

## **Business Frontiers:**

### **Social Responsibility, Sustainable Development and Economic Justice**

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## **~ 8 COMMUNITY ECONOMICS ~**

### **Local Empowerment**

There are a growing number of critics who claim a direct link between the advancement of industrial development based on neo-classical economics thinking and the erosion of communities. This erosion has in turn exacerbated numerous other social problems and created negative effects such as economic dependence, community disempowerment, cultural breakdown, social diseases and environmental destruction.

The call by a growing number of new economists is for a more community-centred economics. This includes various concepts, such as person-in-community, self-reliance, counter-development and eco-communitarianism. On a more practical level, the establishment and support of community businesses and other organisations, as well as of local currencies or exchange systems needs to be encouraged.

The benefits of this community approach are wealth creation, empowerment, social cohesion, ethical conduct, sustainability and fulfilment of human needs. These are all the subjects to be briefly introduced in this chapter. Many of the concepts and ideas will be dealt with in more detail in other chapters. The theme, however, is a thread that runs throughout the book, namely that we need a new economics with a human face and planetary perspective.

## ***The Effects of Industrial Development on Community***

### *The Specialisation Trap*

One of the fundamental principles of neo-classical economics is the division of labour through specialisation. For many communities or countries, however, specialisation can lead to dependence. Developing countries, for example, have found themselves reaping a bitter harvest for decades due to declining prices and terms of trade in primary goods. Often, these patterns of specialisation have been reinforced by conditions imposed by the World Bank or International Monetary Fund. This leaves countless communities, as new economist Guy Dauncey (1986) puts it, "at the mercy of the international trade winds, which can destroy a mono-crop economy overnight."

### *Absentee Executives*

Another aspect of economic dependency is the tendency in industrial development for economic power to become concentrated in the hands of large, usually transnational, corporations. The result is that the destiny of local economies becomes subject to the whims of managers making decisions in distant boardrooms, or shareholders chasing the highest returns on their computer screens, neither of whom have any appreciation for the impacts of their decisions on real communities. Offices are transferred, retail outlets moved or factories shut down with little concern for how this affects the economic viability of the local communities in which these activities operate.

### *Community Disempowerment*

Closely related to economic dependence is the loss of any sense of self-determination in communities, a situation exacerbated by international trade agreements and roller-coaster financial markets. This in turn changes people's behaviour, with increasing levels of passivity, apathy and people abdicating personal responsibility – a phenomenon which community development activist Helena Norberg-Hodge (1991) observed in the remote area of Ladakh. New economist Paul Ekins (1986) calls this "learned helplessness" and ascribes it to the trend in industrialised countries of replacing neighbourhood communities with "communities of interest".

### *Cultural Imperialism*

Another claimed effect of industrial development is the reduction of cultural diversity and creation of a monoculture. Individuals experience a loss of identity, as they feel pressured to conform to idealised images presented by Western media or corporate advertising. "Barefoot economist" Manfred Max-Neef (1991) talks of this in terms of "patterns of consumption, exported by the affluent countries and imposed upon Third World countries [which] threaten their cultural identity." Some go so far as to call this "cultural imperialism".

### *Social Costs*

Ecological economists Herman Daly and John Cobb (1989) suggest that the devaluation of communities in the name of free trade results in community standards such as social security, medicare and unemployment benefits all being “competed away” since they are regarded as costs. The experience of the Ladakhi community related by Norberg-Hodge (1991) also suggests an increase in the “diseases of civilisation” such as cancer, strokes and diabetes. Other social costs may include periodic unemployment, family instability and high rates of divorce, physical disease, mental illness, crime, delinquency and drug addiction.

### *Environmental Destruction*

Following on from their previous argument, Daly and Cobb (1989) also claim that free trade is “an invitation to the tragedy of the commons”, since conservation standards, like social services, will be competed down. Irrespective of economic theory, the environmental impacts of centralised, large-scale industrial economies are clearly visible for all to see. Consumption of resources, utilisation of energy and production of wastes all increase exponentially as an economy urbanises and adopts Western lifestyles. People become numb to the incredible beauty and critical importance of the environment when they are surrounded by cities of concrete, artificial light and sterilised air.

### **Concepts for Community-Centred Economics**

#### *Person- in-Community*

Daly and Cobb (1989) suggest that neo-classical economics (or *chrematistics*) which “abstracts the market from the community” needs to be replaced by community economics (*oikonomia*) which “views the market from the perspective of the total needs of the community”. In order to do this, the popular concept of individuals as “free rational utility-maximising consumers” (*Homo-economics*) needs to be replaced by the concept of “person-in –community”. The economic framework which they develop on this basis places greater importance on patterns of relationships in a community that are meaningful and personally satisfying, relative local self-sufficiency, decentralisation of the economy and environmental sustainability.

#### *Self-Reliance*

Max-Neef (1991) calls for the “logic of economics” which perpetuates financial, technological and cultural relationships of dependence to be replaced by an “ethics of well-being” based on the satisfaction of fundamental human needs and on the generation of growing levels of self-reliance. The principles of self-reliance are described as: (1) the satisfaction of basic human needs while not limiting economic activity to the basics only; (2) reliance on the community for economic goods and services which fulfil basic needs;

(3) trade over and above this only when the net balance of costs and benefits between parties, including externalities, is as equal as possible; and (4) inclusion of compassion and a will to resist violence, direct or structural, from the outside.

#### *Counter-Development*

Norberg-Hodge (1991) believes industrial development needs to be resisted and reversed in a process she calls "counter-development", which embodies the following characteristics: (1) active support of ecological and cultural diversity; (2) promoting of economic decentralisation and self-reliance; (3) employment of appropriate technology; (4) nurturing and support of local knowledge; and (5) development of a broader world view of interdependence based on intimate connection to community and place.

#### *Eco-Communitarianism*

UK political activist, Jonathan Porritt (1995) proposes "eco-communitarianism" as an alternative to industrial development and derives the following basic tenets: (1) human scale and the appropriateness of scale to a specific ecological context; (2) balance between rights and responsibilities, including responsibilities to earth, other creatures and future generations; (3) self-reliance, including the ability to provide meaningful work; (4) the community theme of systems, including natural systems embedded in physical communities; and (5) ethics, which involves a new concept of success rooted more in spirituality than greed.

### ***Practical Application of Community-Centred Economics***

#### *Community Financial Organisations*

One way to reverse the destructive community effects of capital drainage from local areas is to establish community financial organisations. According to Australian community activist J Jordan (1994), the lead in this area came from the emergence of community revolving funds in the US during the seventies and was picked up in Australia since the mid-eighties. She cites the Maple Street Cooperative as a prime example. In 1994, after less than ten years of existence, the community financial organisation had an asset base of a million dollars, with 2,600 members from the local community of Maleny, and had provided finance for 78 new jobs within 33 new businesses. Other good examples include the J.A.K. cooperative banks in Sweden and the Caja Laboral Popular of Mondragon, Spain. Some of the beneficial aspects of these organisations are that they can: (1) foster a measure of local financial autonomy; (2) provide a democratic structure to determine money priorities in the community; (3) provide a community revolving fund; (4) direct money to worthwhile projects; and (5) empower the community immeasurably.

### *Community Businesses*

Community businesses have an important role to play in revitalising the local economic order. Often these take the form of co-operatives, but Canadian business development professor Greg MacLeod (1992) notes that they should take on whatever structure is most appropriate for the local context and needs. More important than their structure is that resources, labour, shareholders and reinvestment of profits are all, as much as possible, local. Case studies include New Dawn Enterprise in Canada, Mondragon in Spain, and the Briarpatch Network. The latter is a loose affiliation of approximately 800 community businesses in Japan, Sweden, Finland and Canada. These businesses seem to be proving far more successful and sustainable than those in the main stream: while the average failure rate for most US companies in the first three years of operation is 80 percent, it has only been 5 percent for the Briarpatch businesses.

### *Micro-Organisations*

A considerable portion of economic activity takes place outside the visible, monetised economy. Max-Neef (1991) refers to this as the work of "micro-organisations" of the "invisible world". They include youth and women's movement, cultural and ecological groups, charities and welfare organisations, self-help and activist networks – all groups of people who are doing productive work in communities but are not recognised by the formal economy. Their activities are a vital element in the healthy functioning of community economies and hence, all efforts to support and strengthen these organisations should be made.

### *Local Exchange Systems*

Various forms of exchange systems for goods and services are one way to empower communities to meet their own needs. The simplest and most time-tested of these are barter systems. The prevalence of this practice is suggested by Daly and Cobb (1989), who estimate that 10-20 percent of world trade takes this form. There are also examples of service-exchange systems, usually based solely on the value of time rather than any presumed market values for services. Under one of these, the Time Dollars system developed in the US by Edgar Cahn in 1990, it was reported that over 3,000 participants were providing about 15,000 hours of service a month in nine states. Another, WOMANSHARE, a service exchange network started in 1991 for women in New York City, grew so rapidly that by 1993 members were offering each other 60 different kinds of instruction and 130 different services.

### *Local Currencies*

The creation of local currencies has historically been a way to regenerate local wealth and reduce dependency on unpredictable macro-economic forces. The best known example of

this is the “stamp script money” which Silvio Gesell started in the Austrian town of Worgl during the years of the Great Depression of the 1930s. A similar initiative was undertaken in 1972 in the US town of Exeter where Ralph Borsodi experimented for one year with a local currency called “Constants” which he based on a standard of value using thirty commodities in an index similar to the Dow Jones Average. There have been numerous other local currencies introduced around the world since these, including for example “Time Dollars”, “Farm Notes”, “Womanshares” and “LETS”.

### *LETS*

LETS (Local Exchange Trading System), more than any other parallel community currency, has spread the most widely internationally. LETS was first established by Micheal Linton in 1983 when his rural community in British Columbia, Canada, was devastated by an economic recession. The system allows members to trade both goods and services, using a combination of conventional dollars and community-created credits called “Green Dollars”, and keeping track of members balances in a central computer program. By 1990, Linton’s system had 600 members with a yearly turnover of \$325,000 (green). LETS is now in operation in Canada, the US, England, Australia and New Zealand. Other similar systems are the WIR Network in Switzerland and Ithaca Money in New York. Jordan (1984) suggests that all these community currency and exchange systems have the advantage of: 1) being created in the community at the time when it is needed; (2) having availability limited only by the time and energy of participating individuals; (3) only being useful in its trading function, rather than being used for hoarding (no interest is paid); and (4) being simple to use and safely limited to usefulness only within the community.

### ***Benefits of Community-Centred Economics***

There are clearly a series of benefits which can be associated with community-centred economics, which are discussed briefly below.

#### *Wealth Creation*

Jordan (1994) notes that the premise of all the various kinds of local economic development discussed above is that “the real wealth in communities lies in the goods and services of that community, not in the money available to it.” Similarly, says Dauncey (1986), “prosperity is a function of circulation of wealth, not of the crude quantity of wealth.” The lesson of community-centred economics is that communities can and do create their own wealth through encouraging local trade, supporting community businesses, and creating work and hence jobs for themselves.

#### *Empowerment and Self Esteem*

By fostering self-reliance, communities and the individuals in them feel more in control of their own destinies. Community-centred economics also helps to counteract the

destructive feelings of uselessness created by the impersonal formal economic system. As Brandt puts it: "Learning new skills or discovering that you can meet various everyday needs directly and that you can create beauty or solve problems without having to rely of outside experts, all contribute to self-esteem." Similarly, new economist J Galtung (1986) says that "self-reliance is psycho-politics as much as economics; it pre-supposes, and builds, self-respect."

#### *Social Cohesion*

Norberg-Hodge (1991) draws on her experience of the Ladakhi community when she suggests that a more community-centred economic system increases social cohesion, in the form of greater cooperation and mutual support as opposed to selfish, competitive behaviour. This also manifests in a greater sense of cultural integrity and celebration of this timeless heritage. She believe this social cohesion is rooted the "fabric of local interdependence" and "deep, long lasting connections to other people" and in the feeling of individual security which this brings. This is the same notion which underlies Daly and Cobb's (1989) concept of an economics of person-in-community, namely "persons are internally related to one another i.e. their relationships define their identities as persons."

#### *Ethical Conduct*

Ekins (1986) observes that various codes of conduct and instruments of regulation and control "are likely to have to be invoked far less often in a locally-based economy than in an economy with long supply and distribution chains, primarily conceived in terms of national and international markets." Free trade critic, I Ropke (1994), explains why this is the case, saying the "ethical constraints on our behaviour can only be developed if we are confronted in a very direct way with the consequences of our behaviour. Thus, the existence of ethical constraints depends upon the predominance of a daily life with close relationships to other people and nature." Hence, communities, not free markets, are likely to be more self-regulating for the best social good.

#### *Sustainability*

As already inferred in the previous paragraph, sustainability is better achieved if economic empowerment exists at a local level, since communities are more sensitive to ecological feedback information and more ethically constrained than remote corporate executives or government officials. Environmental problems are reduced also because of the smaller scale and greater ease of achieving closed production circuits in community-based economic activities. The fact that Local Agenda 21 exists also seems to support this view, namely that many environmental solutions are to be found at a local level.

### *Fulfilment of Human Needs*

Community-centred economics also achieves a broad spectrum of satisfaction of fundamental human needs, and in satisfying specific needs seems less prone to violating others. This achievement is described by Max-Neef (1991) as follows: "By lessening economic dependence, subsistence is safeguarded. Furthermore, it fosters participation and creativity [and] it stimulates and reinforces cultural identity through an increase in self-confidence." New economist K Parker (1993) also notes that by adopting this approach, "a community can seek to maximise the growth of meaning, rather than of material production."

### **Conclusion**

This chapter has sought to demonstrate that, not only is a more community-centred economics needed, but that conceptual and practical tools for its promotion exist and are gaining in popularity. This is testimony to a recognition by a number of socio-economic reformers that we cannot simply opt out of the current economic system or idly await its collapse. There is no "out" and if the system were to collapse, an important element that this movement seems to bring to the prevailing field of economics is its emphasis on the importance of the human, qualitative side of economics. In essence, community-centred economics is a reminder to all of us that the function of economics is to serve humanity and the Earth and not the other way around.

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