

*Workshop on Typologies of Relevance to the Study of Forced Migration
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Note: I did not receive the Pearce/Swanson paper until after the deadline, so this short paper was written as a comment on the topic of the Workshop in general. However, I did finally receive the paper and can say that I found it instructive and insightful, especially the rights-based approach with the implication that WTA should replace WTP as the more relevant principle in deciding compensation. I like this approach much better than Pearce's earlier emphasis on resettlement as an external cost, cited below in my comment. I think the Pearce/Swanson paper is successful in "squeezing" more out of the economic approach, as they claim to have done. My comments below, however, are aimed at viewing displacement through the basic and elementary lens of opportunity cost.

Economics and Involuntary Displacement

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In his little book The Economics of Love and Fear Kenneth Boulding distinguished three general principles of social organization.

(1) the threat principle—you do something good for me or else I will do something bad to you. The motivation is fear.

(2) the exchange principle—you do something good for me and in turn I will do something good for you. The motive is self-interest.

(3) the integrative principle—I will do something good for you independently of what you do. The motive is love.

All three principles are always necessary and present in varying degrees, but in today's market economy the second—reciprocity-- is usually favored.

Involuntary resettlement, by virtue of being involuntary, falls under the rubric of threat rather than exchange, and thereby escapes the domain of prices proper to market transactions, since the latter are by assumption strictly voluntary. Love, and even fear, are often justifiable principles of social organization, but the justification is not in terms of mutual benefit as with exchange. My point is that involuntary resettlement is overwhelmingly a political, collective matter, not

economic in the usual sense of efficient, individualistic, maximizing behavior.

Involuntary resettlement is frequently treated as an externality: *“the wellbeing lost by those who are displaced by a project, such as a dam, is an example of an externality, or more strictly, of an external cost”*, (p.51, David Pearce, “Methodological Issues in the Economic Analysis for Involuntary Resettlement Operations”, in M. Cernea, ed, The Economics of Involuntary Resettlement, 1999). Much better to be counted as an externality than to be ignored. But is involuntary resettlement best viewed as an external cost? An external cost is an involuntary cost inflicted via nonmarket interdependence on a third party as a consequence of a market transaction between two other parties, usually voluntary. If the dam builder is the first party, and the electricity users are the second party, then one might well consider the oustees the third party, for whom the external consequence of the transaction is resettlement, fulfilling the definition of external cost. Although resettlement is a non market interdependence like noise or dirty air, it is for the victim less a traditional nuisance than a tragedy. Resettlement is forced by government on the oustee in the interest of the project proponents, both builders and users. It is as if those suffering from air or water pollution were obliged to relocate so as to avoid the pollution. One might therefore consider the transaction between government and oustee to be primary. The oustee is not a third party, but one of the two principle parties to another transaction, an involuntary one. That involuntary transaction may itself inflict further involuntary costs on third parties, which would then be external costs. But the involuntary surrender of one’s property or customary rights for a sum one did not agree to is more than an external cost. It is a primary transaction, “an offer you cannot refuse”, as the mafia puts it. In other words, externalities are glitches in an exchange economy resulting from non market interdependence; involuntary resettlement is part of the threat economy that underlies and backs up the exchange economy. From the point of view of the oustee it is the difference between being accidentally stepped on and purposefully kicked. Willingness to accept compensation may differ greatly in the two cases.

Involuntary resettlement is increasingly referred to as “displacement”, a useful term that highlights a different aspect of what is happening—namely that something is pushed aside or destroyed as something else takes its place. What gets destroyed or pushed aside is the opportunity cost of whatever takes its place. Opportunity cost is the

most basic concept in economics. The fundamental rule of economics is “never do anything unless it is worth more than its opportunity cost”. The concept of opportunity cost does not necessarily involve an exchange or voluntary transaction, and is present even when the motive for displacement of one thing by another is love or fear. All that is necessary for opportunity cost to exist is that there be scarcity. If there are millions of wild rivers then the opportunity cost of displacing one by a dam is nil—at least as long as no people live there. In the past our world was empty, there were lots of places where no one lived. Now our world is full—people live nearly everywhere, not to mention other species. In my lifetime world population has tripled, and energy and materials use has increased much more. The world is now relatively full of us and our stuff.

As we move from an empty to a full world the box labeled “externalities” has grown very large and important. Indeed, nowadays the very capacity of the earth to support life is treated by neoclassical economists as an “externality”. Surely before reaching that point we should rethink and reshape our economic vision so that vital matters are internal to our theory and only trivial issues are external. But so far the priority of the neoclassicals has been to preserve the model by classifying whatever doesn’t fit as an “externality”. In the empty world one could with some justification say “mere” externality. In the full world externalities are often much more important than what remains internal. Involuntary resettlement is too vital an issue for too many people to be dealt with in such an ad hoc manner.

In the empty world opportunity costs were low and consequently many new projects were worth doing. In the full world opportunity costs are much higher, many more things must be displaced when one thing expands. New projects must exceed a higher default value if they are to be worth doing. To adapt to doing fewer things is not easy for a society addicted to growth. So we tend to do new or more things even when they are worth less than their opportunity cost, just to keep busy and maintain the illusion of growth, while failing to notice when growth has become uneconomic rather than economic.

One way that we maintain this illusion is to underestimate opportunity cost of displacement by substituting involuntary transactions for voluntary ones. As long as what is being displaced is nature, we have found it easy to understate the opportunity cost because other creatures, like future generations and today’s dispossessed, cannot bid against us in the market. Also we are ignorant of many ecological services and consequently value their opportunity cost at zero. While the world

was still relatively empty growth displaced mainly nature. Now the world is so full that growth displaces human beings and their activities to an ever-greater extent.

To the extent possible we should sequence our displacements of nature so that low opportunity cost displacements are done first. The opportunity cost of external displacements of nature therefore rises. We then consider the alternative of internally displacing another human activity instead of the ever more valuable natural activity. Efficiency requires that, at the margin, the cost of an internal displacement of other human activity should be equal to the cost of the external displacement of nature. The cost of internal human displacements rises in step with the cost of external displacements as the human economy expands into its containing ecosystem.

Involuntary displacement is of course not limited to developing countries or World Bank projects. In Detroit, Michigan in 1981 the lower middle-class suburb of Poletown was razed, destroying 1,400 homes, 140 businesses, and several churches to make room for a General Motors assembly plant ([Washington Times](#), August 11, 2004, "Finding Property Rights in Rubble", by Jacob Sullum). The Michigan Supreme Court ruled that this was a legitimate exercise of eminent domain by the city of Detroit, accepting the argument that job creation and tax receipts rendered the private GM plant a "public use", as required by the state constitution. This Poletown decision, which became an oft-cited precedent in other cases, was recently and unanimously overruled by the Michigan Supreme court in a similar case. The Court ruled that *"Poletown's 'economic benefit' rationale would validate practically any exercise of the power of eminent domain on behalf of a private entity. If one's ownership of private property is forever subject to the government's determination that another private party would put one's land to better use, then the ownership of real property is perpetually threatened by the expansion plans of any large discount retailer, 'megastore,' or the like."*

Note the phrase "threatened by the expansion plans" of some other entity. If property rights become conditional on a court's judgment that someone else might put your property to a more profitable use, then the very foundation of a market exchange economy is undermined, and we are in a threat economy, even if legal under eminent domain. This is not an "externality" of the exchange economy; it is a whole different system based on threat rather than voluntary exchange.

Growth,” expansion plans”, become more expensive in a full world as the opportunity cost of displacement rises. Voluntary exchange tends to reflect the rising opportunity cost of displacement. In a property-based market economy therefore displacement would become more expensive and less frequent. But we do not really live in a market economy, contrary to much rhetoric. We live in a growth economy, and growth requires displacement. So how do we keep growing in the face of rising opportunity costs of displacement? As noted above, one way is to understate the cost of displacement by taking it out of the exchange economy and putting in the threat economy. Market prices are abandoned in favor of the calculations of planners, and transactions based on the latter are enforced by threat of official violence. As expansion becomes more and more expensive it becomes “uneconomic growth” and has to be forced on people “for their own good”!¹

This is not to say that involuntary displacement is never justified; only that its justification requires more than internalization of external costs. What more is required? As indicated in the quote from the Michigan Supreme Court there must be a conflict between the broad public interest and a narrow private interest that obstructs pursuit of the former. This means that the distribution of benefits and costs, not just the total amounts, is critical in deciding whether the forced displacement is justified. The Potential Pareto Criterion, on which much cost-benefit analysis is based, completely abstracts from distribution. On this point there is no disagreement. The centrality of distribution is also evident from the fact that most oustees are the landless poor; otherwise they would be hard to displace.

¹ As Robert Goodland has noted, “involuntary resettlement [is] the most widespread and systematic use of force by proponents of economic development projects. The number of people who have been displaced is enormous. Dam projects alone have displaced many tens of millions of people since economic development began in developing countries in the late 1940s and early 1950s. Before being displaced, practically all oustees are poor and voiceless; many are vulnerable ethnic minorities. If involuntary resettlement worked successfully, that is, if it guaranteed that outsees became modestly better off promptly following their move, there might be fewer objections. The tragedy is that the millions of rural people resettled all over the world are almost always further impoverished because of their sacrifice. There are few, if any, examples where rural resettlement has not intensified poverty.

Economics is predicated on free will, willing seller and willing buyer. If any partner in a transaction is unwilling, economic theory does not apply.”

One could argue that displacement with compensation is at least an opportunity for redistribution in favor of the poor. This possibility would be strengthened if the resettlement and compensation had to be completed before construction contracts could be made. The easiest way to make sure that the compensation is sufficient is to give the oustee the right of refusal. This basically puts us back under the exchange principle and away from the threat principle. The issue is complicated by lack of property rights, and whether recent settlers have the same claim to compensation as long term residents. The point is that these are issues of distributive justice and should be faced as such without the smokescreen of potential Pareto optimality. Often economists say that we must first be sure that total benefits outweigh total costs in monetary terms before we consider distribution. However, in welfare terms total cost and benefit each depend on how the monetary costs and benefits are distributed, and welfare is the relevant criterion for the public interest, and public interest is the relevant criterion for the exercise of eminent domain. So distribution remains primary.

How might our economic vision be reshaped so that so that the overflowing box of “externalities” no longer overwhelms the diminishing reality that remains internal to our theory? A suggestion comes from ecological economists who argue that there are three basic parts to the economic problem: allocation (apportionment of basic resources to the production of different commodities) ; distribution (apportionment of commodities and resource ownership among different people); and scale (the physical size of the human subsystem relative to the total earth ecosystem—how full is the world of us and our stuff). A good allocation is efficient, a good distribution is just, and a good scale is at least sustainable—does not impose depletion and pollution burdens beyond the regenerative and assimilative capacities of the ecosystem. These concepts help to clarify the issue of involuntary displacement. First, as discussed above, an ever-increasing scale will make displacement ever more expensive and involuntary. Second, as noted, just distribution is what involuntary resettlement is all about, a part of the threat economy, not an externality of the exchange economy leading merely to inefficient allocation. In my view the discussion of involuntary displacement has so far been too much in terms of allocative efficiency and too little in terms of distributive justice, while scale has been entirely off the radar screen.