

Why localisation is essential for sustainability

Richard Douthwaite

The global economy has an in-built tendency to increase inequality. It is also inherently unreliable and the monoculture it creates puts excessive pressures on the environment. We should therefore attempt both to change the way it works and to build local alternatives to it.

Why should anyone want to swim against what appears to be the tide of history by attempting to rebuild local economic systems which, over the past century, have been almost entirely swept away? Don't small countries and the regions within larger ones really have no option but to participate in the global economy in a whole-hearted way? This paper will explore the answers to these questions. Certainly, rebuilding a local economy is not an easy option, but I hope to show that it is one that is definitely worth making the effort to achieve.

Few of us would worry about the regions in which we live being entirely absorbed into the global economy if that system was equitable, sustainable, and worked reliably and well. But it is none of these, which is why we need both to develop local alternatives to it and also to attempt its reform. Let's look at each of these three areas in turn to see the extent to which the global economy fails. First, is it equitable?

1. Equity

A few years ago, Westport, the town where I live, decided that it would attempt to lengthen its tourist season by advertising golfing-holiday packages in Sweden in the spring and autumn. Why Sweden? Well, the Swedes were regarded as rich and therefore a potentially lucrative market. For a few years, the plan worked and more visitors came. Quite soon, however, as one golfing holiday is much like another, Westport found itself competing for business with Scottish and Portuguese golf resorts. Everyone's prices came down in the ensuing promotional battle, lowering the return to the holiday providers and effectively raising the incomes of the Swedes as they could now buy the same vacations for less money. In other words, the rich got richer and the (relatively) poor, poorer.



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That is the way the global system almost always works. Indeed, selling anything outside your area in competition with other communities is likely to increase the relative wealth of your target customers. Your goods and services don't have to cross international borders to have this effect. For example, I once stayed for several days in a very poor village in Tamil Nadu in India and I inevitably began to think about what the villagers could do to ease their poverty. The only assets they seemed to have were their labour and their land - could they grow extra vegetables and set up a co-op to sell them in Bangalore, the nearest big city? Well, they obviously could, but if other villages did the same thing too, the extra supply of tomatoes, okra and eggplant would bring the prices down, making the Bangalore people slightly better off while giving the farmers quite a lot less for their labour. The most obvious strategy for the village might not therefore be the best in the longer term.

Rich countries and rich people always call for freer trade and better transport links because this heightens competition, brings down prices and thus makes them better off. As India's roads improve, more and more villages will find it possible to send perishable produce to distant cities. This will destroy the partially-protected

niches within which existing producers have been making modest incomes. The natural reaction of the producers to this will be to attempt to maintain their own families' livelihoods by reducing their costs. They will cut their wages bills (thus eliminating other families' incomes) by buying more industrial inputs such as pesticide sprays and machinery. This will reduce the proportion of the money from the sale of the goods sold to the outside world that is available to their village as a whole to live on. In other words, unless the total income from selling the vegetables increases by more than the cost of the inputs, freer trade and the extra competition it brings will make the village worse off.

This process has been one of the factors widening the gap between the rich and the poor, both within countries and between them. An UNCTAD report¹ shows that in nine out of a sample of ten Latin American countries, the differential between the earnings of more highly skilled workers and their less skilled colleagues increased markedly between 1984 and 1995 as a result of freer trade. Indeed, in most cases, the real purchasing power of the least skilled workers actually declined, in several cases by over 20%. Similarly, an International Labour Office (ILO) study of 30 countries in Africa, Asia and Latin America found that in two thirds of the countries, the real wages of all workers fell between the late 1970s and the late 1980s, with the least skilled falling by the greatest percentage². And a 1999 World Bank paper³ reported that data from a sample of 38 countries between 1965 and 1992 had shown that greater openness to trade had reduced the incomes of the poorest 40 percent of the population, but strongly increased those of the remaining groups. "The costs of adjusting to greater openness are borne *exclusively* by the poor" the Bank said in a commentary. The italics are in the original.

This widening of the gap between the least well paid and all other income earners in their societies is, in fact, exactly what standard economic theory predicts. In the 1930s Eli Heckscher and Bertil Ohlin developed the theorem which is now named after them and which states that each country tends to export goods that use the highest proportion of its most abundant, and hence relatively cheapest resource. For most 'developing' countries this resource is its unskilled labour and, as competition in international markets between such countries will tend to force the prices of their exports down, the earnings of the unskilled

will be reduced by more than those of more highly skilled workers less exposed to foreign competition. All workers in sectors exposed to international competition may therefore see their wages fall as markets open up, but those most exposed will fare the worst.

According to UNDP the difference in per capita income between the wealthiest 20% and the poorest 20% of the world's population was 30 to 1 in 1960; jumped to 78 to 1 in 1994, and decreased a bit to 74 to 1 in 1999. The poorest 20 per cent saw their share of global consumption decline from 2.3 per cent to 1.4 per cent in the same period.

"We live in a world that has become more polarised economically, both between countries and within them. If current trends are not quickly corrected, economic disparities will move from inequitable to inhuman. In more than a hundred countries per capita income is lower than it was fifteen years ago, and, as a result, more than a quarter of humanity - 1.6 billion people - are worse off." James Speth, then the administrator of the UNDP, said in 1996. Nothing has improved significantly since then. Indeed, Professor Robert Hunter Wade of the London School of Economics and many other commentators think the inequality has become worse⁴.

Besides freer trade, another reason for the growing gulf between rich countries and poorer ones is that the rich countries issue the reserve currencies - the dollar, the euro, the pound, the Swiss franc and the yen - which the rest of the world uses to trade and to save. When gold was the world currency, wealth was created wherever the gold was found. Today, wealth is created in the reserve currency countries - the US, Britain, the Eurozone, Switzerland and Japan - when their banks approve loans. The total gain from having a reserve currency (the technical term is *seignorage*) is the cumulative balance of payments deficit on the import-export account that the issuing country is able to run up. At present most of these gains are going to the US, which except for 1991 has imported more than it has exported every year in the past twenty. In those two decades it has amassed a cost-free debt to the rest of the world of \$2,500bn. This amounts to half the other countries' total savings and, as I write in 2004, US indebtedness is increasing at \$1.5bn a day because it is importing half as much again as it exports. Britain's gains from having a reserve currency are tiny in comparison and none of the other issuers is currently exploiting its ability to borrow cost-free at all.

>>> *Having the world's main reserve currency has brought quite remarkable benefits to the US*

The US is able to finance its trade deficit cost-free mainly by selling government bonds and shares in US companies. Interest and dividends are paid on these securities of course, so it is not correct to say that the borrowing is interest-free. However it is cost free because the payments are made in dollars that are merely added to the total amount the US owes. The payments will only cost America anything if the dollars are ever used by the foreigners to whom they belong to purchase goods and services from the United States.

Having the world's main reserve currency has brought quite remarkable benefits to the US because the more dollars that the US creates and spends in the rest of the world, the more dollars the rest of the world will wish to invest in the US. These extra dollars push up the price of shares on Wall Street giving the foreigners who have already invested there an attractive capital gain – on paper. These gains encourage the investment of even more foreign-owned dollars, allowing the US to increase its current account deficit even more.

We can get a good idea of how big a benefit this \$2,500bn has been by recalling that in 1998, the United Nations Development Programme estimated that the expenditure of a sixth of that sum - \$40bn a year for ten years - would enable everyone in the world to be given access to an adequate diet, safe water, basic education and health care, adequate sanitation and pre- and post- natal attention. The world-wide acceptability of the dollar is, in fact, the reason why the US, with a population of 281 million, is the world's sole superpower, able to spend as much on armaments as the next twenty biggest arms-buying nations put together, countries with a total population of 3.5 billion.

Even if the US were not misusing its position as the main provider of the world's money, the reserve currency system would be undesirable. What it means is that if one poor country wants to buy from another, it has either to sell something to a reserve currency country or borrow the funds from one in order to get the money to do so. The situation is exactly the same in the Indian village – if two neighbours wish to

trade, one of them has to get the money first, directly or indirectly, from an urban centre to which somebody in the rural area once supplied something or went into debt. In both cases there is another powerful positive feedback mechanism. The poorer area sells to the richer one because that's where the money is. Then, as we saw, competition builds up between the producers of the relatively standardised goods – minerals, foodstuffs, clothing and footwear – made in poorer areas, reducing the price each receives and thus widening the gap between them and their customers. Despite this, however, the poor have no option but to continue to sell to the rich because while other poor people might desperately want the things they are making, they don't have the money to buy. In both the international and the internal case there is an inherently unequal relationship in which the richer party always wins. The system is fundamentally unfair and is made more so by breaking down trade barriers and improving transportation to increase competition.

2. Sustainability

As a result of globalisation, a high proportion of the world's population now eats the same foods, is housed in buildings constructed of the same materials, drives the same cars and lives and works in much the same way. This uniformity means that much of humankind competes on world markets for the same raw materials – cotton, steel, cement, oil – and thus puts their sources under a high – and in many cases unsustainable – degree of pressure.

Worse still, globalisation creates a positive feedback that rewards those countries and companies that consume the Earth's resources most rapidly with incomes that enable them to purchase and destroy even more. It also destroys the negative feedback mechanisms that once warned communities to mend their ways when they started behaving unsustainably. Now that goods can be transported from anywhere for those with the money to pay, the better-off know that once the fertility of a district's soil declines, its forests are felled, its mines exhausted, its seas fished out, they can always import their requirements or, if necessary, move somewhere else.

There is therefore a close link between restoring local economic self-reliance and achieving sustainability. Theoretically it might be possible to develop a world-wide industrial culture that enables all humanity to live sustainably within

the limits of the world, but the scale and the complexity of the task are immense. An easier, more feasible alternative is to create a system that would encourage a greater diversity of diet, clothing, building materials and life-styles. This would take the pressure off over-used resources just as it does in the natural world where each species has its own ecological niche and avoids competing directly with the others.

Diversity is desirable for other reasons too. For everyone who grows up in an area to find an occupation there in which they can feel fulfilled, a wide variety of jobs and other activities is necessary because people differ widely in their interests and aptitudes. A wide range of jobs creates a richness of life. It is important economically too because if a community or a country imports a lot of its requirements and relies on exporting a limited range of goods and services to pay for them, it risks getting caught out if something goes wrong or the market changes. For example, Ireland is the world's second-largest producer of computer software. It also earns a lot from exporting milk products and beef and from selling itself as a tourist destination. Suppose that there is an airline strike, so the tourists can't come. Or that the software companies find they can get equally good programmes written much more cheaply in Bangalore. Or that an outbreak of foot-and-mouth disease spreads to hundreds of farms and makes Irish beef, cheese and butter unexportable. The economic and social costs of any of these would be immense.

Diversity is therefore essential to achieving sustainability. Unfortunately, though, a highly competitive world trading system which deliberately sets out to remove every possible barrier - including those of distance and, as with genetically-modified foods, consumer preference - to the free movement of goods and services leaves very few niches in which diversity can persist. Part of the problem is that a diverse economy almost inevitably produces at higher cost than one which specialises in a very few products. This is because many products exhibit what economists call 'increasing returns to scale'. In other words, the more of them you produce, the cheaper they become. The first model of a new car to come off the production line will have cost many millions to create. In comparison, the one immediately behind it will be very cheap and the ones that follow that will become cheaper still as the company, its suppliers and its workers move along learning curves. Consequently, anyone producing relatively small numbers of

cars will be at a price disadvantage because they will have to spread the development costs of their first car over a more limited production run and be unable to move as far as their bigger rivals along the learning curve.

Exactly the same can be said of almost every product. Take something basic like, say, shoes. To produce them using modern methods needs an extensive infrastructure including specialist suppliers (or, better still, producers) of leather, soling materials, adhesives, clicking presses, press knives, sewing machines, thread and much more. It also needs people who know how to design shoes, others who can use the specialist equipment required to make them, and still others with the skills to keep delicate machines in working order. It therefore takes a considerable investment in people, equipment and facilities to produce the first shoe. This is the reason why every industrial economy in the world developed behind tariff barriers.

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The German government knows this well. The main aim of its programme to get photovoltaic (PV) panels fitted on 100,000 roofs between 1999 and 2004 is not primarily to generate electricity. It is to give German PV manufacturers a chance to build up production volumes and get their prices down sufficiently to undercut all other producers in the world.

The problem with increasing returns to scale is that, other things being equal, the biggest producers (like Microsoft, for example) will be the cheapest and most profitable and will drive almost all their rivals out of business. This leads to activities that could in theory be carried out equally well in many places in the world being concentrated in very few. Tariff barriers or some other sort of protection are therefore necessary if a region or a country is to develop or maintain a diverse, and thus more sustainable economy.

The globalised economy is becoming increasingly unsustainable for another reason too. As we've seen, cheap transport is one the pillars on which it stands - take that away and a re-localisation would automatically come about. And, in turn,

cheap transportation depends on having cheap oil to fuel ships, planes and road vehicles. So how long will cheap oil last? The answer is that while oil itself will never run out, cheap oil will because many countries' fields are becoming depleted. As a result, world production will peak within the next four or five years and then begin a steady decline so that by 2050, output will be no more than half the current level. Natural gas, which some vehicles burn, will also be becoming scarce by then. Its output is expected to peak in 2040 and then decline rapidly. Although alternatives to both fuels could be found – hydrogen from wind-generated electricity, perhaps, or oil substitutes produced from coal – a massive amount of capital and resources would be required to build the new systems required to take their place. In other words, the substitutes cannot be cheap, which in turn means that the movement of low-value commodities and any time-sensitive goods that have to be flown will decline. This will open new opportunities to local producers.

>>> *the fundamental problem with the world economic system is that it is constantly poised on the brink of depression*

In conclusion, then, while the global economy will always exist, it is not sustainable at its present size because it is destroying both the diversity required for its stability and the energy resources on which it relies. Local production for local use will therefore become very much more important.

3. Reliability

Is it safe to rely on the world economy to deliver the essentials of life year after year? And can it provide us with a reliable income with which to buy those essentials? The answers are, clearly, 'No', for, although in mid-2004, the industrialised economies seemed to have recovered reasonably well from the slow-down two years earlier, the system has been failing to provide people in much of the rest of the world with adequate livelihoods for many years. All of sub-Saharan Africa is depressed. Lesotho apparently⁵ has the highest rate of unemployment in the world at 39.3%, South Africa (23.3%) comes fourth and Botswana (21.5%) sixth but there may be worse places where government has broken down and doesn't keep statistics. In Asia, employment levels

have not recovered since the tiger economies crashed in 1997 and the fierceness of the competition between them means that deflation has set in. Japanese prices, for example, fell by an average of 2% in 2002. In Latin America, the currency crisis in Argentina pushed joblessness up to around 24% at the peak. Even oil-rich Venezuela has the 17th highest rate of unemployment in the world.

However, the fundamental problem with the world economic system is not that it leads to high levels of unemployment. It is that it is unreliable because it constantly poised on the brink of depression. And this, in turn, is because of the way that the money it uses is created. This money typically begins its life when someone writes a cheque on a loan facility they have been granted by their bank or runs up a debt on their credit card. It disappears when that debt is repaid. Consequently, if someone has no mortgage or debts of any sort and a positive balance in the bank, he or she only has that money because someone, somewhere, has borrowed it and is paying interest on it.

The snag with creating money this way is that it depends on confidence and if optimism about the future shrinks, so will the money supply and, as a result, the volume of trading it is possible to carry on. So if enough people say to themselves something like "Perhaps I'd better not take out that car loan just at the moment. My firm isn't doing too well and there might be redundancies. I'll wait to see how things work out", their fears for the future might well be realised. With fewer people like themselves borrowing, less money will be spent, and this will mean less work for their employers. Their collective caution could put them out of work.

On the other hand, when lots of people borrow, it creates plenty of work and encourages further borrowing. The extra borrowing is needed because higher property prices require people to take out bigger mortgages and firms find they need extra capacity to keep up with demand. A virtuous circle is created with each round of loans creating the necessity for another. A boom develops which will carry on until either an external event cools things down or the central bank gets worried about inflation and increases interest rates to discourage everyone from borrowing quite so much. The danger is that the bank will over-correct, gloom will set in, and the level of lending contract far too much, throwing the economy into recession. Our national

economic systems are therefore fundamentally unstable. They swing violently between boom and bust and it is almost impossible to keep them moving steadily along.

Until recently, the world economy was more stable than the national economies that make it up because, as some economies were slowing down, others were speeding up. Now, however, globalisation has synchronised them all. No longer does a depressed economy have a buoyant one to take in its exports and thus give it a hand up.

It's going to be very hard to correct this situation. In the protectionist world of the 1930s, the great British economist Maynard Keynes showed how national governments could lift their economies out of depression by making up for the fall in company and consumer borrowing by borrowing more money themselves and putting it into circulation by spending it. The extra state spending – priming the pump it was called – created jobs, which in turn increased consumer spending and thus more jobs, re-establishing the virtuous circle.

Unfortunately national governments can't use Keynesian methods this time. Supposing one of them borrowed so that it could employ a lot of people on public works projects. When the workers spent their wages a very high proportion of the money would leak away to create jobs abroad and very little of the resulting extra spending by the overseas workers would ever find its way back to create a second batch of new jobs in the country concerned. Consequently, to reflate a depressed national economy in today's globalised world, you either have to restore protection by re-introducing trade barriers and foreign exchange controls, or you have to reflate the whole world.

Reflating the world would require every country to adopt Keynesian policies simultaneously. That would be hard enough to achieve by itself but countries must also agree to run budget deficits of the right amount. This is because if a country spends too much, its increased imports will outweigh its extra exports and its trade deficit will increase. On the other hand, if it spends too little, it will earn more from its increased exports than leaks out to pay for its greater imports and its currency reserves will rise. The latter is a favourable outcome, the first not, so every country will be tempted to spend too little in the hope of improving its trade balance.

Local and global economies are complementary. Our aim has to be to get a better balance between the two.

Huge amounts of public borrowing would be required to reflate the world. Couple this with the natural tendency for states to wish to limit their public spending to keep their imports and their deficits under control and the likely result is that the total increase in world demand would be insufficient to get the corporate sector's idle capacity into production again. In that case, firms would not resume borrowing to invest unless there were new products to make. In Britain in the 1930s, when the traditional export industries – coal, cotton and shipbuilding – declined, the only significant new investments were in products based on new technologies or to meet new needs, like the Hoover vacuum cleaner factory in West London or the Ford car plant at Dagenham which employed 15,000 workers from the start. The depression was only ended by the outbreak of war with its demand for a vast range of new products like aircraft and tanks. Without a crisis of equivalent severity and urgency, it seems unlikely that governments would have the guts to spend the necessary amounts. High levels of unemployment therefore could drag on and on.

To sum up, then, the global economic system is prone to break down and, once broken, is very difficult to restore. It cannot therefore be relied upon to provide everyone with the goods and services that they need if they are to live at a satisfactory level.

Bringing re-localisation about

There are two possible responses to the inequity, unsustainability and unreliability of the global economy. One is to seek to change the way it works, the other is to build local alternatives to it. Both responses need to be pursued simultaneously because while it is impossible to imagine a global system without some of the problems we have discussed, it is equally impossible to imagine a world without complex products – like computers and aircraft – unless people are prepared to live very simply indeed. And, as we saw, such products are best produced by a few companies operating at a global level because of increasing returns to scale. Local and

global economies are therefore complementary. Our aim has to be to get a better balance between the two. At the moment, the global is dominant, so the scales need to be weighted to make them tilt the local way.

>>> *A local culture is simply a way to live reliably, enjoyably and well on the resources of an area.*

Some of the reforms required to make the world economy work better were set out in the 2004 Feasta paper *Curing Global Crises*⁶. Here are some ideas about how local cultures (rather than just the local economy component of them) might be rebuilt. A local culture is simply a way that the people living in a place have found by trial and error over many generations to enable them to live reliably, enjoyably and well on the resources of their area. They developed a distinctive cuisine, style of dress and architecture so that they needed to import surprisingly little. "So little trade went on with neighbouring towns that one carrier with a donkey cart was able to do it all, and even he, it was understood, went to town weekly only if he had orders enough to make the journey worthwhile" writes Walter Rose in his book *Good Neighbours*⁷ an account of life in the village some thirty miles from London in which he was born in 1871. George Bourne, who is best known for *The Wheelwright's Shop*, his classic description of the business his father ran in Farnham in Surrey until 1884, also stresses how little was brought from outside in *Change in the Village*, a fascinating account of the decline of rural self-reliance first published in 1912:

It is really surprising how few were the materials, or even the finished goods, imported at that time [the 1850s]. Clothing stuffs and metals were the chief of them. Of course the grocers (not "provision merchants" then) did their small trade in sugar and coffee, and tea and spices; there was a tinware shop, an ironmonger's, a wine-merchant's; and all these were necessarily supplied from outside. But, on the other hand, no foreign meat or flour, or hay or straw or timber, found their way into the town, and comparatively few manufactured products from other parts of England. Carpenters still used the oak and ash and elm of the neighbourhood, sawn out for them by the local sawyers: the wheelwright, because iron was costly, mounted his cartwheels on huge axles fashioned by himself out of the hardest beech; the smith, shoeing horses or putting tyres on wheels, first made the necessary nails for himself, hammering them out on his own

anvil. So, too, with many other things. Boots, brushes, earthenware, butter and lard, candles, bricks - they were all of local make; cheese was brought back from Weyhill Fair in the waggons which had carried down the hops; in short, to an extent now hard to realise, the town was independent of commerce as we know it now, and looked to the farms and the forests and the claypits and the coppices of the neighbourhood for its supplies. A leisurely yet steady traffic in rural produce therefore passed along its streets, because it was the life-centre, the heart, of its own countryside⁸.

Each area of the world has a unique combination of natural and human resources and, as a result, in the absence of outside competition, the relative costs of the things it makes will be unique too. Those products that draw on its most abundant resources will tend to be cheaper than those that require scarcer ones. Unfortunately, the global economy creates a single all-world price structure reflecting global abundance and scarcity rather than that at the local level. Consequently, if an area is forced to adopt world price relativities rather than evolving its own, a lot of the products it could have made using its scarcer resources will go unused because it cannot make them at competitive prices because it lacks the necessary economies of scale. The effect of this will be that small acreages with, say, the ideal conditions for producing plums, will be used to grow something else for which they are less suited but which is more profitable at the world price. The plums sold in the local markets will be imported instead.

Each local economy and the culture that goes with it therefore needs to be able to protect itself from external competition. If this protection is absent, its diversity and hence its sustainability will disappear and for as long as the protection is lacking, it will be impossible to bring them back. Of course, as we've already mentioned, it would be quite ridiculous for a region to try to make everything it needs from whatever set of resources it happens to possess as a result of chance and history. A balance has to be struck between those of its needs it meets for itself out of its own resources and those it meets indirectly by exporting its abundance and then bringing in the products of other regions' different abundances. Each area should decide for itself where this balance lies but, in my view, they should all try to meet their basic food, energy and housing needs completely from their own resources so that they can be never be exploited and forced to behave in an unsustainable way to obtain the necessities of life. Needing to trade

rather than choosing to do so is often a sign that the economy concerned is unsustainable and could certainly lead to its becoming so. The best motive for trading in any economic system that aims to be sustainable is to increase the population's range of choice by swapping, say, apples for oranges.

The optional nature of such trade would leave those regional economies that adopted it free to ban technologies suspected of having undesirable side effects regardless of whether or not other regions did so too. This would speed the rate at which the world could react to unsustainability crises. In the present system, the need to be competitive means that it is often impossible for individual nations to act unilaterally to deal with pressing problems. Moreover, every time a country or region gives in to the constant competitive pressure to reduce environmental and social standards for the sake of profits and employment, global unsustainability is increased.

The fact that a regional economy was not compelled to trade would not make it problem-free, of course, and if it wished to maintain its sustainability it would have to be able to protect itself militarily and economically from territories that had destroyed their own resources and wanted access to resources that had been managed well. The problem of providing military protection - which would include the policing of borders to stop sustainability being destroyed by an influx of environmental refugees - is not something we can deal with here. All we can do is note that if an arms race developed between a sustainable part of the world and an unsustainable one, the need to use resources for the purchase or manufacture of weapons could destroy the sustainability of the former.

For its economic protection, a sustainable territory would need its own independent currency and banking system. One reason for this is that the moment a territory gets its own currency, its people no longer have to trade with the outside world to assemble the means of exchange to trade with each other. In other words, the volume of business they are able to do amongst themselves becomes independent of inflows and outflows of national or international currencies. If a region has to ensure that enough outside money is always available for local trade to be carried on at the optimal level it is very difficult for it to become sustainable. Moreover, if it issues its own currency it can avoid making it

debt-based. Its own money could be issued by being spent into circulation by its government. Provided the government behaved responsibly, this would make its level of economic activity very stable and predictable and remove the dependence on continual economic growth.

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Similarly, if a territory had its own banking system, it could ensure that interest rates were related to the rate of profit possible on projects within the territory rather than to the highest rate of return that could be found anywhere in the world. This would mean that there would be very much less pressure for the territory's resources to be used unsustainably in order to generate the financial returns required for investment funds to be committed and projects go ahead.

A sustainable region also needs to be able to prevent net capital flows across its borders either by enacting laws against them or by creating a social climate which makes investing elsewhere a matter for shame. Why? Consider what happens when a sustainable economy becomes mature, by which I mean that although its buildings are repaired and its capital equipment is replaced as it wears out, no new buildings are erected and no extra equipment is installed because the benefits from doing so are so small it's not considered worth while. In other words, all the sustainable projects which give a reasonable rate of return have been carried through and the territory's economy has ceased to grow significantly except when, from time to time, new technologies come along which make additional production possible without upsetting the area's sustainability by using more resources and releasing more waste, or by damaging its social fabric.

The low rate of return in a mature sustainable economy means that the owners of capital there will always be tempted to remove their funds to unsustainable or immature sustainable economies to get a higher rates of return. If these capital movements take place, the mature economy runs down because funds that would have been used to repair buildings or replace worn-out equipment get invested elsewhere. The

resulting shortage of equipment causes unemployment to appear, increasing competition for jobs and pushing down wage levels. Moreover, less goods and services are produced, pushing prices up. Both these changes enable businesses to make additional profits and thus pay higher interest rates and when these rates match those available elsewhere, the capital outflow will cease.

>>> *people investing outside the areas in which they live can only be interested in one thing - the rate of return they get on their money.*

Capital movements out of sustainable economies therefore reduce the territory's total output and shift a larger share of this smaller output to the owners of capital, who also benefit from the interest payments they receive from their investments outside. Put another way, allowing capital movements maximises the return per unit of capital but not per citizen. It therefore means that no territory can become sustainably mature until everywhere else in the world does too.

It might be thought that allowing outside investors to put funds into sustainable projects in immature sustainable economies would allow those economies to reach maturity faster. This, however, is wrong because if the interest on this capital has to be paid in an external currency earned by selling goods and services on external markets in competition with output from places that subsidise their prices by using unsustainable systems, the need to trade to earn this external currency would undermine the territory's sustainability.

Even if the interest were to be paid in a currency that could only be earned by trading in sustainably-produced goods, there are two reasons why capital transfers between territories, or even parts of the same territory, are undesirable. One is that capital creates work in the place it is spent. In Ireland after independence, the banking system collected savings from the rural areas and lent them in urban ones, enabling factories, shopping parades, cinemas and houses to be built. This work attracted young men from the rural areas who needed housing, shops, pubs and recreational facilities in the towns, especially if they married a girl who came from the country herself. These needs created a further demand for loans and

more work for the building trade. Meanwhile, back at home, businesses went into decline because the young people had left, and it became very difficult to find new projects that would support the rate of interest being asked by the banks in view of the declining population. So with fewer opportunities there, the emigration from the countryside went on and whole villages were completely abandoned. Capital transfers are therefore destabilising and undesirable even within the same territory if more than, say, twenty miles is involved.

The second reason for rejecting external investment is even more powerful. It is that people investing outside the areas in which they live can only be interested in one thing - the rate of return they get on their money. All the other income streams their investment starts - payments to workers and suppliers, for example - are seen as reducing their profits and every effort is therefore made to minimise them. If someone invests in a project in their own community, however, there are many ways in which they can get a return on their money quite apart from the interest they receive. Indeed, these non-interest returns might be so important that those financing the project might be prepared to charge no interest at all and even contribute to an annual loss in order to be sure it goes ahead. This might be because the project will provide employment for themselves or their children. Or because it will increase incomes in the area and help their existing business do better. Or because it will cut unemployment, thus reducing family breakdown and crime.

Community investment projects are therefore very different animals from those run for the benefit of outside investors. For one thing, they seek to maximise the total incomes the project generates in the community, not just the profit element. So, far from seeing the wage bill as a cost to be minimised, they regard it as one of the project's major gains. Attitudes to work are different too. Whereas outside investors seek to de-skill work within the factory so that they can hire the cheapest possible labour, a community company, particularly a workers' co-op, would want the work to be organised so that those doing it found it interesting and fulfilling.

Outside investors also have very short time-horizons for their projects, wanting to earn their capital back in three or four years. After that, if necessary, they can close the plant and move on. Communities, on the other hand, need long-term incomes for long-term projects like raising

children, and a community-owned factory would want to produce for a safe, stable markets, most probably in its own area, rather than the market with the highest immediate rate of return. Similarly, while outside investors merely ensure that a plant's emission levels stay within the law because anything better would cost them money, a community company is likely to work to much higher standards to avoid fouling its own nest.

A world economy that was sustainable would therefore be almost the exact opposite of the present unsustainable one. It would be localised rather than globalised. It would have no net capital flows. Its external trade would be confined to unimportant luxuries rather than essentials. Each self-reliant region would develop to a certain point and then stop, rather than growing continuously. Investment decisions would be made close to home. And assets would be owned by the people of the area in which they were located.

There is no space here to discuss how such a sustainable, self-reliant regional economy might be initiated and built or how it would have to be organised so that one section of its population did not take advantage of another. I attempted this task in my 1996 book *Short Circuit* which is now available on the web at www.feasta.org. All I can do here is to summarise the essential features of a sustainable territory:

- It has a stable population
- It provides the basic necessities of life for its population from renewable resources under its control and expects to be able to continue to do so without over-using or degrading those resources for at least the next thousand years. It is therefore able to trade with the outside world out of choice rather than necessity. This frees it from the need to do unpalatable or unsustainable things in order to compete with other regions such as adopting potentially dangerous technologies or curtailing social protection provisions.
- It is able to protect its renewable resources and its population both militarily and economically. Its collection of economic protection weapons includes an independent currency and banking system. It has no debts to lenders outside and there are no net flows of capital across its borders, thus allowing its interest rate to fall to close to zero as it moves towards maturity.

- It does not depend on continual economic growth to stave off collapse. Its economy grows very slowly if at all.

Communities need long-term <<< incomes for long-term projects like raising children

Making one's own region sustainable along these lines might seem to involve turning it into a grim, restrictive place but I think that's wrong and that it will become a liberating and joyous one instead. Certainly, the only way for an area to escape from a system that continually impoverishes the periphery by taking resources to the centre, wherever that centre might be, is to build a protective niche within which its local economy can develop diversity and become more sustainable. At present, because all our ideas about what constitutes development boil down to finding ways in which some of the money circulating in the remaining islands of prosperity can be captured by communities outside, we are destroying diversity and helping centralisation along. The World Bank, ILO and UNCTAD studies we discussed demonstrated clearly that whenever a poorer country or region attempts to satisfy the needs of a wealthier one rather than attending to its own, its dependency and weakness are increased. Once we recognise this, we will begin to think in a radically different way about how our communities can be made more sustainable.

Endnotes

- 1 UNCTAD, *Trade and Development Report, 1997*, Part Two, chap. IV, sect. B.1.
- 2 *World Employment Report 1996/97*. International Labour Office, Geneva, 1996, table 5.9 and related text.
- 3 Lundberg, M. and L. Squire, "The simultaneous evolution of growth and inequality", World Bank Research Paper, December 1999.
- 4 'The Rising Inequality of World Income Distribution', *Finance & Development*, IMF, Washington, Vol. 38, No. 4, December 2001
- 5 *The Economist, Pocket World in Figures*, London, 2003.
- 6 Can be downloaded from <http://www.feasta.org/events/debtconf/sleepwalking.pdf>
- 7 Cambridge University Press, 1942.
- 8 Quoted from the edition published by Augustus M. Kelley, New York, in 1969. p. 103.

