THE ecologist

Think small

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Where trade is concerned, one size does not fit all. Andrew Simms argues the case for economic self-sufficiency through localisation

Scale matters. A single painkiller can cure a headache, but swallow a whole bottle and it will kill you. Cut down a few trees and you can call it woodland management, but clear-fell a forest and an entire ecosystem is destroyed. These examples seem common sense. Clearly, whether something is beneficial or destructive can depend on the scale at which it happens. Why then, when we talk about business, is there an expectation that business takes place in a global marketplace?

Increasingly, the idea is backed by law. If a country is a member of the World Trade Organisation or the International Monetary Fund it has effectively signed away the freedom to choose what scale of economic organisation and what size of market are right for the different sectors of its economy. By joining either institution countries commit themselves to full integration into global markets for finance, goods and services. Recent years provide plenty of evidence about why this is a problem.

Global commodity markets display the downside of unmanageable 'bigness'. The poorest developing countries are often heavily dependent for their incomes on exporting just a handful of products such as coffee, cocoa, sugar and cotton to global markets. But over the last few decades, with nations following identical advice from organisations like the World Bank to export their way out of poverty, markets have been flooded, driving prices down. The value of all commodities, except fuel, has reduced in real terms by 50 per cent from 1980. Thus, Benin is dependent on cotton for 84 per cent of its exports, but cotton prices fell by 30 per cent over just two years to less than half of their 1995 levels. Similarly, and devastatingly for countries like Ethiopia, coffee prices in 2001 were less than 50 per cent of what they were in 1999.

The liberalisation of capital flows has also created the conditions for ever bigger and more damaging financial crashes. After Mexico, Russia, Asia, the hedge fund crises, and the current US bubble economy, even conservative commentators now recognise the rising instability. At the same time, there has been massive centralisation of ownership and control among the financial and corporate players who control the markets.

Given such problems, how should we organise the backlash against bigness? The answer is localisation. It's the obvious counter-narrative to globalisation and means doing things at the most local level feasible.

It would be daft for every town to manufacture its own trains, for example, but it's perfectly sensible for every neighbourhood to have its own bakery (if only for the smell of baking). By trading as locally as possible you can improve trust, information flow, local control, business accountability and market efficiency. The US economist Herman Daly once described lorries carrying identical biscuits made in different places between far-flung European cities, and asked if it wouldn't be easier to simply exchange recipes.

Why trade? To get things we would otherwise be without and to earn money to buy other stuff that we think we need. Problems emerge, however, when we get a bad deal and the benefits of the trade are poorly shared. This happens when we are in a bad bargaining position. Poor countries, unless they are really big like China, are almost always in a bad position when they trade with rich countries. Rich countries have economic, political and military power to negotiate with, and they use it, regularly.

Nobel-prize-winning economist Maurice Allais once declared that 'free trade' would bring general benefits only if carried out between regions at equal stages of development. He was politely ignored. But people around the world are coming to the conclusion that local needs should come before global markets. Farhad Mazhar from Bangladesh promotes a form of ecological farming called 'Nayakrishi' and says: 'I'm not against the market, or even international trade. It's just that trade should be non-exploitative, and local needs should come first. Now we've found that Nayakrishi agriculture is more economically viable than conventional modern farming, many households are beginning to go into cash crops for the market too.'

We need global rules for global players like the multinational corporations, and we need a radically different economic architecture to redistribute wealth at the macro level. But, ironically, probably the most important global rule we need is one that enshrines the freedom of local communities to choose their own economic development path – the very opposite of the principles pushed by the WTO and IMF.

We should be asking what is the optimum market size (socially, economically and environmentally) for all the things we need, and trading locally as much as it is possible. For too long our system has unquestioningly encouraged the economics of large and remote organisations. Localisation – or subsidiarity – promotes an economics of nearness on a human-scale. It would give people more control over their lives, and would be a way of saying that free trade should be exactly that – free and not compulsory.

Andrew Simms is policy director of the New Economics Foundation, which is the home of Local Works – the campaign for a local sustainability bill.

Return to Scale is a new collection of essays on localisation to be published in September to mark the 30th anniversary of the publication of EF Schumacher's Small is Beautiful