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TOWARDS A NEW ECONOMICS:
On the theory and practice of
self-reliance

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1. New Economics, New Economic Thought

A characteristic of the economic summits as we know them is that they do not question economic theory, they only question economic practice. I think The Other Economic Summit that we are attending would question both. And perhaps even go one step further: there is nothing so practical as a good theory. When the present economic system generates not only extreme misery in some corners and excessive wealth in others - admittedly with a wide range of people in between - overdevelopment in some corners and underdevelopment in others and one crisis after the other, it is also because the theory is bad, meaning that one has to search for another theory, mindful of course, that regardless of what theory one has, the practise may not live up to it. In addition, if one theory is wrong it does not necessarily follow that an alternative theory is valid.

I shall try not to waste time or space criticising classical/neo-classical economics, but devote myself almost entirely to the more constructive enterprise of drawing up alternatives. Only two points have to be made about conventional theory, not concerning its content which is well-known, but the conditions under which that theory arose:

(1) Conventional theory emerged at a time when a new form of power grew in significance: contractual power based on quid pro quo, do ut des, willing buyer meeting willing seller as opposed to the normative power of the Church and the punitive power of King and Law, Police and Military. Of course, neither normative nor punitive power disappeared from the scene but contractual power, carried not only by economics but also by law (but not punitive law) had been growing steadily in importance, making rational calculation of advantages, and comparative advantages, not only possible but desirable to the point of becoming a basic way of approaching other human beings in general and all sorts of problems in particular, regardless of normative principles and fear of punishment. Simple example: budgeting with

parking fines when one has a downtown office.

(2) Conventional theory was carried into the limelight of academia by a new class, the merchants, the Tiers Etat, fighting its way up against the two solid layers that were the carriers of normative and punitive power respectively, the Church and the Aristocracy. In other words, there were very concrete actors with very concrete interests behind conventional theory. They knew what they wanted and classical economics became their intellectual expression. Of course they had been doing accounting, bookkeeping, for many centuries, and they had gotten into some bad habits: looking at the costs and benefits from a very limited angle, only their own firm, only that which can be monetised, leaving out the rest of society and leaving out the "externalities". Later on economics developed from business economics to national economics treating the country as the firm, repeating the same mistake at the level of the world system. But the externalities were never brought into the scheme, and they are many: political effects, military implications, social and cultural effects, human, educational and so on.

Thus, classical economics has been, like any other intellectual discipline, biased from the very beginning. It liberates human beings from the fear of punishment. As long as you play the game, you can enter the market, abide by the rules and you have a wide range of behaviour at your disposal whether you are a willing buyer or a willing seller or both. This is by and large to be seen as positive: what it means is increased freedom, not only for individuals but for groups as well, for nations. Human rationality is made use of, ingenuity, one is steered by the hope for positive rewards rather than the fear of negative punishment.

But then, on the other hand, normative constraints are lost hold of. Behaviour becomes rational but also immoral. "There is nothing so innocent as the man calculating his profit" becomes the adage of the system, subjectively possibly true, objectively nonsense. Nobody in his right mind would

within the family behave towards his spouse as he does in the market. Feelings of compassion, concern for the other, not only "what is in it for me", are supposed to be important, even dominant in a love relationship. Compassion and concern are key words here but they also stand for an extended rationality: lack of compassion and lack of concern may bring short term gains but long term disaster partly by eliminating my trade partner, partly by pitting him against me in ways that may mark the end of both of us. Of course, this is known and taken into account as a part of market behaviour, but usually only within a narrow range of economic attentiveness, and usually among equals. The damage done to the weak is less visible. The weak are far away, remote corners of the world where pollutants may accumulate and soil be depleted; in a similar vein, non-economic consequences such as the lack of challenge and lack of training ensuing from being but the carrier of wood and water, the provider of raw materials and commodities, will not be taken into account because they fall outside the intellectual horizon - just like the weak are outside the social horizon and the remote corners outside the geographic horizon.

In other words: we assume that people in general and economists and businessmen in particular, have limited horizons, but are themselves unable to see clearly the consequences for the action they engage in. It will be assumed that this tendency is strengthened rather than weakened through economic theory which tends to be segmented and fragmented. Obviously, it is also in their/our interest to see the world that way: maximum benefits accumulating at some points in the world economic system, unhampered by the costs accumulating beyond the horizon, look more attractive.

From this one can draw two conclusions when it comes to the re-shaping of economic theory. First, economic theory has to become global and holistic. It has to reach into the remotest corners, the deepest recesses of geographical and social space so as to take into account the impact everywhere.

And it has to be so trans-disciplinary as to encompass not only economic causes and consequences but all other disciplines as well. Obviously this is a programme for an enormous expansion of economic thought to bring it in harmony with the expansionism of economic practice, to make practice transparent.

Second, there is the opposite possibility of contracting economic practice to this side of the horizon and making the theory very holistic within that more limited scope so that costs and benefits in a broad sense can become visible to everybody.

My own view is that one should probably try to do both, that the first programme is too ambitious, that the second programme - which has very much to do with the theory and practice of self reliance - is more realistic. But at the same time the first perspective is always with us, calling for a new type of global interdependence. The conclusion is: self-reliance and global interdependence, the themes of the next two sections.

2. On the Economics of Self-Reliance

The basic principles of self-reliance in my view, are as follows:

(1) Some mechanism in addition to the market is found for a good discussion in society as to what one really needs. One point of departure would be dialogues about basic human needs to try to increase the awareness of what goods and services human beings really want, while at the same time not in any way limiting economic activity a priori to the basics, the minimum, the floor. What one might be aiming for is modesty, not poverty and certainly not misery. We have had such debates in recent years, but they have been surprisingly unproductive except as guidance for some individuals. The tendency is still to equate a demand backed up with money with a human need, precisely because at least one human being "needs" it, or at least demands it.

(2) The second question to be asked is : how can we produce what is needed, relying on ourselves, on our own production factors, meaning nature (land, raw materials, energy); labour skilled and unskilled; capital, liquid and fixed; research, basic and applied; administration. All these factors, as well as the output, the goods and services, come in crude and refined versions. In conventional theory, protected by a misapplication of Ricardo's ideal comparative advantages, a division of labour takes place with the centre applying refined factors for the refined production of refined products and the periphery applying crude factors for the crude production of crude products, exchanging these with each other. Thus, the centre treats the periphery as an external sector of its own economy, as a place to fetch or use nature and dump pollutants, to use cheap labour and dump excess labour from back home (a major function of colonialism); as a place to export excess, tied capital for specific investment purposes and from which to import profits in a broad sense, deposits etc. as untied capital; as a place to carry out research experiments

that could not be done at home, while at the same time importing researchers trained at the expense of the periphery country; as a place to administer but not be administered by, issuing SOPs (standard operating procedures) from the centre. The whole theory of self-reliance is a total rejection of this "division of labour" of the use of others as an external sector for dumping the negative externalities and denying them the positive externalities in a production process.

Hence, the basic rule of self-reliance is this: produce what you need using your own resources, internalising the challenges this involves, growing with the challenges, neither giving the most challenging tasks (positive externality) to somebody else on which you become dependent or export negative externalities to somebody else to whom you do damage (who may also become dependent on you). Self-reliance cuts both ways: it preserves the positive externalities by trading much less upwards, protects others against the negative externalities by trading much less downwards. It is a measure of economic defence as well as a pact of economic non-aggressiveness.

Fifth, a major shortcoming in economic theory is its inability to take into account externalities (hence that very word) - this is where the theory of self-reliance starts. One may discuss which they are but hardly dispute their relevance for the flagrant inequalities in the world of today. It is not a question of how much is paid for oil but more a question of who gets the challenge of refining oil in all possible directions. Nor is it a question of how much one pays for the wonderful electronics coming out of Japan, but who benefits from the challenge of developing them. Thus, in self-reliance there is both an element of enlightened egoism (don't give away the positive externalities) and enlightened altruism (don't damage others by exporting negative externalities).

(3) Yet, it is clearly the case that there may be a discrepancy between the list of what is needed and the list of what can be produced on a local basis even with the best possible use of human imagination . If only one factor is missing or short, the production does not come off the ground. The solution to that problem is, of course, exchange, trade. And this is where self-reliance spills over the local borders and international and global interdependence. Nothing in self-reliance is against trade provided it takes place according to the following two rules:

- (a) Carry on the exchange so that the net balance of costs and benefits, including externalities, for the parties to the exchange is as equal as possible.

In practice this will point in the direction of intrasectorial rather than intersectorial trade; in other words exchange of primary products (raw materials, commodities, agricultural products); or exchange of secondary products (manufactures, industrial goods including high technology); or tertiary products (services). The moment one exchanges primary products for secondary products or tertiary products there is a problem: the externalities may be extremely different even if both parties are happy with the terms of exchange (externalities actually refer to "in-change", to the effect participation in an exchange has within the parties to exchange, for instance in terms of challenges that are translated into research, education, increased skills, new settlement patterns, new horizons in general, etc.) Consequently, the parties to the interaction may not necessarily be at the same level of technical economic development as long as they stick to a rule of this type. But if they are at the same level, the proportion of primary/secondary/tertiary outputs is more equal, and equitable exchange would come more easily.

- (b) One field of production should be carried out in such a way that the country is at least potentially self-sufficient, not only self-reliant: production for basic needs, particularly food, clothing and shelter, energy, arms

or whatever is needed for home defence. If production exceeds consumption, then no problem—provided one does not make others dependent on oneself in this field of basic needs. If production is short of consumption, there has to be exchange according to the preceding rule, which again would be in order provided steps are taken, concrete plans are made so that in times of crisis society can nevertheless be self-sufficient. The typical example here would be the crisis planning for Switzerland.

(4) Typical of the theory of self-reliance is the scope transcending the nakedness of economic relations. There is a strong normative injunction, based on a feeling to compassion and a will to resist threats and the actual exercise of violence, direct or structural, from the outside at the same time as it puts some limitations on the kinds of contractual relations that should legitimately be entered into. Self-reliance is psycho-politics as much as economics, or both. Self-reliance does not mean (more or less) splendid isolation, but spins its web of interaction, but mainly horizontally.

(5) Moreover, self-reliance is not only a theory for nations, but just as much for local communities and regions (or countries). This is where the theory of global interdependence starts, as part of, not as something separate from the theory of self-reliance which aims at avoiding being/becoming dependent by fostering both independence and interdependence.

3. On the Economics of Global Interdependence

The world does not merely consist of nation states; it consists of many things. One simplistic perspective is to see the world as Chinese boxes: first, as a set of regions (the First, Second, Third and Fourth world - the latter, in my use of that term, being the World south-east, east and south-east Asia, Japan and the countries surrounding it); Inside the regions are the nation states or countries; inside the countries are the local communities. One might talk about the regional, national and local levels, for short. Global interdependence is to sew all of this together in as equitable a manner as possible, "horizontally", avoiding dependencies, but also seeing independence as a last resort in crisis, as something one should be able to withdraw into. But in general human beings are social, so are local communities, countries and regions - or at least thus they should be - extending outwards, embracing others, but a friendly, not deadly embrace.

The key to global interdependence is very simple: practice the principles in the preceding section not only for nations, but also for regions and at the local level. The reasoning behind is equally simple: if a region is to become self-reliant (for instance the Third world, not inconceivable), then the self-reliance might be based on the strength of the strongest country (Brazil for Latin America; Nigeria for Africa South of Sahara; the richest OPEC countries for that part of the world; India for South Asia), making all the other countries in the region dependent on it. Similarly, a country may become self-reliant but in the sense that all local communities are dependent on the centre, the capital with its high concentration on the three more refined factors: capital, research and administration (or in other words, bureaucracy, corporations and intelligentsia, the BCI complex). But correspondingly, this time reasoning outward from the innermost Chinese box; a local community may be self-reliant producing for its own needs, trading with suitable communities defined by the vicinity and/or affinity. But if the nation

- seen as a protective shield around the local communities - is not self-reliant, the local community may not have sufficient strength to withstand economic aggressiveness from without. And, moving still outwards in the Chinese box system, the one that lies at the national level: a nation might have difficulties surviving economic penetration from the outside if not protected by regional arrangements. By the latter we do not mean a hierarchy of bureaucratic arrangements in the sense that any willing seller or buyer from outside the region will have to negotiate firstly with the region, then with the nation, and in the end with the local community. What we mean is simply that the local community which wants to be self-reliant should be able to find suitable trained partners within the country, or if not within the country, at least within the region. It should display some local identity first, then some national identity, then some regional identity - reasoning now above all from the point of view of the weakest region, the Third World. Other regions, higher on the scales of power and privilege, might relax on this rule of solidarity and give the benefits of exchange to somebody who needs it even when outside the country, even when outside the region.

Concretely, this means that of the three types of trade in the world today, within and between regions and within and countries: centre with centre, centre with periphery and periphery with periphery (or as it is put at the international level, in UN jargon, North-North, North-South, and South-South) this theory of global interdependence does not point, necessarily, to a reduction in intra-national and international, intra-regional and interregional trade, but to a restructuring. Centre-periphery exchange should be built down, periphery-periphery exchange should be built up; the latter will probably happen to centre-centre exchange anyhow. Please take note that what is being said is "built down", not eliminated. As much as possible, periphery-periphery, South-South exchange should be encouraged, within countries, between countries, between regions. Including technological exchange and cooperation.

However, the rule of self-reliance starts with the idea of producing things yourself rather than getting them through

exchange. In some ways exchange is the lazy way out: "I have something in excess, send it down to the storehouse, ship it out, get in return something somebody else has in excess provided we both agree on the prices," and that is it. A very simplistic theory indeed, to the point of irresponsibility - not asking what additional impacts the agreement reached might have on both parties, and the rest of the world for that matter. We should be able to do better than that, and the points mentioned above are suggestions in that direction.

As a matter of fact, I do not think my suggestions are radical or original. I think they already are practised in many parts of the world, among communities and countries that feel related to each other, tied by bonds of solidarity that do not appear in any economic theory but nevertheless may be a part of psychopolitical reality when joint agreements are reached. One example may be the Nordic countries: in general terms, one Nordic country would not just drive for any agreement with another Nordic country, but also be concerned with what impact that agreement had not only inside his own country but also inside that of the trade partner. The community is normative, not only contractual. As such the concern with the welfare of the other goes beyond maximisation or optimisation in one's own cost-benefit analysis. There is some effort, however clumsy, to make an analysis of all the cost-benefit analyses of the parties involved. The problem would be how good the representatives of the various countries or communities are at articulating costs and benefits. They may engage in the usual traders' trick of being very explicit about the costs and silent on the benefits. Or, which is equally or more likely: they may be simply unaware of the hidden costs and benefits, never having studied them, never being told about them by economists that have so many blind spots worked into their thinking from their early days of training onwards. In short, if things go wrong, it might be more fruitful to seek for reasons and the possible solutions in lack of understanding and in lack of honesty. This is also a more hopeful perspective.

4. Self-reliance and global interdependence: a balance-sheet

We are searching for new economics; what has been said above is an effort in that direction. The key words are "holistic" and "global". Given that it is very difficult to be both, the search splits into two parts. First, the new economics should be more local, more on this side of the horizon, more community based. Within that limited geographical framework, both economic theory and economic practice should be very holistic in its practice, taking in a broad range of causes and effects, conditions and consequences. The key word is "externality": all those conditions that are (conveniently) forgotten in conventional approaches. They should be approached with care.

The second approach builds on the word "global" and is an effort to expand the horizon to the entire world, across the board, moving inward and outward in the system of Chinese boxes. It is impossible to understand fully all the consequences of economic transactions, consequently a simpler principle is suggested: exchange within the same sectors of economic activity, helping thereby to keep the externalities relatively equal, between and among the parties to the exchange. The first approach, focussing more on self-reliance and holism says the following: to be on the safe side, let us produce what we consume and consume what we produce rather than exchange, thereby, by definition, keeping the externalities, positive and negative, for ourselves.

The reasoning behind is simple: in that case you will enjoy the positive externalities rather than giving them away and at the same time be responsible yourself for the negative externalities (pollution, depletion, dirty, degrading, boring work, highly egalitarian income distributions, top-heavy social formations and whatnot). You can fight the negative consequences yourself, the distance between cause and effect being a short one.

Simple example: an obvious way of preventing pollution of rivers from riverside factories would be to force the management of the factory to drink downstream water; the rule would have an immediate impact. There is also a little hidden moral behind that point: it is not enough that the effects are localised in the sense of being this side of the horizon; they also have to hit high up where decisions are made or at least can be more easily made.

Self-reliant communities, nations, regions rolled together in global interdependences sounds beautiful even if not all of it is small. The reason for this is that although I agree with those who say that "small is beautiful", I also agree with those who say that "not everything small is beautiful", and although most things that are big are ugly, "some big may be necessary". Consequently, the sketch of economic relations given here is more complex. It is not the sketch of a world consisting of very many and very small, not only self-reliant but actually self-sufficient communities. I do not think that world will come into being, nor do I think it is a desirable world where communities deprive themselves of exchange, one of the most powerful ways of communicating with others, and acts of profound communication, learning the habits and thoughts of others, communicating one's own.

But another criticism can be raised against the division just presented: would it not lead to a two-tier world, centre in exchange with centre, periphery in exchange with periphery? One possible answer to that would be that we are already living in that world, to a large extent due to centre-periphery interaction of a non-equitable nature. The point, however, might be that a two-tier world of economic cycles that do not tie in too much with each other might be preferable to a two-tier world where the cycles do interlock but in an exploitative manner, making the upper tier rich because the lower tier is poor and vice versa.

A more positive argument, however, would be that it may not be so difficult for the peripheries, for the South, to

develop its autonomous technical/economic capacity if it only is left free to do so, benefiting from all the challenges and the positive externalities in general, being themselves responsible for the negative externalities they create. Is it not our experience that human beings grow through self-reliance with some ultimate self-sufficiency, not by being perennially dependent on their parents, all the time receiving "advice", ready-made products (food, shelter, pocket-money) and services (care), never having to fend for themselves? Why should our theory of communities, countries and regions be different? And, is it not, further, our experience that children tend to grow when they become adolescents and ultimately, for good and for bad, catch up with the adults, even surpassing them? Again, why should we have a different theory for communities, countries, regions? Could that be because we want periphery communities to be dependent on the capital, and we want periphery countries to be dependent on centre countries and periphery regions on centre regions, because we are afraid that otherwise we might ourselves die? At the level of the individual, in family relations, we know the dictates of human biology: in all probability the offspring will survive the parents; you may keep them in dependency for quite a long time, but sooner or later you will no longer be able to do so, and it would be most cruel by the time you are passing away if they should not be able to act independently and interdependently with their peers. There being no such immediate biological dictate at the level of societies, the current set up might be one formula whereby the centres everywhere hope to attain eternal life.

Does that mean that self-reliance/global interdependence is the formula for their premature death? Not at all; I think it is a formula for their regeneration. Thus, I see no reason at all why the rest of the world should be dependent on Japan for electronics of all kinds, cameras, watches, cars, motorcycles. If the Japanese produce better quality for lower prices, why should not others be able to do the same, seeing this as a challenge, rather than sheepishly bowing to the tidal wave as a fact, giving in, denying themselves the growth they could obtain by accepting that challenge? Why should not periphery

communities within centre countries do the same? Why should not they relate to communities in periphery countries?

In short, I think we all could gain from this type of restructuring except for those at the very top, in the immediate future. However, they may contemplate whether it is not also in their interest to seek arrangements with some built-in stability, being neither dependent on somebody, nor threatened by somebody dependent on them, sooner or later wanting to withdraw. Possibly in a very violent manner, unpleasant to everyone involved.