

In the meantime, I cannot escape the feeling that some great catastrophe is drawing nearer. Among the growing dangers, one must include the massive growth of cities of over 15 or 20 million in Asia or Latin America, many surrounded by shanty towns filled with desperate families. A failure in the electricity or water supply, a severe drought or flood, over a few days, could easily precipitate uncontrollable rioting as angry hordes of people invade the city centers and create havoc.

**DT:** *Your worldview encompasses ethical as well as economical considerations. Do you have any religious faith?*

**EM:** I would rather have a world in which every one believed in God. Religion can be an immense source of comfort and solace to people. Of course, it cannot be doubted that religion has lent itself

to all sorts of abuses. But then any institution disposing of enormous power is bound to lend itself to corruption. Yet, at least among the countries of the West, religion has been fading from our lives. It is no longer a real force in our lives. Lost innocence cannot be restored. Once we are aware that over hundreds of millions of years creatures, large and small, have evolved that survive only by preying on each other, either as parasites or tearing and clawing others to death to devour them, it is hardly possible to believe in God. It may be possible to believe in some omnipotent source of power, but certainly not a caring or benevolent one.

**DT:** *What is your guiding philosophy?*

**EM:** My guiding philosophy is simply to resign myself to the inevitable: To “eat, drink, and be merry,” for tomorrow I will cease to be. ■

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## The Costs of Economic Growth

BY EZRA J. MISHAN

*Editor's Note: Professor Mishan's book, The Costs of Economic Growth, was first published in 1967, and created a sensation. He challenged the fundamental assumptions upon which the secular religion of economic growth is based. Global perils, including environmental damage on a vast scale, have confirmed the originality and soundness of his critique. Here we include a brief excerpt from his book.*

### Preface

Some may complain of a lack of detailed proposals or, worse, a lack of politically practicable proposals. But, at a time when the decencies of civilized living are daily beset by the exigencies of rapid material development, detailed proposals are secondary to what I deem to be the main task: that of convincing people of the need of radical change in our habitual ways of looking at economic events. As for political practicability,

it is not too hard to foster a reputation for sound judgment and realism by a conspicuous display of moderation in moving with the times and a care to suggest nothing that the public is not just about ready to accept in any case. Such political sense has its uses, but it has nothing to contribute in any radical reassessment of social policy. Ideas that seem, at first, to be doomed to political importance may strike root in the imagination of ordinary men and women, spreading and growing in strength until ready to emerge in political form. For what is politically feasible depends, in the last resort, on the active influences on public opinion.

### The External Diseconomies of Built-up Areas

There are technological limits to the economies of size. Even assuming these economies of size to be large, there are countervailing diseconomies of size. The larger the city the more time and resources have to be spent within the city on the movement of people and goods. Even telephone communication can become wasteful as the numbers in commerce and the professions increase. Any growth of

building densities in city centers adds further to the difficulties of traffic that has passed the point of mutual frustration.

The effects of any additional population, in adding to the traffic, and ultimately in time spent commuting, in adding to the noise and grime, and the impact of this increased pressure on people's health and disposition are not taken into account by commerce and industry. Important though they are, they are difficult to measure. In the absence of pertinent legislation the incentive for expanding firms to bring them into the cost calculus is virtually non-existent.

The extent of the social damage inflicted by traffic congestion, even on itself alone, tends to be underrated by a public which habitually thinks in terms of an average figure rather than in terms of the appropriate marginal concept.

Of no less topical interest is the growth of the city's population. Each person who chooses to live in the metropolis has no thought of the additional costs he necessarily imposes on others, and especially over the short period during which it is not possible to add to the existing accommodation, road space or public transport facilities. In the more crowded parts of the metropolitan area it requires no more than a few thousand immigrants to reduce in remarkable degree the standard of comfort of all the previous inhabitants of the area. If the immigrants into the city happen to arrive from other parts of the country, or from other parts of the world enjoying comparable standards, the degree of discomfort suffered by the existing inhabitants, though incompatible with any optimal situation, will remain within limits. For such immigration will not continue if living conditions in such areas fall too far below the standards generally expected.

If, on the other hand, immigrants come from countries with standards of living, of hygiene and comfort, well below those prevalent in the host country, the standards of the neighborhood within which the immigrants elect to settle may have to decline drastically before the standards themselves begin to act as a disincentive to further immigration. Indeed, the immigrants may be willing to tolerate worse conditions than in the homeland since (i) those who pioneer the immigration will be prepared

to endure hardship for a year or two in the hope of bettering their lot later, and (ii) some are resigned to dwell in squalid conditions for several years with the aim, initially at least, of amassing a sum of money in order either to return or to bring over their families. Moreover, there is always a time-lag, measured perhaps in years, between the worsening of conditions in immigrant areas of the city and the general appreciation of this fact in the immigrants' homelands.

## External Diseconomies and Social Conflict

A more menacing source of conflict at this stage in world history, though people appear reluctant to recognize the fact, is that arising from continued population expansion and, more recently, mass migration. In very poor countries, such as India, the "classical" economic situation is still to be found: a growing population pressing on limited natural resources, and a tendency, therefore, for the incomes of property owners to rise while, in general, living standards settle near bare subsistence. Although this Malthusian situation is a thing of the past within Western Europe, there still remains the potent threat of further movements of indigenous population, in particular of motorized population, into urban areas. Such movements continue to press on limited space as to make the physical environment in which we live increasingly disagreeable.

To put the matter bluntly, there are no longer vast inhabitable areas to be peopled in Western Europe. And though freedom to move is an ancient and cherished freedom, the scale of potential immigration into Europe from poor countries is today fraught with social and economic consequences that are far from being beneficial to the indigenous populations. Inasmuch as net immigration acts to reduce the amount of land *per capita* available, real rents rise; inasmuch as immigrants from the poor countries are for the main part unskilled and without capital assets there is an initial reduction in the capital-income ratio of the host country. In addition, since net immigration of labor acts to raise the returns to land and capital, the distributional effects tend to be regressive, the extent

of these effects depending, *inter alia*, on the scale of immigration, on the rate of capital accumulation, on the innovating processes, and on the technical difficulty of substituting capital in industry.

Moreover, large-scale immigration is not only likely to be socially unsettling, in an economy as close to full employment as that of the United Kingdom and the United States has been since the war, it is almost sure to have a net inflationary impact on the economy. A large-scale inflow of relatively unskilled labor therefore acts as a distributionally regressive force (inasmuch as profits and, to a lesser extent, wages increase at the expense of fixed income groups including pensioners). In addition, an increase of population from abroad, like an increase in the indigenous population, raises the demand for imports (even in the complete absence of upward pressure on domestic prices) without inducing a corresponding increase of exports thereby worsening the balance-of-payments position—or worsening the terms of trade in the longer run.<sup>1</sup> Nonetheless, I am inclined to rate very much higher than these untoward economic effects the impact of large-scale immigration on the existing diseconomies of an already too-large-for-comfort population and the already intractable traffic problem. These diseconomies will necessarily be aggravated and frequently localized by immigration into this rather tight little island<sup>2</sup>

It may be observed in passing that this conflict between the existing inhabitants of a region and would-be immigrants is also to be found within the frontiers of a single country. For instance, according to Professor Raymond Dasmann, the beauty and natural resources of California are being destroyed by the rapid influx of Americans from other states. “Everywhere,” writes Dasmann, “crowding destroys the values that the people who crowd in come to seek.” Lake Tahoe, the largest and perhaps the most beautiful mountain lake in the United States, became the fashionable place to go to after the Second World War. “Nevada gamblers began to build skyscraper hotels...Seepage and effluent from sewage treatment plants began to pour...into the once clear water.”

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Now, like other lakes in the United States, Tahoe is on its way to becoming an algae-fouled cesspool.

From the destruction wrought by large population movements to that wrought by mass tourism is a short step and one that opens up a vista of the immeasurable destructive potential of indiscriminate economic growth. In the last decade alone there has been something of a holocaust of the scarcest of our earthly resources, natural beauty. In this instance the conflict of interest is between, on the one hand, the tourists, tourist agencies, traffic industries and ancillary services, to say nothing of governments anxious to augment their reserves of foreign currencies, and all those who care about preserving natural beauty on the other. There is obviously also a conflict of interest between present and future generations.

1. It is sometimes argued in the popular press that this country benefits from immigrants’ willingness to enter unpopular occupations where services are maintained without raising costs to the public. This is however, a one-sided analysis. When account is taken of the domestic opportunities for improved allocation in the absence of immigration the argument no longer holds. This topic among others will be discussed by Dr. Needleman and me in a forth-coming paper on the longer term economic consequences of large-scale immigration.

2. It is a sad reflection on our times that scientists interested in the “population explosion” are concerned for the most part with the purely technical problem of feeding the swelling populations. Schemes range from more high-powered animal farms to processing grass, and from exploiting the seas to making plastic meat substitutes.

That already man has broken all ecological bounds and that, unless one can somehow reverse the trends, the world’s population will have doubled by the end of the century; that thereafter we shall be as thick as locusts over many parts of the inhabitable earth—all this is as nothing to the vision of growthmen who continue to exorcise any future specter with the word challenge. ■

The benefits of economic growth are widely touted in the literature. But what about the costs? Pollution, nuclear accidents, global warming, the rapid global transmission of disease, and bioengineered viruses are just some of the dangers created by technological change. How should these be weighed against the benefits, and in particular, how does the recognition of these costs affect the theory of economic growth? This paper shows that taking these costs into account has first-order consequences for economic growth. The rising value of life associated with standard utility functions generates a cons