

## **Apprehension Over Compensation: Examining New Welfare Economics in Indian Context**

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### **Abstract**

Most of the development projects in the modern world lack humaneness since they afford subsided compensation. Such diminished compensation leaves the losses unaccomplished and no obviated. It marginalises the affected poor and environment in to the remote circle of negligence and helplessness. This paper attempts to examine the validity of Kaldor-Hicks Compensation Principle in the context of India's thickly populated states such as Bihar, West Bengal, Kerala, UP, Tamil Nadu, Punjab and Haryana which are environmentally sensitive too by bringing five relevant questions pertaining to sufficiency of pricing, compensatory or un compensatory losses, accountability of compensation, compensation of environmental degradation and difference between potential compensation and actual compensation under examination. This paper has brought the inadequacy of pricing of compensation to light. This paper accentuated on certain losses which cannot be compensated such as 'culture shock' and environmental demolition. An enquiry has been made to cognizant the true surety of compensation.

**Key words:** Compensation, Kaldorr-Hicks Compensation Principle, Pricing, Culture shock, Environmental demolition

### **Apprehension Over Compensation: Examining New Welfare Economics in Indian Context**

#### **Introduction**

Almost all development projects in the modern world cannot gather momentum without worsening someone. An economic change or a development project making all persons better off is hard to see today. It may make the individuals, victims of the development revolution along with bringing benefit to others. As Nicholas Kaldor (1939) and J.R. Hicks (1939) argue that a development project not to be drained in the

name of bringing loss to some one if the beneficiaries of the project are able and ready to compensate the loss making individuals and still the beneficiaries remain as gainers. 'New Welfare Economics' laid foundation by Kaldor and Hicks tried to dispel the defects of 'Pareto Optimum' which conceived that an economic activity which brings benefit to someone with making no one worse off leads to maximisation of welfare. Kaldor-Hicks Compensation Principle aimed to mitigate the serious defect of 'Pareto Optimum' that it cannot be applied to any economic circumstance which makes some one better off and someone worse off. Thus the Compensation Principle' emerged as the antidote for the major interrogation of Pareto's Social Welfare Function. It helped the New Welfare Economics to attain eminent position among welfare economists.

Even though New Welfare Economics gained wider acceptability in replacing Pareto Optimality Criterion by obviating its defects, it has been subjected to wider discussion on its validity. This paper attempts to analyse the validity of the Compensation Principle in implementing development projects in a state like Kerala. The incidence of any development process would be ascended in the states of Bihar, West Bengal, Kerala, Uttar Pradesh, Tamil Nadu, Punjab and Haryana where the density of population are highest (Ministry of Home Affairs, 2013). The popular protests against the developmental projects are also highest in these states. Farmers' agitations against acquisition of 3200 acres of land for the Logistic and Industrial Park (LIP) at Bihta in Patna district and acquisition of 1871 acres of private land by state government for setting up 3300 MW power project at Nabinagar in Aurangabad district are some of the recent examples in the state of Bihar (Banerjee, 2011). Ferocious encroachment for displacement on the proletariat in Nandigram where the state government forcefully tried to expropriate 10,000 acres of land for a Special Economic Zone (SEZ) to be developed by the Indonesian based 'Salim Group' for industrialization in 2007 and Tata Nano Singur Controversy at Singur in Hooghly district where the government acquired 997 acres of land for 'Nano factory of Tata motors' in West Bengal are the two ever smouldering events in India's development-displacement history. Kerala's development sector has also been smudged after the government's plans or/and actions to acquire land for establishing smart cities or IT parks such as Techno Park at Trivandrum, Infopark at Kochi and proposed IT Parks at Kannur, Kasragode, Kozhikode and Malappuram, constructing airports at Kannur and Aranmula, constructing of dams especially at Mullaperiyar and Silent Valley, national highway expansion, metro and mono-rail projects, locating gas pipe line project of GAIL India and construction of express way and coastal highway. Diffidence in the compensation of the losers of development projects are discussed below. Farmers' unions led the protests, joined by fishermen and labourers from villages in Uttar Pradesh, Jharkhand, Tamil Nadu, Assam, Punjab, Haryana, Chhattisgarh, Kerala and West Bengal against the amendment of Land Acquisition Act (Mohan, 2015).

### **Objectives**

1. To examine the validity of Kaldor-Hicks Compensation Principle in Indian context.

2. To scour different aspects of compensation viz. Its pricing, reality, scope and entities responsible for compensation.

### **Methodology**

This paper systemizes the Kaldor-Hicks Compensation Principle to mold its scope and validity in Indian context. The study applied analytical framework with the help of examples and lessons from certain economic reorganisations in India. The study hardly relied and accessed any type of data for the analysis. Rather it focussed on previous studies and expressions of the experts and pioneers in the field of welfare economics. Thus the study employed inductive reasoning as it tries to make generalization through candid instances.

### **Examining New Welfare Economics**

Economists like Kaldor, Hicks and Scitovsky have made efforts to evaluate the changes in social welfare resulting from any economic reorganisation which harms somebody and benefits the others. These economists have sought to remove indeterminacy in the analysis of Pareto optimality. They have put forward a criterion known as the 'compensation principle' on the basis of which they claim to evaluate those changes in economic policy or organisation which makes some individual better off and others worse off.

### **Is pricing of compensation sufficient? :**

First of all, amount of compensation would be minus or inadequate in most of the cases in rehabilitation history of Indian states. How to price or how much to price a loss of development project is a matter of higher concern. The amount allocated by the authority for the loss of land due to development project such as national high way construction/expansion, construction of dams and construction/expansion of airports in Kerala is always less than what they will get from the open market. The value of compensation will be set and allocated by the beneficiaries of the project as per New Welfare Economics. Thus externality would then be uncompensated even if compensation made by the government is enough or satisfactory. Price of compensation should be enough along with agreeable rehabilitation. By supporting 'Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013', Gopinath Munde, Ex-Minister of Rural Development under Narendra Modi Government at the Centre had told that "Farmers should get the market price for their land acquired for industries and other purposes" (BusinessLine, 2014).

### **Are all losses compensatory? :**

Certain losses cannot be compensated. No material resources can bring pleasure and peace back to the displaced. Their mental sufferance cannot be priced in any market. This transplantation of people from their natural environment to unsuited and transverse environment makes them dejected. Even this 'culture shock' is not for

ever; it darkens the inclination to work at best and takes time to regain pre-existence. Thus even if the compensation to the displaced is large enough or is greater than their losses, welfare is not needed to be ascended. Welfare loss can be minimised only when displaced environment should be similar to that of original along with sufficient compensation. Its not easy to provide such an environment with all facilities previously enjoyed by the displaced in similar quality like feeling of acquaintance, feeling of safety and pleasure, presence of sheltered neighbourhood and accessibility of necessary goods and services.

**Who will compensate the losers? :**

Kaldor-Hicks Compensation Principle doesn't imagine an ideal case of gainers compensating losers fully. Rather it heeds surplus even after potential compensation. As new welfare economists absolutely scorned humaneness causes the fettle of the laymen tragic after maximising the gap between assailant and victim or between gainers and losers. Since most development projects are for providing public goods or non-exclusive goods, pricing of compensation and carrying become a topsy-turvy job. Public goods are enjoyed by everyone may make someone better off and others worse off. Displacement of people induced by the construction of public goods like road, railway line and dam etc. cannot be compensated by the gainers of such projects such as traders, industrialists, farmers, providers of transport services, travellers and connected employees. Thus there arises externality in the provision of public goods since no one would be ready to pay for an external benefit or to compensate an external cost. As Kristin Morse and Raymond J. Struyk (2006) noted that "free-riders" would benefit from the service of a public good without any payment since there is no practical way to charge for the use of a public good. Compensation for the displacement induced by certain projects in Kerala like Special Economic Zones (SEZs) and airports will also be obscured. Since Kerala is state which tries to attract investors into such projects, the Government of Kerala (GoK) is found to be taking up of the accountability of compensation. Thus the ultimate burden of compensation would be affixed on the commons.

**Is Environmental degradation compensatory? :**

In economics, external cost caused by environmental degradation can be evaporated if adequate compensation is made. But environmental problems can and do undermine the goals of development. There are two ways in which this can happen. First, environmental quality-water that is safe and plentiful and air that is healthy- is itself part of the improvement in welfare that development attempts to bring. If the benefits from rising incomes are offset by the costs imposed on health and the quality of life by pollution, this cannot be called development. Second, environmental damage can undermine future productivity. Soils that, are degraded, aquifers that are depleted, and eco systems that are destroyed in the name raising incomes today can jeopardize the prospects for earning income tomorrow (Meir.,Rauch. 2002). This argument surpasses environmental quality over economic growth and development. It reveals that environmental degradation is un compensatory. But we have an exemplary example for beautiful restoration of conservation at Attappady in Palakkad district where the

Attappady Wasteland Comprehensive Environmental Conservation Project (AWCEP) has been implemented by Attappady Hill Area Development Society (AHADS) to restore degraded wasteland after the development activities at Attappady. It has been permitted only due to the well organised and decentralised modus operandi by alienating contractor raj (Isaac, 2013). These two contradictory appraisements urge the government to adopt adequate and prudent tact to procure balanced development. Todaro and Smith in their 'economic Development' (2003) notes that it is important that development policy makers incorporate some form of environmental accounting in to their decisions. For example, the preservation or loss of valuable environmental resources should be factored into estimates of economic growth and human well-being. Alternatively policy makers may set a goal of no net loss of environmental assets. In other words, if an environmental resource of equal or greater value should be regenerated elsewhere.

Overall capital assets are meant to include not only manufactured capital (machines, factories, roads) but also human capital (knowledge, experience, skills) and environmental capital (forests, soil quality, range land). By this definition, sustainable development requires that these overall capital assets not be decreasing and that the correct measure of sustainable national income or sustainable net national product (NNP\*) is the amount that can be consumed without diminishing the capital stock. Symbolically,

$$NNP^* = GNP - D_m - D_n$$

Where NNP\* is sustainable national income,  $D_m$  is the depreciation of manufactured capital assets, and  $D_n$  is depreciation of environmental capital- the monetary value of environmental decay over the course of a year (Pearce and Warford, 1993).

### **Potential Compensation versus Actual Compensation:**

Kaldor does not require that the losers should actually be compensated. Rather he requires that the gainers should be able to compensate the losers out of their gains. Hicks presents the same criterion in a little different way: 'If A is made so much better off by the change that could compensate B for his loss, and still have something left over, then the reorganisation is unequivocal improvement'. Though Hicks seems to be more humanitarian in his stand, Kaldor's view proves to be congruent to the corporatism that aims at maximising profit. Many reorganisations of the modern period satisfy Kaldor's tendentious view. Hicks have given his criterion from the losers' point of view, while Kaldor had formulated his criterion from gainers' point of view. Thus the two criteria are really the same though they are clothed in different words. That is why they are generally called by a single name 'Kaldor-Hicks criterion'.

Kaldor has also been criticised by Scitovsky for his view that the state is fully responsible for maintaining an equitable distribution of income. If there is unequal income distribution in a community, it is corrected as a matter of the course by the state thorough a system of compensation. Nonetheless, Hicks' view of actual compensation to the losers by the gainers pondered as the necessary condition for maximisation of welfare.

### Conclusion

“New Welfare Economics” laid foundation by Kaldor and Hicks is suffering from serious shortcoming of limited applicability in India’s thickly populated states which are unable to provide adequate compensation and rehabilitation. Besides this, compensation will be a bigger burden on a state like Kerala which is running a higher fiscal deficit. The paper divulges the likelihood of insufficiency of the compensation or resettlement in real terms even though the loss of the victims is settled in nominal terms. It casts light into the inability of the gainers to replace the lost living environment which gave immense pleasure to the residents. The paper also explores certain un compensatory losses such as environmental degradation etc.

The Government will be in a great dilemma of whether to choose a development project which is necessary for economic progress or to protect environment with all its previous quality which is necessary for the further growth. This paper arouses the government to originate a well suited development agenda for the Indian states by heeding the interests of displaced, beneficiaries and environment. The paper also questioned the act of taking the accountability of compensation by the government especially in the provision of public goods.

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