

# The Changing Imperatives of India's Land Markets

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India's rapid growth following the reforms of 1991 has taken place without a concomitant reform of land markets. The formal role of the State continues to be that of occupying the commanding heights of the markets and determining their how, what, and where. But two factors have made this role increasingly unnecessary. First, economic growth has exerted pressure on land markets to an extent that this role of the State seems increasingly out of sync with the reality of urbanization, as well as the transition in the rural economy toward nonfarm employment. Second, the State itself has had to cope with these changes through various mechanisms, such as benign neglect and strategic enforcement, or through ad-hoc policy changes to accommodate and facilitate growth. While the State (especially the state governments) has been responsive to these changes, it has operated within significant constraints informed by outmoded ideas.

India's land markets have historically been determined by three major issues. First, land laws restrict transferability or permit transfers under restricted circumstances. Since land in India is a state subject, these restrictions vary state by state. In general, the land laws prevent transfer of agricultural land for nonagricultural uses, transfer of land to nonresidents, or both.<sup>1</sup>

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<sup>1</sup> Klaus Deininger, Songqing Jin, and Hari Nagarajan, "Efficiency and Equity Impacts of Rural Land Rental Restrictions: Evidence from India," *European Economic Review* 52 (2008): 892–918.

<sup>2</sup> For high real-estate costs, see Sanjoy Chakravorty, "Land Markets in Urban and Rural India: A New Price Regime," *Economic and Political Weekly* 48, no. 17 (April 27, 2013): 7–8.

<sup>3</sup> *Access to Justice Survey 2015-16*, Daksh India, accessed April 21, 2022, <http://dakshindia.org/wp-content/uploads/2016/05/Daksh-access-to-justice-survey.pdf>

In urban areas, the use of land for residential and commercial purposes is greatly restricted. This arguably has led to high real-estate costs and informality (where new settlements come up on government land with de facto possession but no legal ownership).<sup>2</sup> Second, the land recording system is suboptimal, and so the resultant uncertainty increases litigation.<sup>3</sup> Third, land markets are characterized by property-related litigation and administrative delays that disproportionately affect the poor.<sup>4</sup> Although the central government as well as state governments have attempted to improve these problems, their efforts have been slow relative to the tectonic shifts in the Indian economy in the past three decades.

After 1991, the Indian government has progressively reformed other markets, while leaving land markets unreformed.<sup>5</sup> These reforms freed up significant entrepreneurial energy by removing licensing requirements across many sectors.<sup>6</sup> But reforms in other markets, such as in the capital markets, have significantly shaped developments in land markets. Demand for

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<sup>2</sup> For high real-estate costs, see Sanjoy Chakravorty, “Land Markets in Urban and Rural India: A New Price Regime,” *Economic and Political Weekly* 48, no. 17 (April 27, 2013): 7–8.

<sup>3</sup> *Access to Justice Survey 2015-16*, Daksh India, accessed April 21, 2022, <http://dakshindia.org/wp-content/uploads/2016/05/Daksh-access-to-justice-survey.pdf>.

<sup>4</sup> Anirudh Burman, “Reforming Land Markets: Issues and Possible Solutions,” Pune International Centre, January 12, 2019, [https://puneinternationalcentre.org/wp-content/uploads/2021/09/Land\\_Anirudha-Burman-1.pdf](https://puneinternationalcentre.org/wp-content/uploads/2021/09/Land_Anirudha-Burman-1.pdf).

<sup>5</sup> For a general account of reforms in the 1990s, see Arvind Panagariya, “India in the 1980’s and 1990’s: A Triumph of Reforms,” *IMF Working Papers* 4, no. 43 (2004): 1. For a short summary of financial sector reforms since 1991, see Ila Patnaik and Ajay Shah, “Reforming India’s Financial System,” Carnegie Endowment for International Peace, January 2014, 36, [https://carnegieendowment.org/files/reform\\_indian\\_financial\\_system.pdf](https://carnegieendowment.org/files/reform_indian_financial_system.pdf).

<sup>6</sup> See Panagariya, “India in the 1980’s and 1990’s,” 22–23.

land has increased considerably in urban areas, and this changing composition of economic activity has led to increasing demand for land-use changes in both urban and rural areas.<sup>7</sup>

India's land markets exhibit two important, long-running trends: increasing and widespread urbanization, and changes in rural land-use caused by a shift away from farm-based employment. Both pre-date the 1991 reforms, but these trends continue to exist and remain significant.<sup>8</sup> I argue that the land-market policies now require a high degree of agility to cope with the economic transitions underway. I start with a description of the regulation of land markets before 1991.

## **Urban Growth**

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<sup>7</sup> See, for example, Amy Kazmin, "India: Land in Demand," *Financial Times*, July 7, 2015. For a discussion on the increasing demand for urban land, see Patrick Lamson-Hall et al., "Urban Growth in India: Horizontal, Chaotic, and Informal," *IDFC Institute*, 2020, 27,

[https://www.idfcinstitute.org/site/assets/files/16100/urban\\_growth\\_in\\_india\\_december\\_2020-1.pdf](https://www.idfcinstitute.org/site/assets/files/16100/urban_growth_in_india_december_2020-1.pdf).

<sup>8</sup> For a discussion on the pace of urbanization, see Robbin Jan van Duijne and Jan Nijman, "India's Emergent Urban Formations," *Annals of the American Association of Geographers* 109, no. 6 (November 2, 2019): 1978–98. While the pace of urbanization is apparently slowing, the number of people living in urban areas continues to increase. For details on current status of rural income sources, see "Inter-linkages between Input Costs, Diversification, Capital Formation and Income," vol. 2, "Status of Farmers' Income: Strategies for Accelerated Growth," Report of the Committee on Doubling Farmers' Income, Ministry of Agriculture & Farmers' Welfare, August 2017, Table 2.1 on page 11, <https://agricoop.gov.in/sites/default/files/DFI%20Volume%202.pdf>.

At independence, there was a high-modernist concept of cities that required restrictive zoning and strict segregation of land-use.<sup>9</sup> This was to be implemented through municipalities and parastatal authorities like the Delhi Development Authority (DDA), the institution responsible for urban development in Delhi.<sup>10</sup> Planned cities incorporated additional ideological preferences over time, such as low-rise construction and limiting migration and population density.<sup>11</sup> However, a large proportion of towns and cities lacked any plans for development. Even today, a vast majority of urban centers do not have formal plans for urban development.<sup>12</sup> This has created a two-dimensional pattern of urban growth in India—one with urban governance institutions in major cities, and the other with rural or quasi-urban institutions in smaller cities and towns.

Even before 1991, this institutional apparatus produced suboptimal results. The DDA, for example, has routinely underestimated the population growth and housing needs in the city of Delhi and missed even these underestimated housing targets throughout its existence.

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<sup>9</sup> Howard Spodek, “City Planning in India under British Rule,” *Economic and Political Weekly* 48, no. 4 (January 26, 2013): 53–61.

<sup>10</sup> See “Planning of Urban Development,” Task Forces on Housing and Urban Development, Planning Commission, September 1983, 80–81, [https://niti.gov.in/planningcommission.gov.in/docs/aboutus/taskforce/task\\_hud.pdf](https://niti.gov.in/planningcommission.gov.in/docs/aboutus/taskforce/task_hud.pdf). For a discussion specifically on Delhi, see Cedric Pugh, “Housing and Land Policies in Delhi,” *Journal of Urban Affairs* 13, no. 3 (October 1991): 367–82.

<sup>11</sup> See “Delhi Master Plan, 1962,” Delhi Development Authority, September 1, 1962, 75, <https://fdocuments.in/document/delhi-master-plan-1962.html>.

<sup>12</sup> See NITI Aayog, “Reforms in Urban Planning Capacity in India: Final Report,” September 2021, 58, <https://www.niti.gov.in/sites/default/files/2021-09/UrbanPlanningCapacity-in-India-16092021.pdf>.

Furthermore, the DDA has often acquired land in key parts of the city for development, removing it from the private market, and then taken years to develop this land even as demand for property continued to grow rapidly.<sup>13</sup> As a result, the performance of parastatals, who have monopoly powers to develop within their area in large cities, has caused deleterious effects on land prices and affordability within these cities.

In addition to these institutional failures, urban planning has failed largely on its own terms. Often zoning regulations and building bylaws place restrictions on land-use that result in significant inefficiencies.<sup>14</sup> For example, Byahut, Patel, and Mehta demonstrate how planning laws led to very low use of private open spaces in the city of Ahmedabad.<sup>15</sup> Faced with these constraints, major Indian cities tend to “sprawl” rather than densify, increasing commuting

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<sup>13</sup> See Pugh, “Housing and Land Policies in Delhi.” Also see Gautam Bhan, “Planned Illegality: Housing and the ‘Failure’ of Planning in Delhi: 1947–2010,” *Economic and Political Weekly* 48, no. 24 (June 15, 2013): 58–70.

<sup>14</sup> See Alain Bertaud, “Converting Land into Affordable Housing Floor Space,” NYU Stern Urbanization Project, October 2012, [https://alainbertaud.com/wp-content/uploads/2014/01/AB\\_Converting\\_Land\\_into\\_affordable\\_floor\\_space\\_Bertaud-URKS2012.pdf](https://alainbertaud.com/wp-content/uploads/2014/01/AB_Converting_Land_into_affordable_floor_space_Bertaud-URKS2012.pdf); “Bangalore: Note on Land Use Issues,” March 2002, [http://alainbertaud.com/wp-content/uploads/2013/06/AB\\_-Bangalore\\_Note\\_on\\_-land\\_Use\\_issues.pdf](http://alainbertaud.com/wp-content/uploads/2013/06/AB_-Bangalore_Note_on_-land_Use_issues.pdf); and “Mumbai FAR/FSI Conundrum,” July 20, 2011, [http://alainbertaud.com/wp-content/uploads/2013/06/AB-Mumbai-FSI-Conundrum-Revised\\_June-2013\\_kk-ab1.pdf](http://alainbertaud.com/wp-content/uploads/2013/06/AB-Mumbai-FSI-Conundrum-Revised_June-2013_kk-ab1.pdf).

<sup>15</sup> Sweta Byahut, Bimal Patel, and Jignesh Mehta, “Emergence of Sub-Optimal Land Utilization Patterns in Indian Cities,” *Journal of Urban Design* 25, no. 6 (November 1, 2020): 758–77. These regulations are mostly similar across major Indian cities.

times, infrastructure costs, and public safety issues.<sup>16</sup> This also exacerbates the lack of affordability in these cities.

Issues like these have become much more consequential in the last three decades. Large cities like Mumbai, Delhi, and Bangalore have seen a significant increase in population due to both natural growth and migration.<sup>17</sup> Even though their rate of growth has slowed down in recent years, the rapid expansion of these cities is significant for two reasons.

First, larger cities contribute disproportionately to economic growth and host close to a third of India's urban population.<sup>18</sup> The success of these cities, therefore, has disproportionate implications for India's growth trajectory. In contrast to nationwide trends, the pace of urbanization in major cities has reduced.<sup>19</sup> Land prices, however, continue to escalate. Real

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<sup>16</sup> Lamson-Hall et al., "Urban Growth in India."

<sup>17</sup> For estimates on the contribution of migration to Delhi's population growth, see "Master Plan for Delhi—2021," Delhi Development Authority, accessed April 22, 2022, <http://52.172.182.107/BPAMSCClient/seConfigFiles/Downloads/MPD2021.pdf>. For estimates on census towns, see Kanhu Charan Pradhan, "Unacknowledged Urbanisation," *Economic and Political Weekly* 48, no. 36 (September 7, 2013): 10.

<sup>18</sup> See "Reforms in Urban Planning Capacity in India," Table 2 on page 8, which states that 298 urban agglomerations and 170 towns categorized as Class-I towns comprise 70 percent of the total urban population. For literature on share of cities in the contribution to GDP, see Arup Mitra and Barjor Mehta, "Cities as the Engine of Growth: Evidence from India," *Journal of Urban Planning and Development* 137, no. 2 (June 2011): 171–83.

<sup>19</sup> See van Duijne and Nijman, "India's Emergent Urban Formations."

estate in Indian cities like Mumbai and Delhi are among the most expensive in the world.<sup>20</sup>

Indian metropolitan cities have also become key sites for services trade with the global economy. For example, Bangalore, Gurgaon, and Hyderabad are centers where India exports IT services. The growth of these services has increased demand for public infrastructure, office spaces, residences, and cultural ecosystems for educated professionals.

The failures of urban planning and governance now stand in sharp relief to market necessities as these trends continue. Very high land prices are one piece of evidence. Another is the high degree of informality and illegal private construction.<sup>21</sup> Land-use restrictions, building bylaws, and setback requirements are often violated, and such violations are tolerated because they circumvent extremely inefficient use of land.<sup>22</sup> This neglect has arguably facilitated the rapid growth of these cities over the past few decades, and it has also been more inclusive than sometimes argued. For example, there has been a significant decline in the percentage of slum population in the country, from 55 percent in 1990 to 30 percent in 2009.<sup>23</sup> However, this strategy of benign neglect is not sustainable. The externalities imposed by improper planning can quickly lead to urban decay if cities become unlivable. Some scholars have

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<sup>20</sup> Sanjoy Chakravorty, “A New Price Regime: Land Markets in Urban and Rural India,” *Economic and Political Weekly* 48, no. 17 (April 27, 2013): 10.

<sup>21</sup> Lamson-Hall et al., “Urban Growth in India.” Also see Bimal Patel, Sweta Byahut, and Brijesh Bhatha, “Building Regulations Are a Barrier to Affordable Housing in Indian Cities: The Case of Ahmedabad,” *Journal of Housing and the Built Environment* 33, no. 1 (March 2018): 175–95.

<sup>22</sup> Patel, Byahut, and Bhatha, “Building Regulations Are a Barrier to Affordable Housing in Indian Cities.”

<sup>23</sup> See *Handbook of Urban Statistics 2019*, Ministry of Housing and Urban Affairs, March 2019, Table 1.5,

<http://mohua.gov.in/pdf/5c80e2225a124Handbook%20of%20Urban%20Statistics%202019.pdf>.

argued that though India is becoming more urban, the rate of urbanization has reduced significantly—and permanently.<sup>24</sup>

Second, historically, the institutional response to urban growth in these large cities often has been a model for smaller cities. Delhi's DDA, for example, became a model for urban developments in many states and cities. Similarly, the Bombay Improvement Trust from the 1890s became a model for city improvement trusts across the country.<sup>25</sup> Institutional strategies in large cities, therefore, tend to reproduce themselves and direct patterns of urbanization. Although local variations exist in practice, they must be managed within these institutional structures.

The last census in 2011 highlighted a significant growth in the number of “census towns” (towns that meet the criteria of an urban settlement but have not been officially declared to be urban).<sup>26</sup> This indicates a speeding up of small-scale urbanization in rural areas. If urban governance institutions function similarly in newer and smaller cities the way they have in large ones, inefficiencies in land-use are likely to make these cities progressively more unaffordable as well.

This places the urbanization process in smaller towns and cities between the devil and the deep blue sea. On the one hand, urban growth has occurred organically and will continue to

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<sup>24</sup> Chinmay Tumble, “Urbanisation, Demographic Transition, and the Growth of Cities in India, 1870–2020” (IGC Working Paper No. C-35205-INC-1, September 2016), 41, <https://www.theigc.org/wp-content/uploads/2016/11/Tumble-2016-Working-paper.pdf>.

<sup>25</sup> Spodek, “City Planning in India under British Rule.” Also see “Planning of Urban Development.”

<sup>26</sup> Pradhan, “Unacknowledged Urbanisation.”



do so up to a point under this policy of benign neglect. On the other hand, any planning and infrastructure provisioning will become exponentially costly when the population reaches critical mass. Once this happens, the positive externalities arising from proper land-use will be harder to create, and this will provide greater avenues for the extraction of economic rent.

One of the most important questions concerning this dispersed pattern of urbanization is: What urban governance institutions are likely to best govern land-use in these towns and cities? The low rate of formal classification of census towns as urban areas (15 percent in 2001) indicates that many of these towns may not see the same kinds of institutional arrangements that large towns and cities do.<sup>27</sup> Pradhan highlights that 90 percent of the new census towns that came up between 2001 and 2011 were formerly villages.<sup>28</sup> More nimble governance systems, therefore, will be required to cope with the demand for specific patterns of urbanization and land-use changes in these census towns.

### **Rural Transformation**

After independence, and then again in the 1970s, land in rural areas was conceptualized as an important factor for an egalitarian reordering of Indian society.<sup>29</sup> Therefore, state

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<sup>27</sup> Pradhan, “Unacknowledged Urbanisation.”

<sup>28</sup> Pradhan, “Unacknowledged Urbanisation,” 45. As census towns have not been formally classified as urban, they, and even smaller statutory towns, have continued to be governed by institutions of rural governance (e.g., panchayats, town panchayats, etc.) rather than municipalities.

<sup>29</sup> All-India Congress Committee, *Report of the Congress Agrarian Reforms Committee*, 2nd ed. (New Delhi: Madras Publishing House, 1951),

<https://ia801900.us.archive.org/5/items/in.ernet.dli.2015.275621/2015.275621.Report-Of.pdf>. Also

governments passed a huge volume of land reform legislations.<sup>30</sup> These reforms, it was believed, would lead to agricultural modernization and create the economic surplus necessary for rapid industrial growth. For example, zamindari (the absentee landlord system) was abolished, land ceilings were imposed, tenants were given de facto ownership, and transfers of land rights were prohibited.<sup>31</sup> In many states, land leasing was banned and changes to land-use were highly regulated.<sup>32</sup> These laws remain in force today, even though they were mostly unsuccessful and discarded as a priority almost four decades ago.<sup>33</sup> They now mostly exist to constrain the process of rural transformation.

Rapid economic growth after 1991 has led to an acceleration of urbanization and the diversification of the rural economy. Close to half of rural incomes now come from nonfarm employment.<sup>34</sup> Activities such as livestock, floriculture, and fisheries have seen the highest

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see “1st Five Year Plan,” Planning Commission, 1951, chap. 12,

<https://niti.gov.in/planningcommission.gov.in/docs/plans/planrel/fiveyr/index1.html>.

<sup>30</sup> Timothy Besley and Robin Burgess, “Land Reform, Poverty Reduction, and Growth: Evidence from India,” *Quarterly Journal of Economics* 115, no. 2 (May 2000): 389–430.

<sup>31</sup> Robin Mearns, “Access to Land in Rural India: Policy Issues and Options,” Policy Research Working Papers, The World Bank, 1999.

<sup>32</sup> See NITI Aayog, “Report of the Expert Committee on Land Leasing,” March 31, 2016, [http://www.niti.gov.in/writereaddata/files/document\\_publication/Final\\_Report\\_Expert\\_Group\\_on\\_Land\\_Leasing.pdf](http://www.niti.gov.in/writereaddata/files/document_publication/Final_Report_Expert_Group_on_Land_Leasing.pdf).

<sup>33</sup> For more, see “Report of Committee on State Agrarian Relations and the Unfinished Task in Land Reforms,” Department of Land Resources, Ministry of Rural Development, accessed May 4, 2022, <https://dolr.gov.in/sites/default/files/Committee%20Report.pdf>.

<sup>34</sup> “Inter-linkages between Input Costs, Diversification, Capital Formation and Income,” Table 2.1.

growth rates since 1991.<sup>35</sup> In addition, the increasing indebtedness in rural areas is a sign of the growing creditworthiness of rural households, further signaling increasing entrepreneurial ability.<sup>36</sup>

Lastly, while rural productivity has increased in this period, farm-related incomes have not grown at the desired pace.<sup>37</sup> The market for land in rural areas, therefore, suffers from policy stasis on two levels: facilitating the changing rural economy and enabling more efficient use of land in agriculture.

A dirigisme of land laws and institutions is a significant obstacle to both. Nonfarm economic activities require changing agricultural land for nonagricultural purposes, the use of residential land for commercial purposes, or both. This process is, however, highly intermediated by the State. For example, State government revenue officials exercise

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<sup>35</sup> “Historical Analysis and Examination of India’s Agricultural Production and Farmers’ Income,” vol. 1, “March of Agriculture since Independence and Growth Trends,” Report of the Committee on Doubling Farmers’ Income, Ministry of Agriculture & Farmers’ Welfare, August 2017, Table 1.2 on page 5, <http://agricoop.gov.in/sites/default/files/DFI%20Volume%201.pdf>.

<sup>36</sup> For rural indebtedness figures, see National Statistical Office, “Situation Assessment of Agricultural Households and Land and Livestock Holdings of Households in Rural India, 2019—NSS 77th Round (January 2019–December 2019),” Ministry of Statistics and Programme Implementation, September 2021, [https://www.mospi.gov.in/documents/213904/301563//Report\\_587m1631267040957.pdf/3793650e-8cf1-7872-ae90-51470c8d211c](https://www.mospi.gov.in/documents/213904/301563//Report_587m1631267040957.pdf/3793650e-8cf1-7872-ae90-51470c8d211c).

<sup>37</sup> See “Inter-linkages between Input Costs, Diversification, Capital Formation and Income,” Table 2.9 on page 25.

significant discretionary powers over “conversion” of land.<sup>38</sup> This creates avenues for rent extraction and business uncertainty for entrepreneurs.

It is likely that, so far, the process of rural transformation has taken place because of lax enforcement. Land administration in the rural economy has been nominal, especially as land revenue from agriculture has become an insignificant portion of State revenues. However, this might change as the value of economic activities in rural areas increase.

Land laws continue to constrain the free use of land. For example, many states completely prohibit land leasing, while others permit it in limited cases.<sup>39</sup> Many states do not allow nonagriculturalists to buy agricultural land, while others do not allow non-state residents to buy agricultural land. Ostensibly these land laws exist to protect farmers’ land rights. However, in many cases, these laws constrain investments in the productive use of land. For example, many states prohibit foreclosures of agricultural land, inhibiting credit growth.<sup>40</sup>

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<sup>38</sup> See, for example, forms required by the Government of Rajasthan Revenue Department for the conversion of agricultural land for nonagricultural purposes in rural areas, 2007, <https://industries.rajasthan.gov.in/content/dam/industries/CI/LandConversionRules.pdf>.

<sup>39</sup> NITI Aayog, “Report of the Expert Committee on Land Leasing.”

<sup>40</sup> Babu Sivaprakasan, “Agricultural Land Mortgage Problems in India,” 99acres, November 16, 2016, <https://www.99acres.com/articles/agricultural-land-mortgage-problems-in-india.html>. Some states, such as Himachal Pradesh, have removed such restrictions. See The Himachal Pradesh Agricultural Credit Operations and Miscellaneous Provisions (Banks) Act, 1972, Pub. L. No. 7 (1973), section 7, [https://himachal.nic.in/WriteReadData/1892s/10\\_1892s/The%20Himachal%20Pradesh%20Agricultural%20Credit%20Operations%20and%20Miscellaneous%20Provisions%20\(Banks\)%20Act,%201972-73643483.pdf](https://himachal.nic.in/WriteReadData/1892s/10_1892s/The%20Himachal%20Pradesh%20Agricultural%20Credit%20Operations%20and%20Miscellaneous%20Provisions%20(Banks)%20Act,%201972-73643483.pdf).

These restrictions are out of sync with an agrarian economy that is witnessing transformation. The underlying logic of these restrictions was understandable (even though they were problematic) when the rural economy was primarily agrarian and farmers had limited avenues for accessing credit or other investment. However, three decades of economic liberalization have changed the underlying material conditions in which the rural economy operates. Financial inclusion and access to credit have expanded, making the rural economy much more diverse and complex.<sup>41</sup>

### **Land-Market Policy**

The problem with arguing for less restraint is that land markets have, after all, witnessed significant dynamism despite the stifling restrictions described above. Urban growth and rural transformations have been significant in the last 30 years. It is difficult to make conclusive arguments about the benefits of less regulation given this fact. As discussed earlier, the complete lack of town planning is not an antidote to overregulated town planning.

It is true that India's progress in urbanization and agrarian productivity has been slower compared to many comparable countries.<sup>42</sup> China and other East Asian economies, for example, have done better on both. Not all of them have followed the same policies in land

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<sup>41</sup> See Reserve Bank of India, "Report on Trend and Progress of Banking in India 2019–20," 2020, 80–84, [https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/0RTP2020\\_F3D078985540A4179B62B7734C7B445C9.PDF](https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/0RTP2020_F3D078985540A4179B62B7734C7B445C9.PDF).

<sup>42</sup> See Tumble, "Urbanization, Demographic Transition and the Growth of Cities in India," 5–6.

markets, but their process of attaining sustained high growth involved changes to land-market policies.<sup>43</sup>

The fundamental character of the regulatory framework described in this essay is to enable the State to intermediate heavily in land markets and control development. The current framework is at odds with market realities, and coping strategies deployed to work through the restrictions are not optimal. Land-market policies need a fundamental rethink to facilitate the economic transitions underway. This needs to occur at two levels: reorientation of regulations toward preventing market failures and development of human and organizational capital within State agencies.

This is already taking place at some levels, especially in state legislatures and governments. For example, Gujarat has progressively removed restrictions on the transferability of agricultural land, making it easier to use agricultural land for nonagricultural purposes. Recently, Karnataka has enacted similar changes.<sup>44</sup> Both states have reduced or completely removed government intermediations in the conversion of agricultural land. In addition, the ongoing process of land-record digitization is likely to reduce transaction costs in accessing credit.<sup>45</sup> The central government's SVAMITVA scheme grants property titles to holders of

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<sup>43</sup> Joe Studwell, *How Asia Works: Success and Failure in the World's Most Dynamic Region* (New York: Grove Press, 2013).

<sup>44</sup> For a detailed account of changes undertaken by Gujarat and Karnataka, see Ankit Bhatia, "Tracking Reforms in Land Leasing and Change in Land Use: Insights from Gujarat and Karnataka," *Carnegie India*, May 19, 2021.

<sup>45</sup> Sudha Narayanan et al., "Digital India Land Records Modernisation Programme: Assessing Impact in Himachal Pradesh and Maharashtra," *Ideas for India*, August 6, 2018.

residential and commercial land in rural areas, providing another avenue for collateralizing land and capitalizing on its value.<sup>46</sup> The model land-leasing law by the NITI Aayog proposes to liberalize land-leasing restrictions on agricultural land throughout the country.<sup>47</sup> All these initiatives would result in more efficient use and capitalization of land in rural areas.

But much more could be done. The direction of these reforms is positive, but the scope has so far been limited. While some state governments have made progressive reforms, others have lagged. Even though land is a state subject, the central government has historically provided the ideological impetus for state legislations. For example, the Planning Commission made recommendations for the First Five-Year Plan regarding land-reform legislation, and incentives were given under the JNNURM scheme for the removal of urban land ceilings by the central government. The current era of one-party dominance may provide opportunities to expand the scope of changes.

The central government successfully pushed for the removal of urban land ceilings and rent-control laws.<sup>48</sup> In 2016, it enacted the Real Estate (Regulation and Development) Act to

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<sup>46</sup> Vinay Kumar Singh and Alok Prem Nagar, “The Svamitva Scheme Can Revitalize Our Rural Economy,” *Mint*, June 7, 2021, sec. Opinion, <https://www.livemint.com/opinion/online-views/the-svamitva-scheme-can-revitalize-our-rural-economy-11623080388740.html>.

<sup>47</sup> NITI Aayog, “Report of the Expert Committee on Land Leasing.”

<sup>48</sup> E. Jayashree Kurup and Faizan Haidar, “ULCRA across the Country,” *The Economic Times*, December 16, 2007, <https://economictimes.indiatimes.com/property/ulcra-across-the-country/articleshow/2625417.cms>.; For more on successful central government intervention to liberalize land markets, see Abhay Pethe and Ramakrishna Nallathiga, “Legislative Impact on Land Markets in Cities: The Case of ULCRA in Mumbai and Its Repeal,” *Environment and Urbanization ASIA* 8, no. 2 (September 1, 2017): 201–13, <https://doi.org/10/gft8gx>.

improve consumer confidence in private developers.<sup>49</sup> The Ministry of Urban Development issued standardized urban planning guidelines to promote more rational use of land. States have sought to use market-based mechanisms, such as land-pooling and transferable development rights.<sup>50</sup> These steps point to a positive trend in land policy. However, again, the scope for changes is much larger and the need more imperative.

We must focus on the organizational structure of rural and urban administrative bodies. One element of this is to overhaul the regulatory framework. Absent this, more capable institutions will merely deliver on implementing bad ideas. Parastatals that continue to poorly deliver on urban planning objectives, for example, must be overhauled and new institutional entity identified. The subsequent step is to add human resources to governance institutions.

## **Conclusion**

India's land markets are necessary components of India's economic growth process. Rapid economic growth has made these markets more dynamic, increasing the demand for land and changes in land-use. Two major trends that are continuing to take place are urbanization and rural economic diversification. The current regulatory regime and governance institutions in land markets, however, are designed to constrain rapid economic changes. A high degree of state government intermediations continue to characterize land markets, and they have achieved suboptimal outcomes. Progress has been facilitated mostly through benign neglect

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<sup>49</sup> Republic of India, "Real Estate (Regulation and Development) Act, 2016" (2016),

[https://www.indiacode.nic.in/bitstream/123456789/2158/1/A2016\\_16.pdf](https://www.indiacode.nic.in/bitstream/123456789/2158/1/A2016_16.pdf).

<sup>50</sup> "Urban and Regional Development Plans Formulation and Implementation (URDPFI) Guidelines," vol. 1, Ministry of Urban Development, January 2015,

[https://mohua.gov.in/upload/uploadfiles/files/URDPFI%20Guidelines%20Vol%20I\(2\).pdf](https://mohua.gov.in/upload/uploadfiles/files/URDPFI%20Guidelines%20Vol%20I(2).pdf).



or coping strategies that remain ad-hoc and uncertain. Therefore, there is significant scope for improving the efficiency of land-use in both urban and rural areas.

While the direction of reforms undertaken by the central government and the states is encouraging, they should propose a clear road map for facilitating greater efficiency in the use of land for sustained economic growth.