



Latvijas Ekonomistu asociācijas
4. ikgadējā konference
**“Ceļš uz labklājību – ekonomikas
globalizācija un ekonomikas lokalizācija”**
Rīga, 2013. gada 24. aprīlis



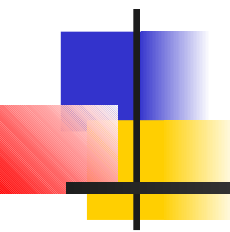
EMBASSY OF SWEDEN

4th Annual International Conference of
Latvian Economic Association
**“Road to Prosperity - Economic Globalization
versus Economic Localization”**
Riga, April 24, 2013



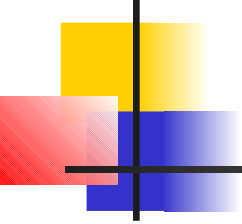
LATVIJAS JAUNĀ
TEĀTRA INSTITŪTS

Local Economies – Small is Beautiful, Effective (and efficient) and Sustainable



4th Annual International Conference of Latvian Economic Association
“Road to Prosperity - Economic Globalization versus Economic Localization”
Riga, April 24, 2013

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Prosperity is constituted not only by individual wealth, as it is considered by the present economic paradigm, but by the **environment** as well.

Environment should be considered not only in the sense of nature, but social, legal, cultural, ethnical, religious, etc. as well.

Y – prosperity

M – individual material (and non-material) wealth

N – environment

$$Y = f (M, N)$$

If we rest on analogy with the 1st Gossen's Law in microeconomics, this function is increasing and convex.

The present economic paradigm considers prosperity as a one variable function: $Y = f (M)$. In such case the increase of M will mean the increase of Y.

But, if M will increase, and N will not increase (but rather decrease), then $\partial Y/\partial M$ will permanently decrease, but $\partial Y/\partial N$ permanently increase. If the increase of M brings the reduction of N (economic growth at the expense of environmental degradation), then the increase of M can occur not only as a slight increase in Y, but even as a decrease in Y.

It is wrong to assume the economic growth as the main objective of economy.



Development is not the same as growth

$$Y = f (M, N)$$

Y – prosperity

M – individual material (and non-material) wealth

N – environment

ΔY – development: the increase of prosperity

ΔM – growth: the increase of individual wealth

In nature things are growing without assistance, but the wisdom of nature is that **they know when to stop growing**. If we consider economic growth as the main objective of economy, it is no longer natural. Then growth will damage the environment, thus not encouraging, but hindering development. (Just like when we use artificial fertilizers to accelerate growth of cultivated plants.)

Development should be the only goal in economy, on the condition that it must not be at the expense of future (sustainable development). At present the environmental variable should have much larger influence on development than growth.



Globalization is beneficial for growth.

Localization is beneficial for environmental improvement.

Every nation (and every family and every enterprise as well) must be able to develop on its own, without help from outside. All vital products must be produced within its own country. Only in this case the state can be truly independent. Any country whose economy is dependent on other countries is not only vulnerable to crises, but also can become a victim of various types of extortion. And vice versa - a truly independent country can build healthy trade relations with other countries by exchanging the surplus of production and specific products, but maintaining economic independence and without being under the yoke of debt.

The main benefit of such independent national states will be the possibility to strengthen the society by re-establishing the virtues, which will be based on true human values.



Localization - the way to prosperity

The removal of fiscal and other supports that currently favor giant transnational corporations and banks.

Reducing dependence on export markets in favor of production for local needs.

Localization has nothing to do with isolationism.

From the film "The Economics of Happiness", 2011

Why at present export is more profitable?

From the film "The Economics of Happiness", 2011

US imports and exports per year

		imports	exports
	potatoes	365350 tons	324544 tons
	sugar	70820 tons	83083 tons
	beef	953142 tons	899834 tons
	coffee	41209 tons	42277 tons

UK imports and exports per year

		imports	exports
	milk	114000 tons	119000 tons
	bread	174570 tons	148710 tons
	eggs	21979 tons	30604 tons
	pork	158294 tons	258558 tons



Are big enterprises more efficient than small?

To be efficient – to do things right. Efficiency means that the expected result is reached with a minimal use of the resources – labor, capital and land.

Nevertheless efficiency usually is explained as a minimal use of only one of resources – capital, i.e. as **capital efficiency**.

Alongside with that we may consider **labor efficiency** and **land efficiency** as well (and environmental resource efficiency in a broader sense).

In particular – what is the optimum size of the agricultural farm?

If we consider only **capital efficiency**, then large farms are more efficient.

But in a sense of **land efficiency** small farms can be more efficient.

Average farm size:

- Germany (except Eastern part) – 27 ha
- The Netherlands – 4,6 ha
- Canada (average) – 314 ha
- Nova Scotia (Canada) – 105 ha
- Saskatchewan (Canada) – 673 ha

Local Currency

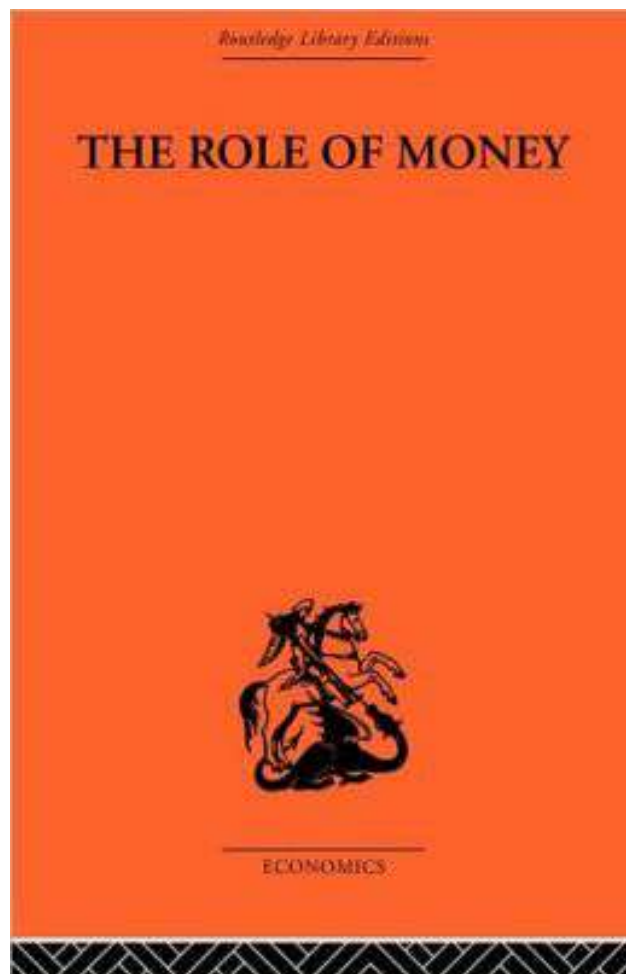
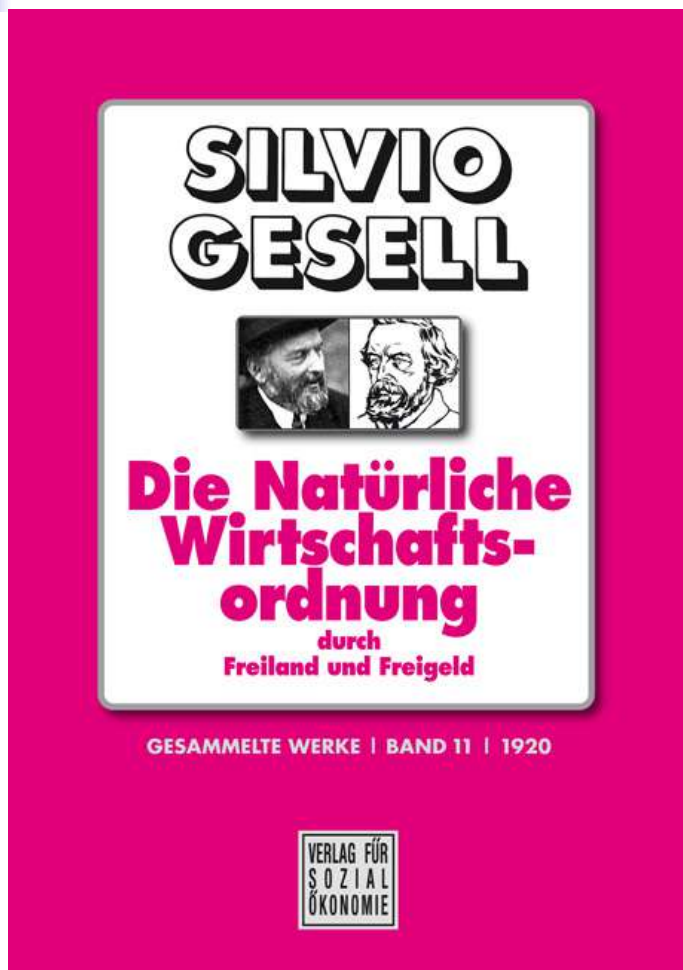
Money should be our servant,
not our master. (*A. Simms*)

The problem is that we are
producing money instead of
producing goods. (*my free
interpretation of Th. Veblen*)

Money now is the NOTHING you
get for SOMETHING before
you can get ANYTHING.
(*Frederick Soddy*)



Silvio Gesell, *The Natural Economic Order*, 1916
Frederick Soddy, *The Role of Money*, 1934





Conclusions

- The fact that the process has been moving in a certain direction for some time period, doesn't mean that it necessarily will continue the movement in the same direction (globalization, exports, farm size, monetary systems, etc.)
- It is irresponsible, stupid and short-sighted to consider export as the driving force of economy.
- In a situation where environmental resources permanently are becoming more scarce, environmental resource efficiency may become more important than capital efficiency. In this occasion small enterprises may turn out to be more efficient than large ones.
- If globalization will continue, Latvia will become a derelict corner of the European Union. Localization is the way to prosperity for Latvia and Latvian nation.