The Great Localisation and Engagement

I sympathize with those who would minimize, rather than those who would maximize economic entanglements among nations. Ideas, knowledge, science, hospitality, travel — these are things that of their nature should be international. But let goods be homespun wherever it is reasonable and conveniently possible, and above all, let finance be primarily national.

John Maynard Keynes, *On National Self-Sufficiency* 1933

The financial crisis revealed in very stark terms the limits of globalisation. Huge, multinational investment banks, with turnovers many times larger than most of the world's nation states, imploded, threatening the stability of the entire global economic system and eventually having to be propped-up by governments at massive cost to taxpayers. There seemed no alternative to but to save them; they had grown too big to fail.

But the globalisation of finance is just one example of the problem of scale in modern economies and modern economic theory. The emergence of clearly visible environmental limits, the instability, inequity, alienation and frequent resource inefficiency of global markets and the more subtle erosion of the community and social networks that large and unaccountable corporate bodies create, have all conspired to bring the problem of appropriate economic size in to sharp focus.

The Great Transition will require and lead to a Great Localisation. This will have the principle of subsidiarity at its heart. In political terms, subsidiarity is widely accepted as meaning that everything is best decided and implemented closest to the people who will be affected. It is a central principle of the European Union, if not always the practice. When discussing the economy, we can argue that economic activity should be conducted at a scale and over an area that maximises social, environmental and economic benefits and minimizes costs as described in the Great Revaluing section. We should find the right scale for our needs, not assume that bigger is always better.

When we talk about localisation and scale then, we are not simply saying that everything should be smaller. *Appropriate* size is what we are looking for in the Great Transition. Economies of scale are vital for efficient production in some areas. It makes no sense for every town in the UK to produce its own computers. But we have gone too far the other way, and assumed that nothing can be produced efficiently on a local scale. This obviously turns on what we mean by efficiency of course, but the key point is that just as there are economic benefits to producing some things on a large scale, there are major environmental, economic and social benefits from doing many others things on a more human, local scale. There are also very big costs associated with relying only on the large scale.

The financial crisis has demonstrated that greater size creates greater vulnerability to economic shocks. With peak oil imminent and climate change already upon us, the Great Transition will involve a major shift away from the energy-intensive production processes involved in getting food on to our plates, for example. During the truck drivers' strike in 2000, then Prime Minister Tony Blair was informed by the Chief Executive of Sainsburys that the country was around nine days away from food rationing and civil unrest.[59] The average UK citizen now travels 893 miles each year to buy food.[60]

Resilience, efficiency and diversity

Resilience can be understood as the 'capacity of a system to absorb disturbance and reorganise while undergoing change'.[61] New Economics recognises that there needs to be a balance struck between production efficiencies, the scale of a system and the ability of an economic system to adapt to shocks.[62] Technically it may appear to be efficient to have a large provider of goods or services who is able to achieve a scale of production which lowers per unit costs. This is a familiar retail model in the UK, as we have seen with the rise of the supermarkets and their highly centralised distribution system.

However, a local economy entirely dependent on this retail model is considerably less able to weather economic shocks when compared to one with a diverse range of smaller retail outlets, sourcing products across a range of different length supply chains. At the local level, an economy with a mixture of ownership models – e.g., co-operatively or family owned, social enterprises, small privately owned businesses – demonstrates a diversity not only of ownership, but a diversity of motivations for doing business in their local area which in turn strengthens the resilience of the local economy. Larger retail outlets, when faced with an economic shock like today's recession, will simply close those stores that are less profitable, with little concern for the consequences, much as Marks and Spencer and Waterstones did recently in closing 47 stores across the UK at the cost of over 1400 jobs.[63] We see the smaller businesses weathering the storm.

Diversity in terms of size and type of commercial operation is thus important, not just because it makes our towns more attractive and is likely to strengthen community relationships; it is also vital in terms of economic resilience and sustainability. We need to start thinking about efficiency in a far more holistic way, one which takes full account of the range of things people value in life.

Our current approach to economics ignores this balancing act and offers a poor guide to appropriate scale, leading naturally towards 'gigantism' as the solution to every problem.

Trade, comparative advantage and market power

Trade is good example of how our current system creates inappropriate internationalised economic activity that could be done much more efficiently and at much less environmental and social cost at a smaller level. All around us still, are ships, lorries and planes passing in the night, wastefully carrying often identical goods from city to city across the globe and back again to meet consumer demand (Box 3); **nef** calls it 'boomerang trade'.

One strong argument for free trade is the law of comparative advantage, developed by the economist David Ricardo.[64] Put simply, Ricardo argued that it makes more sense for countries to specialise in the production of a certain good or goods and trade these rather than try to make everything, even if they can make all goods more cheaply than a trading partner. This is because opportunity costs are reduced by specialisation – two countries specialising and trading can produce more of the same goods in total than two countries that do not.

But Ricardo's theory rested on the assumption that capital would remain immobile between nations, as it was when he was writing. However, if capital can move freely between nations, it would have no reason to be satisfied with a mere comparative advantage at home, but would seek what Herman Daly has described as 'absolute advantage'[66] – the absolutely lowest cost of production anywhere in the world. With social and environmental externalities excluded from the pricing system, this leads us to a race to the bottom, with multinational companies dumping these 'bads' on

Box 2. Ecologically wasteful trade

In 2008, the UK exported 4,400 tonnes of ice cream to Italy, only to re-import 4,200 tonnes. We imported 22,000 tonnes of potatoes from Egypt whilst exporting 27,000 tonnes back again. We sent 5,000 tonnes of toilet paper to Germany, and over 4,000 tonnes returned. Similarly 10 tonnes of 'gums and jelly' sweets went back and forth to Thailand. And, at the last count, 117 tonnes of 'Sweet biscuits, waffles and wafers, gingerbread and the like' (to use the category used by trade statisticians), came into the UK, rumbling passed 106 tonnes headed in the opposite direction.[65]

those countries with the lowest labour costs and weakest social and environmental regulations.

While such a race to the bottom may well, in the end, reduce the price of consumer goods to its lowest possible level, there is nothing 'efficient' about this in any meaningful definition of the word. As well as the environmental consequences, the social impacts are profound as individuals, communities and even countries become increasingly atomised and specialised cogs grinding in the wheels of volatile global supply chains.

Through the Great Revaluing, the incorporation of these externalities into prices is central to the Great Transition. As transport reflects environmental costs it will become more expensive, forcing us to think long and hard about what we should make locally, regionally and nationally, and what we should trade internationally and why. As with a shift to more local food production, it is crucial that a phased approach be taken so as to allow current trading partners, particularly in developing countries, to adjust. In many respects broad economic trends are moving in this direction in any event. The heyday of development focused on exports to developed countries has passed. Hastened by the impact of the current crisis on global trade, many developed countries are looking to boost domestic demand and produce for their home markets, as well as focusing trade more on their neighbouring countries. We are arguing for something that would be quite complementary to this, but only over a phased period and only if managed as a genuine partnership with our current trading partners.

This transition would also require a much greater flexibility of approach in the global rules governing trade. Sometimes a few practical examples of how things can be done differently outweigh any amount of theoretical speculation. To give just one example of what this might mean in practice, Stan Thekaekara a **nef** Fellow and long-term advocate of progressive approaches to trade, offers a disarmingly simple solution. He suggests basic ground rules that might underpin a logical way for his part of Southern India to trade with the UK. 'We must have a robust domestic market first. The export market is for us the icing on the cake. If a product is produced in the UK, and not by a multinational, we will not compete with it. So tea I'd sell, but not Himachel apples.'

Criteria for determining appropriate scale

We need a better balance between economic self-sufficiency in some areas and interdependence in others, and a set of reasonable criteria for judging where this balance should lie. What might these include in the Great Transition?

1 **Actual need.** We do not all *need* to own two cars or ten pairs of shoes and the planet does not have sufficient capacity to produce them. Nor is it apparent that we need many of the complex financial innovations that characterise modern commercial banking. The Great Revaluation and repricing should see Veblen's 'conspicuous consumption'[67] becoming a thing of the past. Many sectors will shrink in size; for example, advertising, clothing and footwear as well as finance.

2 **The market size needed.** This would take in to account economies of scale and quality and the impact of these on price and its importance to people's lives. Here it is important to balance 'efficiency' in terms of economic production, with 'efficiency' in its broader social and environmental sense. It does not make sense for the manufacture of railway carriages, for example, or the regulation of the shipping industry and indeed aspects of finance to be conducted at the level of the town or the nation. But it is likely that the production of a very large range of everyday products and services, including food and furniture, and construction, repair and maintenance services would have greater social and ecological value if they were done at a local or regional level. Table 1 suggests minimum size units for adequate economies of scale.[68]

3 **The impact on local economic and social life.** In deprived areas of the economy, a greater degree of relocalisation of trade and production may well be appropriate, to create work and enhance well-being. The public sector should be at the forefront of this effort, as **nef** has argued over the last decade, shifting its procurement processes to favour local suppliers wherever feasible and creating 'local multiplier' effects,[69] but also tilting the national green industrial policy of the Great Transition towards these areas. Our adjusted social value pricing

Table 1. Minimum size units for adequate economies of scale.

Unit	District	Region	Nation	Continent	Globe
Size (miles)	20	100	500	2000	10,000
Population	100,000	2 million	50 million	1 billion	5 billion
Production	Food crops	Building materials	Clothes, textiles	Vehicles	Micro-chips
	Cash crops	Processed food	Small machines & components	Electronic systems	Pharma-ceuticals
	Housing	Furniture	Electronic devices	Small aircraft	Large aircraft
		Hardware	Steel	Ships	
	Energy (micro-renewables)	Renewable energy (wind, hydro, solar)	Oil, gas, coal		
	Energy-efficiency, housing retrofitting		Civil engineering		
			Books, films, bicycles		
Distribution	Fresh food	'Groceries'	Bulk commodities, e.g., grain	Oil, gas	
	Daily supplies	Clothes	Industrial machinery		
		Books			
		Cars			
		Household appliances			
		Seeds			
Services	Schooling	Universities	Insurance	Aviation	
	GP medical	Hospitals	Railways	Shipping	
	House repair	Public health	News Media		
	Restaurants	Safety	Telecom		
	Hotels	'High street' and local banking	Wholesale banking		
	Waste recycling	Buses	Electricity		
		Theatre/cinema			
		Water			

system will see European competition law naturally favour this relocalisation – with lowest price also signalling greatest positive value. A low-carbon, high well-being approach to economic development would become the norm for local regional public bodies rather than the current narrow focus on economic growth that still drives decision-making in Regional Development Agencies.

4 **The bioregional characteristics of a producing and trading region.** To develop an economy in optimal equilibrium with the biosphere it needs, as far as possible, to be aligned with the climatic, ecosystem and natural resource characteristics of its area. For example, it makes little sense to specialise in growing and trading non-native crops that can only survive with the support of unsustainably high levels of chemical and energy inputs.

The democratisation of money

The regionalisation and localisation of production and consumption could be assisted by the emergence of electronic regional and local currencies, complementing those operating at national and international levels. These currencies could provide effective economic feedback loops and further assist regional economic development in a dynamic fashion. So if a region suffers from a downturn, its regional currency will naturally depreciate against the national currency and other regional currencies, increasing within country 'export' demand and encouraging import substitution and more local production of services.[70,71]

The transaction costs associated with multiple currencies would be low as virtually all transactions could be completed electronically with smart cards, or mobile phones and other internet-enabled devices. In addition, electronic commercial barter would become more prevalent, with companies with excess capacity or inventories trading with other firms in mutual exchange networks. Already there has been rapid growth of these type of non-interest bearing credit schemes in the United States and elsewhere with the growth of the internet and since the financial crisis.[72]

Local political re-engagement

> *The one factor felt to cause disengagement that runs through all the strands of our investigation is the very widespread sense that citizens feel their views and interests are not taken sufficiently into account by the processes of political decision-making.*
>
> *Power to the People*, Report of the Power Inquiry

When two American economists, Stephan Goetz and Anil Rupasingha, carried out a detailed study of the links between Walmart Stores Inc. (Walmart) and dwindling social capital – the community cohesion and mutual support that makes neighbourhoods work – they found that if there was a Walmart nearby all the measures of social capital went down over the decade studied.[73]

Communities that gained a Walmart during the decade had fewer local charities and local associations such as churches, campaign groups and business groups per capita than those that did not. Walmart's presence was also shown to depress civic participation. Strikingly, communities that had or gained a Walmart store in the 1990s also had lower voter turnout.

Walmart and its 'big box' retail model (widely copied by UK retailers like Tesco and Asda, a Walmart subsidiary), it seems harmed not only local retailers, but also a wide variety of other businesses and professionals that served local retailers, such as banks and accountants. In the process, Goetz and Rupasingha concluded that 'The social capital they embody is destroyed, and their entrepreneurial skills and other forms of location-specific human capital are forever lost to the community.'[74]

An essential part of the Great Localisation will be for people from all parts of society to become more involved and engaged in local economic and political life. As with economic production and trade, the subsidiarity principle would be applied in the public sphere with local decision-making guiding priorities and budget decisions.

Following the Great Revaluing and the Great Redistribution, income and wealth in the UK will be much more evenly distributed, allowing the shift towards more devolved tax-and-spend policies and participatory budgeting. For people to be able to participate properly in this process, increasing levels of economic literacy is an essential prerequisite. This needs to cover how local economies work, but also how they relate to the wider regional, national and international economies. For people to make informed choices they need to be genuinely informed.

Case Study 2. Plugging the Leaks

Plugging the Leaks allows communities to take a different approach to local economic development; one that can have a more sustainable local impact than regeneration plans set at a national level. It regenerates from within and capitalises on the resources that a community already possesses. Above all it is a process that truly allows local people to set their own priorities.

Sneinton's open-air market has been trading on the east side of Nottingham for over 100 years. When the market faced closure in recent years, worried traders linked up with the *Plugging the Leaks* programme (named locally as 'Local Alchemy Sneinton') to relaunch the market managed by a locally owned social enterprise in 2006. Local traders were able to recognise the tangible regeneration benefits that street markets deliver and, through *Plugging the Leaks*, take action to retain them. The stalls are increasing and proving an ideal 'low cost and low risk' way of stimulating local business while boosting training and employment opportunities in the surrounding area.

As well as understanding money flows – ensuring that money is re-spent as locally as possible – *Plugging the Leaks'* participants can look at how other resources such as energy, water and consumer products flow in and out of a community to find enterprising ways to reduce their impact on the environment. Market traders are taking practical steps to make the market as sustainable as possible by sorting cardboard for recycling, while animals at the local farm and at the donkey sanctuary feed on fruit and vegetables left over at the end of the market day.

More info at www.pluggingtheleaks.org

Case Study 3. Participatory budgeting in Port Alegre, Brazil

Evidence from Port Alegre in Brazil has shown that deliberative processes can engage disadvantaged people who are currently far less likely to participate in formal politics. Participants in participatory budgeting in Porto Alegre had below-average income and education. The process stimulated the formation of the associations vital to civil society and the core economy.[75]

	Neighbourhood associations	Co-operatives	Regional popular councils
1986	240	0	0
1998	540	51	11

Participatory budgeting also led to many practical improvements for the poorer residents of the area, including, since 1988, a rise in:

- residences with running water from 75 per cent to 98 per cent
- sewerage coverage from 46 per cent to 98 per cent
- public municipal schools from 29 to 86

If we are to produce more things locally, however, we need to relearn much that has been lost. This is the subject of the next chapter.

Local and regional authorities will be more powerful, able to raise finance to fund transport, energy, and housing projects working with regional banks, as is already commonplace in many European countries such as Germany and Switzerland. At a more local level, participatory budgeting will gradually become the norm for the delivery of public services such as education, waste collection, street lighting and cleaning.

As more power is devolved from the centre to local and regional government, it will become easier to create new institutions which allow citizens to get directly involved in taking decisions and setting priorities. New deliberative forums can offer citizens the opportunity to become active participants in – co-producers of – government, rather than passive recipients.

According to the social theorist Jurgen Habermas, in a 'deliberative democracy', a heterogeneous collection of citizens with diverse opinions come together in the 'public realm to engage in structured debate, free of coercion, (hopefully) to reach considered judgments about an issue of common good'. Deliberative forums would provide opportunities for interested citizens to discuss local issues, from transport to housing, to healthcare and help steer local government.