

## **PART IV: BUILDING COMMUNITY RESILIENCE**

### **How Globalization Undermines Resilience**

In the world of computer network engineering, building resilience means supporting distributed processing and network storage. Decentralization and redundancy are the watchwords. If we were to translate that strategy to communities, it might imply localization as opposed to globalization; and it would mean encouraging a certain level of redundancy in services and inventories, as opposed to the radical streamlining of supply chains.

This offers some important clues as to how we should be thinking about community economics if resilience is our goal.

In some respects, economic resilience is just the opposite of economic efficiency. Economic efficiency can be described as identifying and using the lowest-cost suppliers, and reducing costs from system redundancies and inventory maintenance. Economic efficiency tends to lead to more specialization: individuals specialize according to their skills, and regions specialize according to their relative abundance of resources (such as minerals, water, or energy). Efficiency also leads to economic stratification, both within regions (because some professions are more highly rewarded than others) and across regions (as manufacturing moves to places with lower labor costs).

Here is a simple illustration of the idea of economic efficiency: if you can grow corn cheaper in Iowa than anywhere else, then you should grow all your corn in Iowa, and Iowa should do nothing but grow corn. That's economically efficient. We'll come back to that somewhat hypothetical illustration in a few moments. But here's a real-life example. In 2016, Venezuela's economy collapsed because it depended almost entirely on oil revenues. When the price of oil fell in 2014, Venezuela had no other way of funding government services. Reducing economic diversity may be efficient, but it also reduces resilience.

Sure, there's something to be said for economic efficiency. It increases profits and minimizes waste. However, as an economic strategy it is subject to the law of diminishing returns. There are costs to pursuing efficiency: it takes effort to identify the cheapest suppliers and to shift production to the places with the lowest wages and the loosest labor and environmental regulations. Economies of scale can reduce prices, but as the scale of production goes up, so does the requirement for infrastructure--for transport, distribution, waste cleanup, and so on.

Efficiencies of scale also produce systemic inefficiencies elsewhere in the system--the loss of well-paying jobs, for example, that provide people with incomes that enable them to buy products. At first, those inefficiencies and costs are minimal in comparison with the immediate payoff in terms of lower prices and higher profits. Gradually, however, as the strategy is implemented, costs continue to increase while payoffs decline.

So it's a strategy with a limited shelf-life. But it's worse than that. Most of the payoffs go to the company that's pursuing the race to the bottom, but the costs go increasingly to society as a whole. So companies tend to continue pursuing this strategy after its true and full costs have gone seriously negative.

Aside from globalization, automation offers another path toward economic efficiency. Since labor is usually the biggest line-item cost for businesses, corporations often save money by replacing workers with machines--both domestically and internationally. Again, that may increase profits in the near term, and make products cheaper for consumers, but jobs and wages get squeezed; eventually we reach the point where fewer people can afford to purchase products. That hurts everyone, including corporations.

Crucially for our purposes, economic efficiency is often anti-resilient. Let's think more about the example of growing corn in Iowa: if that strategy is pursued ruthlessly we arrive at the point where all corn is grown there and

Iowa grows nothing but corn. Then if the corn crop fails, nobody has corn and Iowa has nothing. The entire food system has lost resilience.

One ultimate outcome of the pursuit of economic efficiency is economic globalization: the whole world becomes one integrated market, where every company has access to the cheapest labor and raw materials, and materials and goods are shipped long distances to take advantage of cost efficiencies. And that's where we are today.

The strong trend toward globalization that has characterized the world economy since the 1970s has had a lot to do with three technological developments: container ships, computerized monitoring of inventories, and global satellite communications. But it also resulted from

- (1) the relentless pursuit of profits and efficiency,
- (2) increasing international investment (often facilitated by the World Bank or the International Monetary Fund),
- (3) the lifting of trade restrictions and protective tariffs,
- (4) the expansion of trade agreements through the efforts of the World Trade Organization, and
- (5) the increased financialization of the economy and pressures on corporations to ensure quarterly profits.

For the United States, globalization has resulted in the offshoring of a great deal of manufacturing that would otherwise have occurred domestically. American consumers have gained access to cheaper consumer products, but the hourly wages of workers have stagnated or fallen in real terms due to competition with foreign labor. The investor class has benefitted significantly and the salaried class has held on to its perks, but the wage class has lost ground, contributing to increasing economic inequality and political instability.<sup>1</sup>

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If we take a longer historical view, it's possible to identify precedents for globalization. Two thousand years ago, the Roman Empire expanded to include most of Europe, northern Africa, and Britain. And during the 19<sup>th</sup> century the British Empire encircled much of the globe. In both cases, globalization reached a point of diminishing returns and the trend reversed itself.

Earlier I mentioned that the payoffs from economic efficiency typically go to companies and investors, while the costs are increasingly borne by society. What are those costs? They include not only lost jobs for higher-paid wage laborers in wealthier countries, but also the loss of the skill base and production infrastructure within those nations. The offshoring of manufacturing to poorer nations may result in a reduction of domestic pollution, but a dramatic increase of pollution in exporting nations, which have less stringent regulations. Economic inequality increases, both within nations and between nations. And as regions specialize, there is an overall loss of local diversity in jobs.

Globalization's anti-resilience, or brittleness, results partly from the diminishing returns of economic efficiency. But it goes deeper. The lengthening of supply chains depends upon the availability of cheap transport, which in turn depends on cheap fuel. In video 4 we discussed the inevitable problem of oil depletion. This, by itself, poses a serious limit to further globalization, and eventually to the maintenance of current supply chains.

Further, minimizing climate change requires that we reduce oil consumption dramatically and quickly. There are ways to substitute for oil in transport—electric cars, sails for ships, or fuels made using renewable-based electricity as an energy source. But these are incomplete substitutes. As we discussed in video #2, it's unlikely that the energy economy of the future will be able to support transportation at current levels. That means we should be localizing as much manufacturing and food production as we can.

In addition, globalization relies on the maintenance of economic arrangements that create structural inequality within and between societies, which will eventually result in the loss of legitimacy of governing institutions.

In this time of over-globalization, one alternative—re-localization—offers substantial benefits. It creates local jobs, increases the diversity of local occupations and skill sets, and thereby increases social capital—the richness of the relationships between people who live within a region. In the next video, #17, we'll look at how re-localization can contribute to regional economic development and build community resilience.

It's important to understand that any discussion about localization versus globalization is about trends, not about absolute end states: our goal in community resilience building should be an appropriate balance between centralization and decentralization, and between economic efficiency on one hand, and redundancies that foster resilience on the other. The point is not that all economic efficiency is bad, but that the pendulum has recently swung much too far in favor of globalization and centralization, and a rebalancing is in order.

We'll talk more about how to actually accomplish that rebalancing in the next video.