

People power

Sensible Land Policies and Economic Growth

The Cricket World Cup mania and Iraq war have completely dominated the news over the past six weeks, as economic issues receded into the background. The budget speech of the FM has been all but forgotten. But there is life beyond sports and foreign wars. We need to focus on sensible policies to promote prosperity and combat poverty, in order to enhance real national security.

If fiscal deficits cannot be addressed in the short term, and obsession with stock markets cannot promote prosperity, is there nothing the state can do to stimulate growth? Fortunately the state can still make a difference. And there are a few positive factors facilitating determined action now. Interest rates are low. While growth has slackened, it is still higher than in most world economies. India not only maintained moderate growth despite poor monsoon last year, but there are signs of accelerated growth this year. Manufacturing is again looking up. In the housing sector, the robust policies of the past few years paid off and there is a construction boom. Impressive work has been done in laying roads, and over 7000 km of highways are expected to be completed ahead of schedule, a new experience in a country plagued by perpetual delays!

One area for sensible policy initiatives is land ownership. If land titles are clear, and the poor and marginalized sections can be secure in ownership, a lot of capital will be unlocked, credit will be accessible and economic activity will be generated. Most poor people have no clear titles to valuable land in our cities and even small towns and villages. The work of the Peruvian economist Hernando de Soto clearly established how the poor are denied precious capital for want of land titles. Real estate prices are skyrocketing even as vast tracts of urban land are locked up because of needless regulation or for want of clear titles.

The governments at the Union and State levels can initiate four important steps to redress this situation. First, updating of land records. In most states, land surveys have not been conducted after the British left. Land records are outdated. Computerization of existing records will only improve data storage and retrieval, but is no substitute to clear titles. Many people are cheated in land purchases, and many occupants of vacant land have no titles. Often government land is sold to unsuspecting buyers, and the state even registers such sale deeds after collecting hefty stamp duty. Later the purchasers are denied ownership rights, and they are in perpetual fear of eviction. This is a shameful state of affairs for any government which claims to be civilized. The first duty of the state is to ensure clear and unambiguous titles to land. It is high time all lands, particularly in urban areas are resurveyed, and titles are clearly established. Wherever government land is under the occupation of the poor, there titles need to be regularized subject to zoning laws. If people purchased government lands through registered sale deeds, the state has the obligation to recognize the titles by collecting a small fee. The state which could not protect people from fraud despite collecting stamp duty has no right to penalize innocent citizens.

Second, high and varying rates of stamp duty for property transfer have dampened construction and pushed much of the economic activity underground. With stamp duty and other taxes approaching 15%, almost no body declares the real market value of land. Sometimes sale deeds are not even registered, and buyers have nightmares of losing the property. It is high time we had uniform and low stamp duties to bring land-related activity overground. The state will actually gain in terms of revenues in the long run, and the citizen can be secure.

Third, urban land ceiling laws have still not been repealed in many states, though the Union law has been repealed. It has been clearly established that urban land ceilings only increased corruption, locked up vast tracts of land, created artificial scarcity and drove up land prices and made housing unaffordable except to the very rich. And yet, our politicians and babus pretend that they are serving the interests of poor! All states need to be persuaded to repeal urban ceiling laws. There is no scarcity of residential land even in India. All you need is to repeal ceiling laws, and build roads in vacant lands. Vast tracts will be opened up for housing.

Fourth, rent control laws have inhibited construction and economic activity. Mafias are taking over real estate precisely because honest entrepreneurship is made impossible. The fate of Delhi Rent Control Act, which could not be notified or implemented despite enactment of the law seven years ago is a testimony to the power of vested interests. If the Parliament and government have no concern for the laws enacted, all governance becomes a sham. We need to repeal all rent control laws to encourage fair competition and true entrepreneurship.

There is a lot the state can, and should, do to promote growth and investment. Sometimes better regulation at low cost can yield greater dividends than vast expenditure and grand gestures which remain on paper.

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