the reforms are shared by everybody. Social welfare does not depend on growth of production or national income alone. Unless people at large benefit from such growth, even if a section of the population may become better off, the society as whole becomes poorer. As land gets transferred from agriculture to industry, many people (like share croppers and landless workers) will lose their livelihood. It would be morally reprehensible to drive a *Nano* or a Cadillac on the dirt roads wet with the tears of the dispossessed. Economic rehabilitation of these displaced workers remains the first priority of any responsible government.

But a policy of tying up land in agriculture in pursuit of self-sufficiency in food is an archaic policy in this day and age of globalization. There are those who oppose globalization. But to paraphrase a fellow economist¹⁵, globalization is like gravity. You cannot be for or against gravity. A wise man decides how to cope with the force of gravity if he wants to get off the ground.

¹⁵ Kaushik Basu in a lecture delivered at Jadavpur University.

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