The Oil Drum: Campfire

Discussions about Energy and Our Future

How Relocalization Worked

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How Relocalization Worked

by John Michael Greer

(Original can be found here.)

One of the points that I've tried to make repeatedly in these essays is the place of history as a guide to what works. It's a point that deserves repetition. A good many worldsaving plans now in circulation, however new the rhetoric that surrounds them, simply rehash proposals that were tried in the past and failed repeatedly; trying them yet again may thus not be the best use of our limited resources and time.

Of course there's another side to history that's more hopeful: something that worked well in the past can be a useful guide to what might work well in the future. I'd like to spend a little time discussing one example of this, partly because it ties into the theme of the current series of posts – the abject failure of current economic notions, and the options for replacing them with ideas that actually make sense – and partly because it addresses one of the more popular topics in the ongoing peak oil discussion, the need for economic relocalization as the age of cheap abundant energy comes to an end.

That relocalization needs to happen, and will happen, is clear. Among other things, it's clear from history; when complex societies overshoot their resource bases and decline, one of the things that consistently happens is that centralized economic arrangements fall apart, long distance trade declines sharply, and the vast majority of what we now call consumer goods get made at home, or very close to home. Now of course that violates some of the conventional wisdom that governs economic decisions these days; centralized economic arrangements are thought to yield economies of scale that make them more profitable by definition than decentralized local arrangements.

When history conflicts with theory, though, it's not history that's wrong, so a second look at the conventional wisdom is in order. The economies of scale and resulting profits of centralized economic arrangements don't happen by themselves. They depend, among other things, on transportation infrastructure. This doesn't happen by itself, either; it happens because governments pay for it, for purposes of their own. The Roman roads that made the tightly integrated Roman economy possible, for example, and the interstate highway system that does the same thing for America, were not produced by entrepreneurs; they were created by central governments for military purposes. (The legislation that launched the interstate system in the US, for example, was pushed by the Department of Defense, which wrestled with transportation bottlenecks all through the Second World War.)

Government programs of this kind subsidize economic centralization. The same thing is true of other requirements for centralization – for example, the maintenance of public order, so that shipments of consumer goods can get from one side of the country to the other without being looted. Governments don't establish police forces and defend their borders for the purpose of allowing businesses to ship goods safely over long distances, but businesses profit mightily from these indirect subsidies nonetheless.

When civilizations come unglued, in turn, all these indirect subsidies for economic centralization go away. Roads are no longer maintained, harbors silt up, bandits infest the countryside, migrant nations invade and carve out chunks of territory for their own, and so on. Centralization stops being profitable, because the indirect subsidies that make it profitable aren't there any more.

Ugo Bardi has written a very readable summary of how this process unfolded in one of the best documented cases, the fall of the Roman Empire. The end of Rome was a process of radical relocalization, and the result was the Middle Ages. The Roman Empire handled defense by putting huge linear fortifications along its frontiers; the Middle Ages replaced this with fortifications around every city and baronial hall. The Roman Empire was a political unity where decisions affecting every person within its borders were made by bureaucrats in Rome. Medieval Europe was the antithesis of this, a patchwork of independent feudal kingdoms the size of a Roman province, which were internally divided into self-governing fiefs, those into still smaller fiefs, and so on, to the point that a single village with a fortified manor house could be an autonomous political unit with its own laws and the recognized right to wage war on its neighbors.

The same process of radical decentralization affected the economy as well. The Roman economy was just as centralized as the Roman polity; in major industries such as pottery, mass production at huge regional factories was the order of the day, and the products were shipped out via sea and land for anything up to a thousand miles to the end user. That came to a screeching halt when the roads weren't repaired any more, the Mediterranean became pirate heaven, and too many of the end users were getting dispossessed, and often dismembered as well, by invading Visigoths. The economic system that evolved to fill the void left by Rome's implosion was thus every bit as relocalized as a feudal barony, and for exactly the same reasons.

Here's how it worked. Each city – and "city" in this context means anything down to a town of a few thousand people – was an independent economic center; it might have a few industries of more than local fame, but most of its business consisted of manufacturing and selling things to its own citizens and the surrounding countryside. The manufacturing and selling was managed by guilds, which were cooperatives of master craftsmen. To get into a guild-run profession, you had to serve an apprenticeship, usually seven years, during which you got room and board in exchange for learning the craft and working for your master; you then became a journeyman, and worked for a master for wages, until you could produce your masterpiece – yes, that's where the word came from – which was an example of craftwork fine enough to convince the other masters to accept you as an equal. Then you became a master, with voting rights in the guild.

The guild had the legal responsibility under feudal municipal laws to establish minimum standards for the quality of goods, to regulate working hours and conditions, and to control prices. The economic theory of the time held that there was a "just price" for any good or service, usually the price that had been customary in the region since time out of mind, and the municipal authorities could be counted on to crack down on attempts to push prices above the just price unless there was some very pressing reason for it. Most forms of competition between masters were off limits; if you made your apprentices and journeymen work evenings and weekends to outproduce your competitors, for example, or sold goods below the just price, you'd get in trouble with the guild, and could be barred from doing business in the town. The only form of competition that was encouraged was to make and sell a superior product.

This was the secret weapon of the guild economy, and it helped drive an age of technical innovation. As Jean Gimpel showed conclusively in The Medieval Machine, the stereotype of the Middle Ages as a period of technological stagnation is completely off the mark. Medieval craftsmen invented the clock, the cannon, and the movable-type printing press, perfected the magnetic compass and the water wheel, and made massive improvements in everything from shipbuilding and steelmaking to architecture and windmills, just for starters. The competition between masters and guilds for market share in a legal setting that made quality and innovation the only fields of combat wasn't the only force behind these transformations, to be sure – the medieval monastic system, which put a good fraction of intellectuals of both genders in settings where they could use their leisure for just about any purpose that could be chalked up to the greater glory of God, was also a potent factor – but it certainly played a massive role.

The guild system has nonetheless been a whipping boy for mainstream economists for a long time now. The person who started that fashion was none other than Adam Smith, whose The Wealth of Nations castigates the guilds of his time for what we'd now call antitrust violations. From within his own perspective, Smith had a point. The guilds were structured in a way that limited the total number of people who could work in any given business in any given town, and of course the just price principle kept prices from fluctuating along with supply and demand. Thus the prices paid for the goods or services produced by that business were higher, all things considered, than they would have been under the free market regime Smith advocated.

The problem with Smith's analysis is that there are crucial issues involved that he didn't address. He lived at a time when transportation was rapidly expanding, public order was more or less guaranteed, and the conditions for economic centralization were coming back into play. Thus the very different realities of limited, localized markets did not enter into his calculations. In the context of localized economics, a laissez-faire free market approach doesn't produce improved access to better and cheaper goods and services, as Smith argued it should; instead, it makes it impossible to produce many kinds of goods and services at all.

Let's take a specific example for the sake of clarity. A master blacksmith in a medieval town of 5000 people, say, was in no position to specialize in only one kind of ironwork. He might be better at fancy ironmongery than anyone else in town, for example, but most of the business that kept his shop open, his apprentices fed and clothed, and his journeymen paid was humbler stuff: nails, hinges, buckles, and the like. Most of this could be done by people with much less skill than our blacksmith; that's why he had his apprentices make nails while he sat upstairs at the table with the local abbot and discussed the ironwork for a dizzyingly complex new cutting-edge technology, just introduced from overseas, called a clock.

The fact that most of his business could be done by relatively unskilled labor, though, left our blacksmith vulnerable to competition. His shop, with its specialized tools and its staff of apprentices and journeymen, was expensive to maintain. If somebody else who could only make nails, hinges, and buckles could open a smithy next door, and offer goods at a lower price, our blacksmith could be driven out of business, since the specialized work that only he could do wouldn't be enough to pay his bills. The cut-rate blacksmith then becomes the only game in town – at least, until someone who limited his work to even cheaper products made at even lower costs cut into his profits. The resulting race to the bottom, in a small enough market, might end with nobody able to make a living as a blacksmith at all.

Thus in a restricted market where specialization is limited, a free market in which prices are set by supply and demand, and there are no barriers to entry, can make it impossible for many useful specialties to be economically viable at all. This is the problem that the guild system evolved to counter. By restricting the number of people who could enter any given trade, the guilds made sure that the income earned by master craftsmen was high enough to allow them to produce specialty products that were not needed in large enough quantities to provide a full time income. Since most of the money earned by a master craftsman was spent in the town and surrounding region – our blacksmith and his family would have needed bread from the baker, groceries from the grocer, meat from the butcher, and so on – the higher prices evened out; since nearly everyone in town was charging guild prices and earning guild incomes, no one was unfairly penalized.

Now of course the guild system did finally break down; by Adam Smith's time, the economic conditions that made it the best option were a matter of distant memory, and other arrangements were arguably better suited to the new reality of easy transport and renewed economies of scale. Still, it's interesting that in recent years, the same race to the bottom in which quality goods become unavailable and local communities suffer has taken place in nearly the same way in most of small-town America.

A torrent of cheap shoddy goods funneled through Wal-Mart and its ilk, in a close parallel to the cheap blacksmiths of the example, have driven local businesses out of existence and made the superior products and services once provided by those businesses effectively unavailable to a great many Americans. In theory, this produces a business environment that is more efficient and innovative; in practice, the efficiencies are by no means clear and the innovation seems mostly to involve the creation of ever more exotic and unstable financial instruments: not necessarily the sort of thing that our society is better off encouraging.

Advocates of relocalization in the age of peak oil may thus find it useful to keep the medieval example and its modern equivalent in mind while planning for the economics of the future. Relocalized communities must be economically viable or they will soon cease to exist, and while viable local communities will be possible in the future – just as they were in the Middle Ages – the steps that will be necessary to make them viable may require some serious rethinking of the habits that now shape our economic lives.