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International Conference „Socialising the Global Economy“, Liverpool, 16./17.9.2004

**Consequences of globalization in the North and civil society responses and alternatives,
background paper for the workshop „Globalisation versus Localisation“**

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Analysis on the consequences of Globalization in the North

What does globalization really mean?

First, it is nothing new. As Karl Marx has already pointed out more than one hundred years ago, economic growth of the present type leads consequently to the concentration of capital in less hands which will spread out over regional and national boundaries and create international or transnational conglomerations which tend to rule the global economy in an oligopolistic or monopolistic way.

The traditional response of the socialist or worker's movements was to gain political power in their resp. nation states and to control or at least counterbalance the negative effects of private profit making through laws, regulations, social security systems and so on. The idea behind was that the surplus created by the private economy could be re-distributed by the nation state in order to create more social justice and to benefit all people within a national economy.

In the North this concept was working for nearly a century, leading to a **mixed economy** where all needs which could be marketed profitably were served by the private economy and all other needs by the state (which included in the past also most of the now privatized infra-structural services like railways, mail, telecommunication, water supply, waste disposal etc.), see **fig. 1** in the annex.

The people in the North, especially after the Second World War, benefited from a slowly but steadily growing wealth, but participation on the other side was always limited to the public sector respectively the state by democratic elections. The private economy remained as a more or less undemocratic sector with rather restricted rights of participation even in the most advanced social welfare states like in Central Europe or Scandinavia. However, the so-called 'social consensus', which existed in most post-war European countries, was permanently eroding during the last decades.

One of the reasons was, of course, the breakdown of the state controlled economies in Eastern Europe which made the argument of social welfare as an advantage in the so-called 'competition of the systems' (capitalism vs. socialism) obsolete.

But definitely more important were the consequences of the structural changes within the private economy of the North which created e.g. the phenomenon of 'jobless growth' (Aaronowitz/Difazio, The jobless future. Sci-tec and the dogma of work, London - Minneapolis 1994).

Private companies became more and more independent from their workforce, while the political power of trade unions and social welfare organisations went down at the same time. Through these structural changes the private companies gained more flexibility, not only nationally, but also internationally, leading to a quasi 'exterritorial status', operating more or less outside of the control of the nation states. And here we are at the heart of a new quality of capitalist development which is described as 'globalization': Powerful economic and financial conglomerations act as 'global players' increasingly outside of national control, announcing the **end of national economics**, forced by the creation of supranational Single Markets in Europe and elsewhere. In this process the role of the nation state is diminishing, especially in the field of social protection.

Finally, there is a dramatic change within the global economy in itself. The global economy is not expanding to the same extent as the expectations of the global players. Therefore the competition in the world markets becomes more aggressive, leading to an **antagonistic economic polarisation** between winners and losers, haves and have nots, increasing the gap between the rich and the poor.

Growing mass unemployment (20 to 30 million in the EU alone), poverty and social exclusion are - for the first time in this century - not the consequences of periodical economic crises, like e.g. in the so-called 'world economic crisis' 1929/30. Today they are the consequences of an economic growth which is beyond the capacity of the world markets as well as the human and/or natural resources.

The most important conclusion is that **economic development cannot be identified with economic growth** anymore (Douthwaite, The Growth Illusion, Hartland/Bideford 1992). Economic growth of the present type will not lead to the development of so-called 'underdeveloped' areas, it creates the opposite to at the same time 'over-development' on one side and 'under-development' on the other, not only between the North and the South, but also within the North (and the South). During the last decades, Europe's economic landscape was divided into a patchwork with islands of prosperity surrounded by a sea of crisis regions. Within these regions mass unemployment, poverty and ecological damage respectively devastation of the environment form a **downward spiral of economic and social decay**, e.g. in the East of Germany, where 47% of the former GDR workforce lost their jobs within a period of three to four years after unification.

Statistics show for most European countries a permanently growing GNP, but the rates of unemployment and poverty are growing at about the same size. Exceptions do little more than prove the rule, e.g. the so-called 'job miracles' in the USA and the UK which are mainly based on alterations of measurements. Therefore, the national statistics do not tell the truth. Furthermore, at the local level, there are great disparities: Wealth is concentrated in fewer hands and smaller territories, while poverty and deprivation are also concentrated in certain areas or localities, i.e., in towns, villages, quarters, communities. Nearly all the big cities like London, Paris, Berlin are divided into two, and sometimes the borderline between the rich and the poor changes from one side of the street to the other.

To conclude: **Globalization polarises the local economies**, and economic development in the traditional sense will make things even worse.

We need therefore not only a **shift of paradigm** from the Global to the Local Economy, but also a **radical change** in the practical development strategies: Instead of focussing on the market forces or the welfare state - which appear to be only two sides of the same coin - a new approach **beyond market and state** focussing on the untapped resources of the people is emerging.

Responses and Alternatives of the civil society: Social Economy and Third Sector

To be honest, there is nothing like a coherent 'Civil society' or NGO-response in Europe. Most NGOs do not have more in common than the name, and an only negative identification might not be enough to explain what NGOs are really for. Therefore we can find NGOs of any political orientation, neoliberal as well as post-communist, those who want to reform the market economy and those who want to restore the welfare state. Trade unions and charities still tend to follow traditional solutions of more state regulations, the same applies to organisations which depend on more or are influenced by the political parties. Real new approaches are only found by independent local grassroots or community organisations, whereby the key personnel is often recruited from frustrated activists from the traditional social movements, former priests, shop stewards, social workers, local politicians and so on.

What they have in common is a new pragmatism beyond traditional ideological frontiers. It is more or less a self-help movement, starting from local problems or conflicts, learning from each other's experiences, building networks and partnerships and moving on to new strategic concepts like social economy, community economy and third sector.

Although there is still a variety of different practical approaches, the outlines of a common understanding can be identified. To achieve this, the European Network of Economic Self Help and Local Development has undertaken a series of transnational research projects during the last decade. Some of the findings will be summarized here again (especially for those who are not already familiar with it):

Starting point is an analysis of the real situation in the European economies, as shown in **fig. 2**. It is different from the ideal concept of traditional economic thinking where only two economic sectors exist (see fig.1): Neither the private sector nor the state serve the needs of all people living in a national economy. A third sector arises from the fact that people were excluded from the first as well as from the second sector and left out on their own to find ways to survive. Therefore a **shadow economy** comes into existence.

Fig. 3 shows how the economic polarisation affects local economies. Type A shows the situation in a wealthy area where the first and second sectors of the economy serve the needs of the majority and the third sector is rather small. Type B shows the situation in a typical crisis area where the private and the public sector are marginal or rather small and most of the population depend on the shadow economy.

Economic development, especially economic growth of the present type will increase the size of the shadow economy and the importance of a new third sector because of further rationalisation in the private economy and following cuts and redundancies in the public sector.

Fig. 4 illustrates the development prospects within the shadow economy. The sector is highly dynamic, and we can distinguish two major developments:

Firstly, the growing **importance of the informal economy** which basically recruits itself from three fields:

- the neighbourhood and self help economy,
- the family or household economy, and
- all illegal forms of economic activity

The processes of formation within this sector are not necessarily positive, the illegal forms can also be the starting point of a criminal formation of the shadow economy which gradually involves families and neighbourhoods and can spread out over whole towns and regions (with frightening examples in post-communist Eastern Europe).

Secondly, on this background the development of a formal social economy becomes even more important.

Of course, there has always been a third sector in the sense of a non-profit and non-economic field of activity, e.g. non-governmental charities, foundations and associations of various kinds for educational, cultural, social and other purposes. In most of the European countries the legal framework offers only two possibilities:

- either a 'for profit' status, and then this is called 'economic',
- or a 'non profit' status, which is seen as 'social', 'educational', 'cultural' and which does not allow economic activity or only within narrow boundaries.

This concept of a third sector, based on the division into a economic and a social sphere, is not appropriate anymore.

The year 1999 saw the European Monetary Union, but the economic integration was not accompanied by an adequate Social Union. We cannot rely on a strong social contract, and there is no evidence so far that there will be any at all. Furthermore the European integration will weaken the position of the nation states, and connected to it that of the national social security systems. There is no telling what the full consequences of this process will be, but the number of people depending on the shadow economy will definitely grow.

There is a debate about the future role of the so-called 'Social NGOs' which work in this field. They have formed a 'Platform of Social NGOs' which wants to be accepted by the European

Commission as a Third Social Partner (besides the employers and trade Union associations). But to act mainly as a political lobby to defend social rights and press on the future European social and employment regulations - although this is very important - might not be enough.

Therefore more and more organisations adopt a new role to **intervene directly into the economy**, establishing a 'self-help economy', 'économie solidaire', 'community economy' and what other terms appear on the agenda. Some of them go back to or are derived from the traditional co-operative movement, others start from scratch, often developed at first in the informal part in neighbourhood and self-help initiatives which they transformed into new formal enterprises, summarized as **social and/or community enterprises**.

Social and/or community enterprises are one of the most interesting and innovative developments within the civil society response to globalization and social exclusion. In 1997 the European Network for Economic Self Help and Local Development has analysed the types and variety of social enterprises in six European countries. Besides all the historical, political and regional differences we could identify some common principles which lead to a **working definition of social enterprises**:

"The following are the key characteristics which can be identified as common to all social enterprises:

- 1) They seek to tackle specific **social aims by engaging in economic and trading activities**.
- 2) They are **not-for-profit organizations**, in the sense that all surplus profits generated are either re-invested in the economic activities of the enterprise or are used in other ways to tackle the stated social aims of the enterprise.
- 3) Their legal structures are such that all assets and accumulated wealth of the enterprise do not belong to any individuals but are held in trust to be used **for the benefit of these persons or areas** who are the intended beneficiaries of the enterprise's social aims.
- 4) Their organisational structures are such that the full participation of members is encouraged on a **co-operative basis** with rights accorded to all members.
- 5) It is a further characteristic of the social enterprise that it encourages **mutual co-operation** between social enterprises and with other organizations in the wider social and local economy."

(Community Economic Development and Social Enterprises. Experiences, Tools and Recommendations, Berlin 1997, p. 14)

In the following years the research was focussed especially on the **employment potential** of social enterprises. It became very clear that new and additional jobs can only be created where real needs are to be fulfilled. In this respect the biggest employment potential is hidden in the **unmet needs within the shadow economy**, mainly in the following fields of activity:

- serving basic needs like food and housing
- appropriate local technical systems for energy, transport, water supply, sewage

- neighbourhood or proximity services of all kinds (not only social, but also commercial and productive services)
- local heritage and other cultural activities
- recreation and sustainable tourism
- environmental protection and ecological repair

Serving these needs is one of the reasons why social and/or community enterprises came into existence. In doing this they can play a key role in the fight against unemployment, poverty and social exclusion by **changing shadow economic activities into formal (and legal) social economic activities.**

fig. 1: ideal concept of national economies

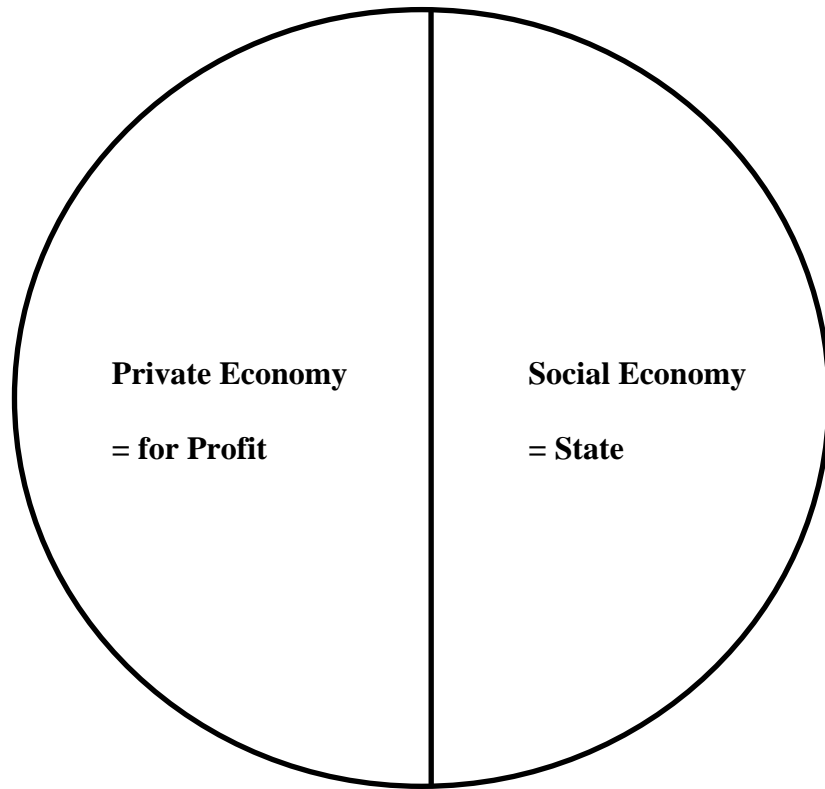
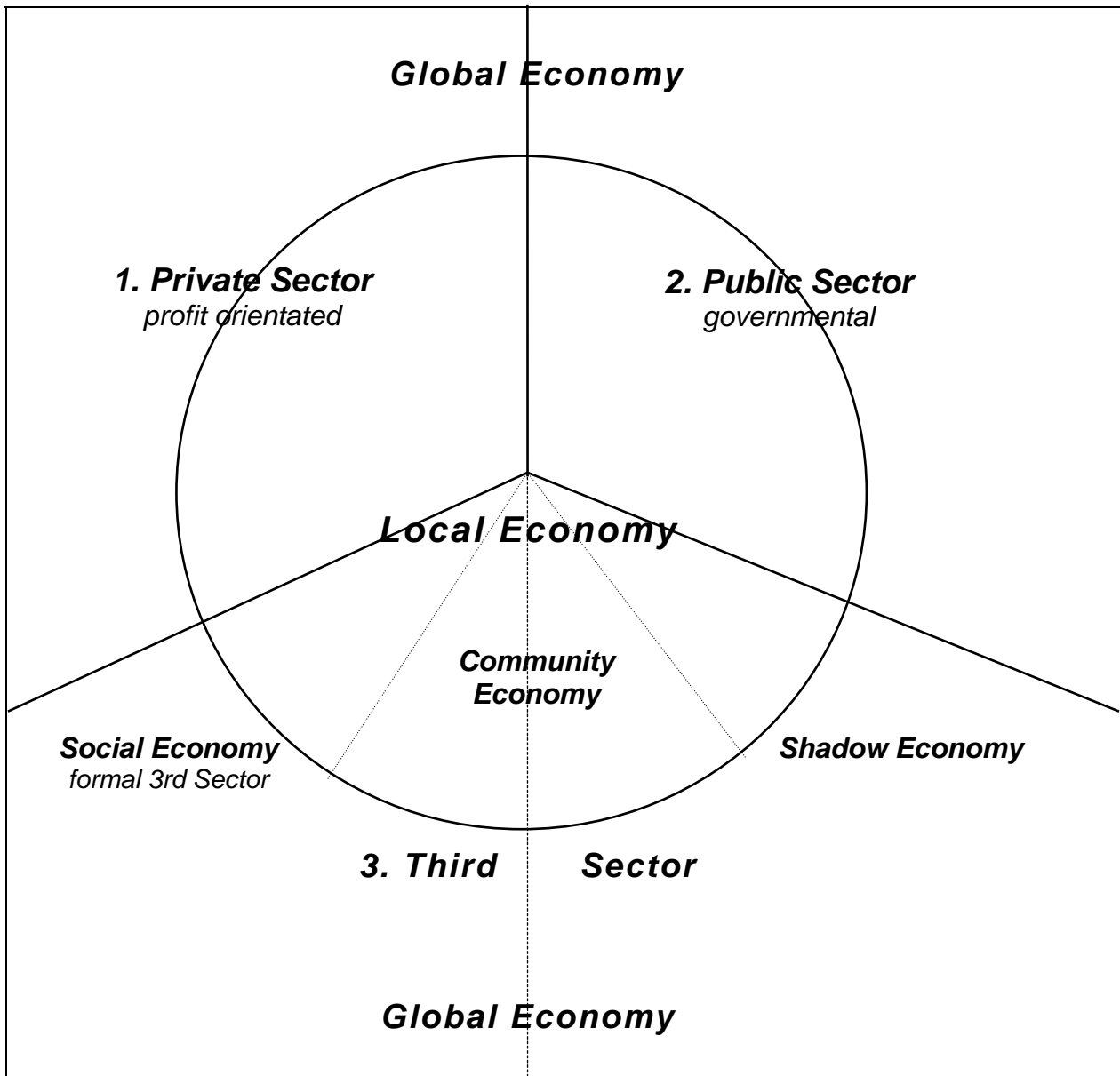


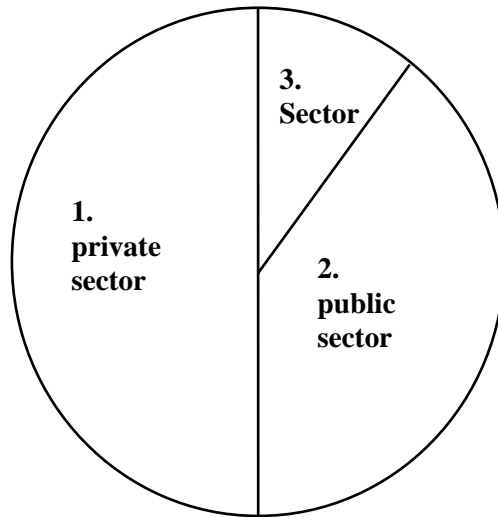
Fig. 2: Sectors of the economy



The dividing lines between Social Economy and Shadow Economy are overlapping. The Community Economy in particular is in many cases evolving out of the Shadow Economy by putting informal activities into formal structures, associated with the valuing of beforehand not valued and often underestimated work, for example through Local Exchange and Trading Systems (LETS), Voluntary Enterprises and so on.

Fig. 3: Economic Polarisation in Local Economies

Type A: Wealthy Areas



Type B: Crises Areas

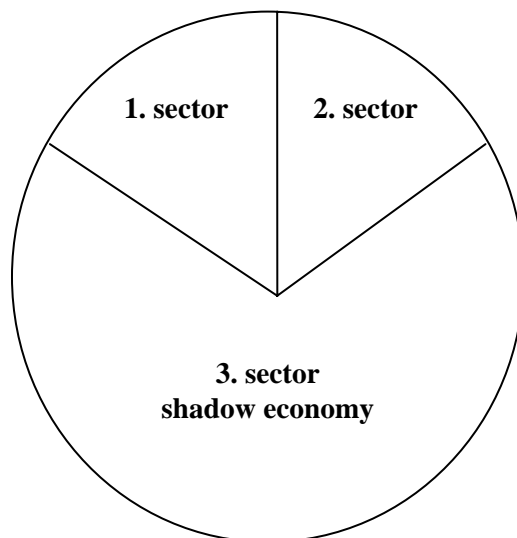
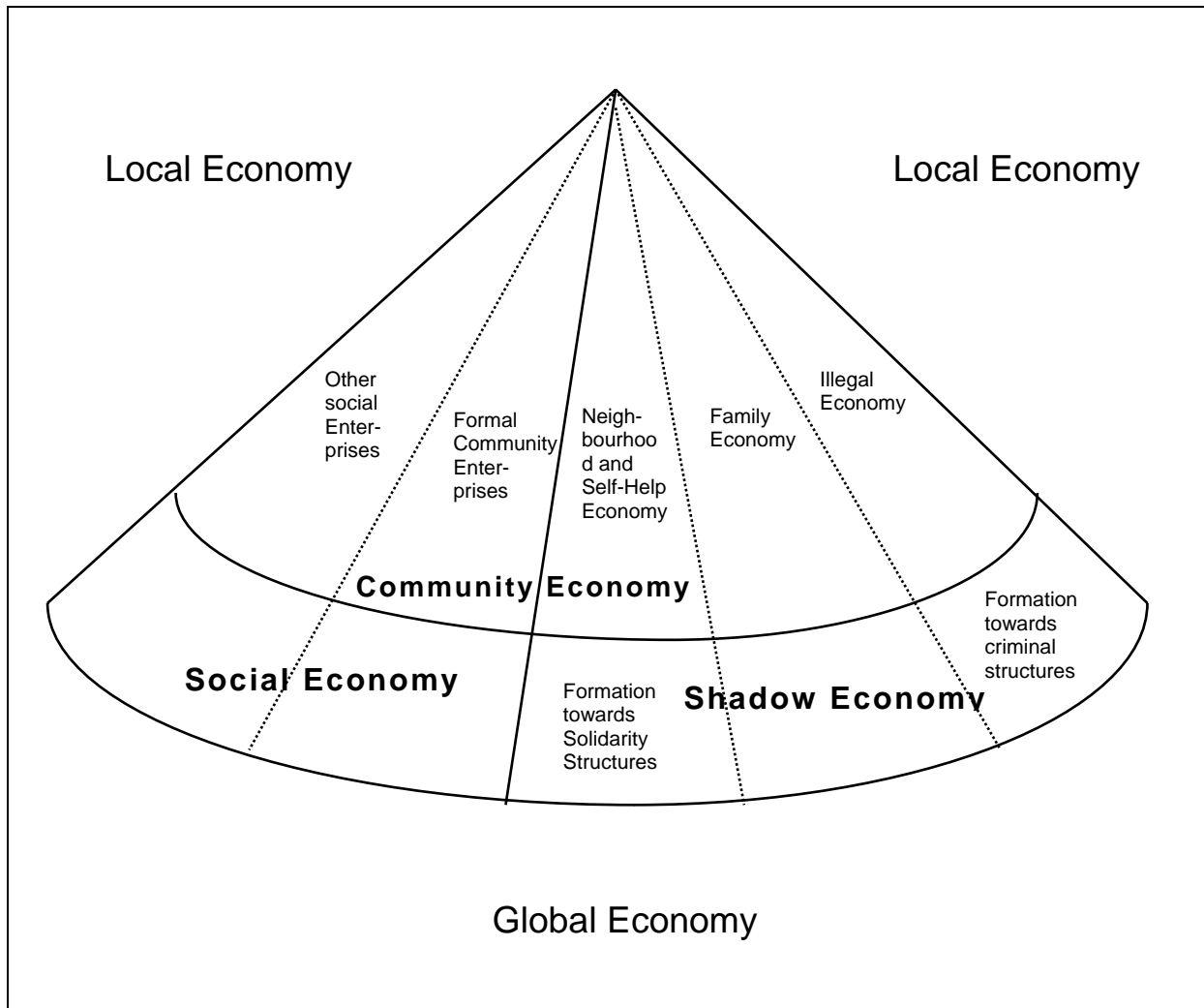


Fig. 4: Development Prospects in the 3rd Sector:



The Shadow Economy recruits itself basically from 3 fields/sectors:

- Neighbourhood-Help and Self-Help Economy
- Family and Household Economy
- illegal ('black') Economy

Due to a lack of alternatives, the latter can become the starting point of a criminal formation of the shadow economy which will gradually involve families and neighbourhoods and can spread over whole towns and regions (no need for examples here).

The chances of a formation towards solidarity are as better as stronger the formal structures of Social Economy and Community Economy are developed.