

Anti-Globalization No, Pro-Localization, Yes¹

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Most of the other lectures at this conference have dealt with the cultural aspect of globalization. In the following I will attempt to connect the theme of “dialogue among civilizations” with the often-controversial economic aspects of globalization.

In truth, when I began to compose the following lecture I was not thinking about anything so “high-sounding” as a “dialogue among civilizations.” Instead, I had in mind the televised images of crowds of anti-globalization protesters that I have grown accustomed to seeing on television every time there is an international meeting of the major international economic organizations such as the “G8” or the IMF, the WTO, etc. So, in order for us to share the same starting point, I ask you to join with me for a moment in imagining yourself present to such an occasion. Picture the crowds of angry demonstrators in the streets denouncing the evils of globalization while, inside the meeting rooms, smaller and much less noisy groups, mostly consisting of bankers, economists and government officials, are discussing what measures should be taken to support economic globalization, occasionally expressing regret that the demonstrators fail to understand that globalization will be good for everybody.

You might not want to consider this a dialogue. It certainly isn't very polite. But the two sides do hear each other, even if they don't listen to each other very well. Maybe it's not a dialogue between civilizations, but at least it is a dialogue between pro-globalists and anti-globalists.

Now, in every dialogue there are things that the participants disagree on and then there are some things that they agree on. They may not agree on very much, but if they don't agree on anything – for example, if they don't agree on what language or languages to use – then there is really no dialogue. With all the shouting and ranting that takes place at these events, it's not hard to figure out what the pro-globalists and the anti-globalists disagree about. So I ask you instead to inquire, What is it that the pro-globalists and the anti-globalists agree on?

But before attempting to answer that question, let's consider a different one: Is agreement always a good thing? Ordinarily, when there is a dispute between two parties, we think the answer is yes – finding areas of agreement will bring the parties closer to resolving

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their dispute. But what if the proposition which they agree about happens to be incorrect? In that case it might turn out that their agreement is actually an obstacle to resolving the dispute. For example, if two children are fighting over who is entitled to eat a piece of candy, which both of them believe – incorrectly – to be the last piece of candy available, it might help to stop the fight if you told them that there is more candy in the next room.

Coming back to the first question then, it appears to me that both the globalists and the antiglobalists tend to agree that economic globalization is successful on its own terms, in the sense that it both expresses and also tends to enhance the success of multinational capitalism. In other words, both the advocates and the opponents of economic globalization agree that globalization is profitable for the owners of large businesses in the developed world and, apart from such problems as environmental degradation and non-renewable resource depletion, they tend to agree that globalization is economically self-sustaining. Where they disagree is about the probable impact of globalization on the rest of the world, with the advocates of globalization believing that globalization is, on the whole, beneficial to the whole world, while the opponents of globalization believe that it erodes cultural distinctiveness, reduces political and economic independence and increases poverty in the less developed part of the world.

In this lecture I want to suggest that both the proglobalists and the antiglobalists are mistaken precisely on this one point where they agree. The apparent economic success of globalization is not caused by the effectiveness of the multi-national corporations which are its most visible manifestation. On the contrary, the economic power associated with globalization depends critically on locally generated economic development. It follows from this that localization policies are not merely a matter of protecting small localities from having their distinctiveness pulverized by the impact of global firms and institutions. Instead, it is the prosperity of the globalized economy that would be jeopardized by failing to cultivate the power of localities all over the world to contribute powerfully to the process of generating economic novelties. The vital importance of localization for long-term economic development points to a constructive area of possible agreement between the globalists and the antiglobalists, and that is what I mean by “pro-localization, yes.”

I am suggesting that globalization and localization are in some way complementary tendencies. While one or the other tendency may predominate at some places or times, neither is in any final or linear way a successor to the other.

In offering this suggestion, that globalization and localization are complementary tendencies, I am quite consciously and intentionally challenging the conventional view of globalization as a singular, unprecedented event in linear history.

In order to explain more fully what I mean by suggesting the complementarity of globalization and localization, it is necessary to look at globalization in historical context

– but the historical context I want to consider is a relatively long one which differs from that favored by those who see globalization as a singular event.

Most of the discussion about globalization treats it as a very recent phenomenon, associated with the development of very high-speed modes of communication and transportation.

Others see globalization as an expression of the world-wide explosion of trade capitalism which began about 400 years ago. This is an especially important context to bear in mind to the extent that discussions of globalization revolve around international financial and trade institutions such as the IMF and the World Bank. To that extent the recent developments which go under the name of globalization may be regarded as simply a continued implementation of the anti-mercantilist vision articulated by Adam Smith in *The Wealth of Nations*, and the present conversation about globalization then appears as in many respects simply a continuation of conversations about free trade economic policy, colonialism and imperialism which have been fixtures in our political worlds for more than two centuries. In fact, since the end of the Cold War, it often seems that the 70 years of the Soviet Union were only a long intermission in these conversations, as they obviously were also in the case of nationalism.

Finally, there are those who see globalization as something which has been going on as long as there have been human beings populating the world, migrating, trading, interacting across distances large or small.

My own position is closest to this last one, except that I want to suggest that globalization historically is connected in an important way with the development of cities, and this will allow me to connect my presentation with the present theme of “dialogue among civilizations,” since the word civilization is simply a Latin-derived word referring to the spreading of the culture of cities.

First, however, I want to offer some examples which I hope will clarify what I mean by suggesting that globalization and localization are alternating or complementary movements of history.

My first example comes from China. In northwestern China there is a group of manmade caves called the Yungang caves. These caves are recognized as among the artistic masterpieces of the world. They date from the period a little less than 2000 years ago when Buddhism was first being received into China. They were started during the Six Dynasties period, when China was suffering one of its episodes of disunity. All of the caves contain depictions of the Buddha along with other human figures, but the artistic styles changed in striking ways during the time that the caves were being constructed. The most remarkable fact, at least for my present purpose, is that in the oldest of these caves the artistic treatment of the fabric, of the clothing and also the figures is

unmistakably based on Greek art. Why in the world would you find Greek artistic patterns in China in the 4th or 5th century AD? The most plausible explanation is this: In the 4th Century BC, as almost everyone knows, Alexander the Great conquered a considerable amount of what is now Pakistan and Afghanistan. After Alexander's death much of this area was governed by a Hellenistic kingdom now called by historians the Bactrian Kingdom, which continued to exist and govern after a fashion for another century or two. The Bactrian Kingdom was succeeded by an Indian state called the Gandaran Kingdom which took over the Greek-derived artistic patterns of the Bactrian Kingdom. Although Buddhism originated long before the Gandaran Kingdom existed, its period of expansion did not occur until a considerable time later, and it just happened that the period of expansion began during the Gandaran period. As a result the artistic traditions which were taken from India to China by the first Buddhist missionaries were, at least in part, those traditions which had been received several centuries earlier from the Greeks.

However, if you study the later caves, which were constructed over the next 50 to 100 years at this Yungang site, what you see is that the same religious structures, the same structures of symbolism, became progressively more Chinese in style. And there is historical evidence that during this period China was experiencing a growing degree of unification and an increasing degree of cultural self-consciousness was developing among the Chinese, so, while people continued to accept Buddhism, they rejected the non-Chinese Greek (and Indian) elements of the artwork.

The point of this story is twofold. First, it shows that the Hellenistic expansion is one example of a kind of cultural globalization – which evidently retained some of its force centuries after the political power of Alexander's empire had ceased. Clearly the Roman Empire is another example of such globalization in the sense that one can travel for thousands of miles in Europe and in this part of the world (i.e. the Caucasus) finding not only relics of Roman architecture but also linguistic and cultural remains of the Roman empire. So to the extent that we understand by globalization the universalization of one set of cultural attributes, this is a phenomenon that has occurred over and over again in the history of the world. But the second point relates to the fact that the Chinese archetypes reasserted themselves in the midst of the Buddhist symbolism. This too is something that has occurred repeatedly, in that there have been repeated episodes of what we might call relocalization in which various local traditions reasserted themselves.

My second example pertains to one of the great episodes of relocalization, which occurred at about the same time as the first example, but in Europe. I am referring to the development of the Romance languages. The Romance languages are, of course, localized dialects of vulgar Latin. They came into being over a period of centuries, beginning, it appears, about the 4th Century AD. While the cause of this linguistic differentiation is not entirely clear, the most plausible hypothesis is that it resulted from the administrative reorganization of the Roman Empire which occurred at the end of the

3rd and the beginning of the 4th Century. The main effect of this reorganization was that the administration of the empire was decentralized and its administrative organs came to include a much larger representation of local people than had been the practice in the earlier years of the Empire. Now here is the relevant part: This reorganization of the empire was occasioned by a period of stagnation which seriously threatened the integrity of the Empire, and the reorganization, which, on the whole, was quite successful, involved a localization of many of the administrative functions which previously had been more centralized. Thus the localization was not directly a result of the weakening of central authority, although one might suppose it so. On the contrary, this episode of localization was part of a strategy which, for a time, actually strengthened and revitalized the authority of the Empire as a whole. We see from this example that localization, in addition to giving rise to the regional differentiation of Latin dialects which we call the Romance languages, was actually a source of power for the empire.

The power of localization is something which tends to be neglected in the conversation about globalization. When we hear people expressing resentment about globalization, treating globalization as a problem, we tend to suppose that globalization represents what is powerful and that localities are the helpless, powerless victims of globalization. I am here to argue, on the contrary, that the economic forces which we recognize in the phenomena of globalization are in fact dependent on local economic development and will dry up if the possibilities of local development are stifled by the institutions intended to promote global development.

The economic insufficiency of the institutions of big corporate capitalism was first revealed in a scientifically demonstrable way in the United States about 1980 by an economic researcher named David Birch who published a widely quoted study about the sources of new employment in the US economy over the preceding decade. What he found is now almost a cliché, but it was very shocking twenty years ago: Essentially 100% of all the new job growth in the US over the preceding 10 years had been due to the growth of small, new businesses, and not to the growth of large businesses. In fact it turned out that the large corporations, considered by themselves, were contributing a net negative amount to the job growth over that period of time, so that if the economy had consisted only of the large corporations there would have been a significant contraction of employment during that period, rather than considerable growth.

Yet a significant amount of economic globalization was occurring at that period of time. Huge amounts of capital were being exported by American corporations to foreign countries. And much of that capital export was for the purpose of moving production facilities away from the US to lower labor cost areas. But it can now be seen that much of that capital and labor export did not represent the success or growth of these large corporations. Instead it reflected desperate measures to stave off the decline of those businesses. In short, it is very far from clear that the multi-national corporation model

that we think of when we think of globalized economies is successful on purely economic terms.

The reason for the failure of the multi-national corporation model is that the long-term prosperity of an economy depends on new-firm formation, and new firm formation is something which occurs locally, not globally. This is illustrated by examples from the domain of biology. Think about fish. Many people think that ocean fish just live in the ocean – little ones, big ones – they eat each other and other things, they swim around and they live. But the interesting thing which has been discovered by environmentalists as wetlands on the margins of the continents have been drained or polluted is that most fish do not reproduce in the middle of the ocean. They reproduce in little protected places, usually in shallow water close to land. In some cases, most famously in the case of salmon, ocean fish actually swim upstream to reproduce in freshwater streams and rivers. So the places where reproduction occurs are often very small, distinct localities.

There are two lessons available from this. One being that the reproductive aspect of activity, at least in the biological realm is often much smaller than the range of the species in its adult life. The second lesson is that the entire life cycle seems to involve an interaction between this very localized requirement for reproduction and a much larger range for sustaining the development of the adults. And damaging or destroying the reproductive locality, even though it seems to be relatively small, can be disastrous for the survival of the species.

Now I want to offer a third historical example, this one from about 10,000 years ago. I want to suggest that the first important example of globalization was the invention of agriculture. The account of the origins of agriculture that I am about to describe was developed by Jane Jacobs in her book *The Economy of Cities*. It is fair to say that it runs very sharply against the current of conventional wisdom on this subject. Conventional wisdom about the origins of agriculture is that somehow or other during the Neolithic period people living in villages discovered how to grow plants and to develop the new varieties of plants which were very productive, and that on the surplus allowed by this very productive process of food production cities were formed. This idea of the origins of agriculture – that agriculture developed in rural villages, produced a surplus, and that on the basis of that surplus cities were founded – is a perfect image of the 19th century idea of capital formation based on savings. The British economist Nassau Senior was famous for the idea that capital is the result of saving and that, therefore, capitalists are to be admired because they are thrifty and they do not spend what they have, but instead save it, thereby forming capital.³ It was the great merit of the Austrian economist Joseph Schumpeter to show (*Theory of Economic Development*, 1934) that this concept of capital formation is incorrect.

³ Karl Marx adopted essentially the same notion of capital formation, except that what Nassau Senior called saving Marx called the expropriation of surplus value.

The idea that agriculture originated in villages, and that cities were only formed after agriculture, was not challenged until Jane Jacobs published her *Economy of Cities* in 1970. What Jacobs showed is that it was impossible for the genetic modifications of cereal grains to have occurred in the circumstances that would have existed in Neolithic villages. She showed that it was necessary for the first cereal grains to have involved the cross-breeding of different genetic strains, which would have had to have come from remotely separated places. The point of this is that in order for the necessary genetic modifications that led to the development of agriculture to have occurred there had to have been some way in which products from remote places could come together under conditions of careful observation. Jacobs argued that cities are places where you have a combination of local activity and activity connected with people at a distance, and this combination causes extraordinary cross-fertilization to occur under conditions conducive to its productive effects being observed. In other words, cities serve as the reproductive localities, not only for the novelties that we call agricultural products, but generally for the development of new firms and new types of economic activity.

For our present purpose it is important to note that the fertility of cities as incubators of economic development is due to the fact that, as large settlements that are the foci of long distance trade, cities are essentially combinations of local activity and global activity. What I am pointing to, what I would like to invite you to consider along with any laments you may have about globalization, is that small localities which are open to the rest of the world, have extraordinary advantages in being the sources of new things and, as such, play a critical role in the process of economic development. If Jacobs is right about this, then urbanization is an important counterpart to globalization, and has been for a very long time.

If it is the case that the development of cities was responsible for the invention of agriculture, then we can see that this development led to a very widespread – nearly global – transformation in the way human beings live and sustain themselves. And this first instance of globalization was not without its casualties. From the point of view of the hunter-gatherer societies which preceded the agricultural revolution, the development of agriculture was a disaster. There is little evidence that many of the hunter-gatherer societies adopted agriculture. Mostly they retreated into inaccessible places or simply died out. The people we call peasants are not the descendants of primitive societies who adopted agriculture. They are the remnants of agricultural settlements, colonies essentially, created by the cities in an early phase of “production outsourcing”. As such, the agricultural settlements spun off by cities remained dependent on their cities for their own development and when the parent city was extinguished, as must have occurred now and then, the dependent settlement would survive in a state of economic stagnation – such as we find in peasant villages.

At this point in my presentation our conference theme of “Dialogue among civilizations” comes back into view in a very interesting way, namely in terms of trade among cities:

Although most urban economists are preoccupied with models that focus on trade between cities and their hinterlands, in fact it seems that the historically important forms of trade were not between cities and their hinterlands but among different cities. In other words, when cities expand, what expands the most is trade with other cities. Does this expansion of inter-city trade require cultural homogenization? Not necessarily, but it requires citification. If there are no other cities to trade with, it is difficult for an isolated city to expand. Because of the importance of inter-city trade, cities have always tended to be places that tolerate strangers and diversity.

Now I want to remind you of what Giuli Alasania said in her lecture. Dr. Alasania called our attention to the fact that, throughout its history, since ancient times, Georgia has been a crossroads and a place of meeting and interaction among different civilizations, and she remarked on the fact that Georgia's great epic poem, Rustaveli's "The Knight in Panther Skin", does not even take place in Georgia, but takes place in Arabia and India. And the main theme of this great work, which somehow embodies the essence of Georgian culture, involves an act in which the central character violates his obligations to the king in order to go to the aid of a newly befriended stranger. Thus it appears that, although Georgia does not look like a city, it has this important characteristic of cities in being a place that tolerates and welcomes strangers – not just accidentally but at the core of its cultural being.

What is remarkable, both in the Rustaveli epic and in Georgian culture generally is the extraordinary self-confidence of Georgian people when interacting with different cultures. This self-confidence is in striking contrast to the expressions of fear and resentment which characterize conversations about cultural globalization. The fear that one hears most often in such conversations is a fear that one's cultural identity will be destroyed or diluted as a result of contact with the products of another culture. If Georgia were a large, powerful country like the United States, its cultural self-confidence might not require any comment. What makes Georgia's cultural self-assurance remarkable is the fact that Georgia has spent its entire history as a small country surrounded by, and sometimes defeated by, larger and stronger neighbors. It is not that Georgian culture has not been influenced by contacts with its more powerful neighbors, but somehow Georgia was able to take on the influence of other cultures without becoming any less Georgian than before. Furthermore, it seems to me that Georgia's success in maintaining its cultural distinctiveness has not been achieved in spite of its continuous contact with other cultures but – at least this is a possibility worth considering – it is possible that the distinctiveness of Georgian culture is maintained by means Georgia's contact with other cultures, but especially because of Georgia's unusually welcoming and interactive way of receiving persons of other cultures.

The tolerance of diversity, which is the hallmark of multiculturalism as a contemporary academic idea, is not a characteristic of most of those diverse traditional cultures which multiculturalists say we should tolerate. Georgia, however, is remarkable in being a place

whose people have a remarkable ability to remain themselves while in constant contact with cultures very different from their own. I suggest that the world may well have a lesson to learn from Georgia on this point, a lesson that may point us to the other side of the debate about globalization. In this respect Georgia may provide not only an example of what is required for the existence of dialogue among civilizations. In addition we need to examine this question: Do the characteristics that make Georgia an example of what is required for effective dialogue among civilizations also make it an example of what is required for rapid economic development in a global economy? I believe the answer to this question may be Yes -- If economic development policymakers will pay attention.

I have suggested that the problem presented by the conversation about globalization is that the prevalent theories about the multinational capitalist economy fail to provide an adequate understanding of the causes of its success and therefore fail to recognize what policies are necessary to prevent its ultimate failure.

As is well-known, standard, marginal utility economics has no temporal dynamic. The attempt to create a kind of dynamic by means of the business cycle, as Schumpeter did, is interesting but largely unsuccessful and certainly not well-integrated into the main body of economic theory. For the most part temporality in economics is expressed in terms of a discount rate, which allows one to express in monetary terms the present value of a future transaction. The treatment of space in standard economics is similar. That is, distance is translated into a cost function, while the economic advantages of being in a “central place” are translated into a “rent gradient” in which the cost of land is normally highest in the central place, sloping downward as one becomes more remote from the center.

Chapter 3 of Book I of Adam Smith’s *The Wealth of Nations* argues that the division of labor is limited by the extent of the market. Since, according to Smith, the source of economic advantage is the combination of the principle of exchange and the division of labor, this argues that any restraint on the extent of markets will limit economic prosperity. Consequently, Smith’s book was taken as a very powerful manifesto in favor of international free trade, in favor, in essence, of removing the economic significance of national boundaries. In other words, *The Wealth of Nations* might be taken as the first manifesto of globalization.

In a significant way the standard view of economics is very similar to the standard conception of physical science which was overthrown at the beginning of the 20th Century by development of Quantum Mechanics: The prevailing view of classical natural science is that every individual thing or complex of things is to be understood as determined by the external forces which have affected and shaped it. As such, a scientific explanation is an explanation of things as effects, results, of previous and external influences. This view expresses itself in economics in the form of the invisible hand. That is, if everything is determined by the market, then everything everywhere is the

resultant of economic forces outside itself, and no individual thing or place can choose its own economic destiny.

In the sphere of economic development this notion shapes the view that local economic development policy is impossible – because, one is told, localities are essentially passive with respect to national economic policies and conditions. But the people who hold this view fail to reach the obvious conclusion, which is that, on their assumptions, economic development policy is impossible at any level.

The conclusion which seems inescapable to me is that the pure theory of economics must be incomplete. It is incomplete because it fails to explain the conditions for entrepreneurship. For pure markets it may be sufficient to ignore both space and time and consider only price, supply and demand. But to understand – and promote – entrepreneurship it is necessary to take account of localities and networks of interaction. Economists may think that localities have no ability to generate economic development, but the evidence suggests very strongly that the most economically successful places in the world are those localities in which there is a strong interaction between the local economy and the distance trade economy.

I am hopeful for the future of Georgia because Georgia is precisely that sort of locality where there can be a strong and complex relationship between the local economy and the foreign trade economy. Developing that possibility is precisely what I mean by “pro-localization, yes.”