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Globalization, Culture and Resources in Small States

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Biography of the author

Professor Einarsson is the former dean of the Faculty of Economics and Business Administration at the University of Iceland. He obtained his PhD in Germany. He is the author of 6 books on microeconomics, business administration and cultural economics and over 50 journal articles and conference papers and over 400 shorter articles on economics, fisheries and politics in magazines, newspapers, and on websites. Professor Einarsson is a former Member of the Icelandic Parliament and Chairman of the Board of the Central Bank of Iceland and served as a delegate for Iceland at the General Assembly of the United Nations in New York.

Ladies and gentlemen

I warmly welcome you to this conference.

1. Lessons from the Past

In our field of study we are building bridges across time and space, a task which is not only complicated in itself, but also requires that we take into consideration an environment which is constantly changing.

We are living in turbulent times, times we sometimes describe as the "new economy", which refers to rapid economic growth founded on technological progress, notably in information technology and biotechnology. Similar changes have occurred before in the history of mankind. The last one took place 250 years ago at the beginning

of the industrial age in 1750, which started with the utilization of the steam engine and contributed to urbanisation.

If we go further back in the history of mankind there were great changes 500 years ago in 1500 when European countries conquered the Western World, no small feat of logistics. Going back another 250 years to 1250 brings us to the beginning of the Renaissance, another time of profound change and discovery. Another 250 years bring us to the year 1000, to the Viking Era when vast migrations changed the face of Europe.

I am not proposing a thesis that all great changes occur every 250 years, but it is remarkable that all these changes, whatever their timing, deal with building bridges across time and space.

History provides us with numerous insights into our field of study, and perhaps we do not pay enough regard to the solutions of yesterday and the similarities between the problems we are now confronting in private and public undertakings and enterprises. In this sense some of the problems facing the Roman army during the occupation of Asia Minor bear some resemblance to the challenges facing modern IT enterprises in using the Internet in their operations. We can, ladies and gentlemen, learn much from other disciplines.

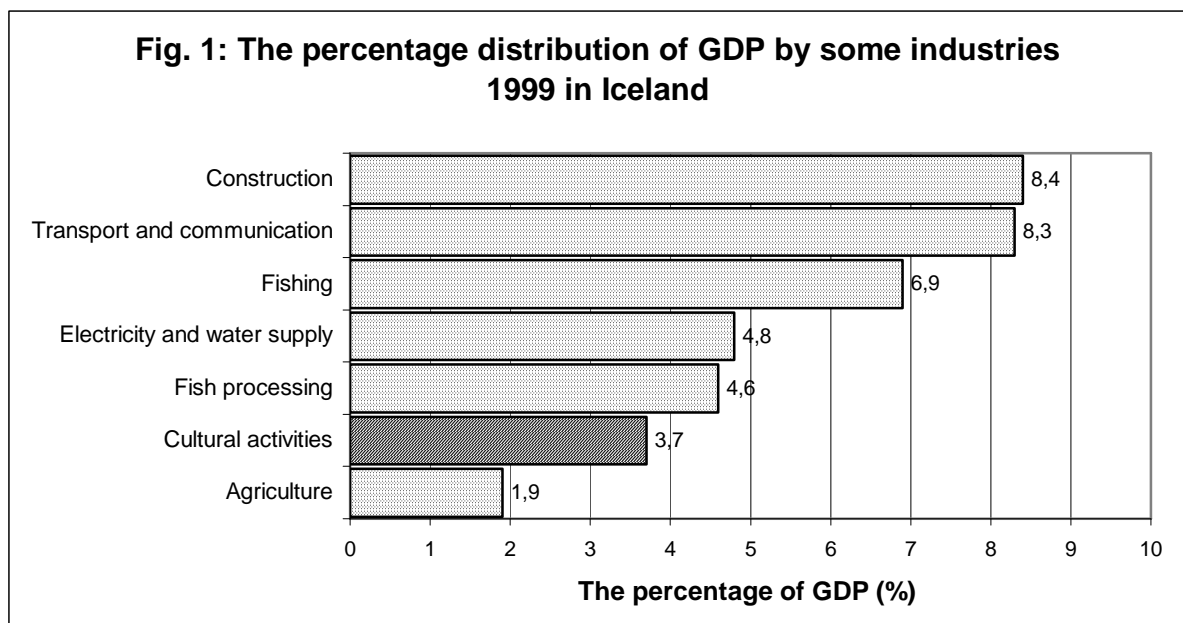
But there are also vast differences. The framework of modern science is quite new. The world has undergone a transformation in the space of a few decades, let alone two millennia. Today the population of the earth is about 6 billion, compared to 1.3 billion in the year 1900 and an estimated 300 million at the birth of Christ. In 25 years from now the inhabitants of this earth will be 8 billion. It does not take a sharp mind to see that these facts will completely change the problems we face and the ways in which we face them.

2. The Cultural Sector in an Small Society

Culture as a major factor of any nation and heavily influenced by globalization is defined as any human behavior or activity passed from one generation to the next, which describes, creates, preserves or transmits emotions or surroundings of human society, consisting of languages, beliefs, ideas, customs, arts, sports, or other related aspects.

Culture can be regarded as a positive externality, because increased cultural activities result in a more diverse society and offer more possibilities for a happier life. Culture can also be regarded as a public good, as in the case of cultural heritage. One of the problems of attaching a price label to culture is that its value is not always obvious, and the value may change from one generation to the next.

This figure shows the contribution to GDP of several important industries in Iceland.



The contribution of culture to GDP is higher than one might expect. Culture adds more to GDP (3.7%) than agriculture (1.9%) and not much less than fish processing (4.6%) in Iceland.

Most of enterprises involved in cultural activities in Iceland are SMEs. Of cultural enterprises in Iceland, 79% have 1-5 employees, 16% have 5-20 employees and 5% have more than 20 employees. The business activities of artists are frequently conducted in very small units or organizations. The cultural sector attracts entrepreneurs, and new enterprises in culture are very common in Iceland.

The second largest group of SMEs is the cultural sector, reflecting the characteristic of cultural activities of being conducted in small units. This leads to the conclusion that SMEs enjoy a strong position in the cultural sector and economies of scale are not as well-known as in other industrial sectors.

3. The Globalization of Culture

The globalization of culture is a flow, which is characterized at each time by its volume. Literature, music, art and law all cross the world. Public authorities, usually democratic elected authorities, normally supply public goods. This production of goods and services results in positive externalities, which improves the lives of the general public.

The increasing influence of globalization is important as regards culture. One way of analyzing this is to focus on the effect of five facts (Held et al., 1999). First, that the roots of the globalization of culture and its influence on the economy are very deep. They lie many centuries back. Second, that the development from the middle of the 18th century has been characterized by the dominance of western ideas. Third, that cultural progress over the past 200 years has been within nation-states and among national cultures. Fourth, that technological progress has changed the development of culture

profoundly and increased its distribution exponentially. Fifth, that the diversity is so great that it is difficult to analyze the beginning of the cultural ideas forming the context of global culture.

It is important to see the advantages of globalization, such as bigger markets, lower transaction costs and a greater sense of identity, which contributes to peace. Not everyone agrees that these advantages in fact exist, and instead highlight various risks and limitations caused by globalization.

Culture represents a significant value for each individual, and it is important to ensure the greatest possible access for everyone in all communities. Considerations of equality are important regarding access to cultural activities. Global public goods, such as cultural activities, have to reach a large majority of the population of a country and reach more than one group of nations. It is also required that global public goods meet the needs of present generations without putting at risk the needs of future generations. This is the principle of sustainability, which is here adapted to the concept of global public goods. Culture fits very well within this concept, because people are trying to preserve cultural diversity, and globalization is often seen as a threat to this ideal.

SMEs are extremely important in this context, a good example being the Icelandic company Smekkleysa, which first marketed the world famous singer Björk outside Iceland. Support to such enterprises can result in a rapid recovery of expenditures.

It can be argued whether all cultures have the same opportunity to make their influence felt. Small areas often don't have the financial ability to spread their influence. The question here is whether small cultural areas are at risk owing to increased globalization, not only because their societies are receivers rather than producers, but also simply because they are small; the main issue is whether cultural diversity is in danger.

The priority of a sector can be described in terms of the amount of public expenditures allocated to that sector. For countries with a relatively low population it is important to stress cultural affairs. We suggest propose the hypothesis that governments of countries with small populations spend more on cultural affairs than countries with large populations.

The hypothesis of no connection was tested for 17 countries, which are all part of the developed world with a high income per capita. This is significant at the 5 percent level. We conclude that countries with small populations spend more on cultural affairs than countries with large populations. The emphasis of smaller nations on cultural activities is understandable because they are fighting for their cultural heritage in a world characterized by increasing globalization. Iceland is a good example of this.

4. Resource Management in the Icelandic Fisheries

Culture and globalization are of course related to the resource management of any countries. Fisheries, which are divided into fishing and fish processing, have always played a very important role in Iceland's economy. In 2000, 9% of the labour force was in fisheries, which contribute 10% of the GDP. In 2000, fish products are 63% of the export of goods and 40% of foreign currency income. The fishing zone around Iceland was expanded to 12 miles in 1958, to 50 miles in 1972 and to 200 miles in 1976. Today, the 200 mile fishing zone is the general rule in the world. There were no limits on fishing in Iceland for most of the 20th century, but since 1990 we have a system of individual transferable fishing quotas (ITQs). The total allowable catch (TAC) is decided for one year. Fishing vessels get a share of the total catch based on their fishing experience of three years.

To give an example, let us assume that a boat receives a 0.1% share of the annual haddock catch. The Minister of Fisheries, based on scientific advice, decides the TAC. If the TAC for haddock is

decided 50,000 tonnes this vessel get 50 tonnes of haddock for the next year. The company owning the vessel can catch this quota, but it can also lease additional quotas from other companies or lease a part of its own 50 tonnes to other parties. It may also buy or sell its permanent share. One argument for the ITQs is that free trade has the same reward in fisheries as elsewhere. Systems similar to that in Iceland have been implemented e.g. in Namibia, the Netherlands and New Zealand.

Iceland is among the biggest fisheries nations of the world. In 2001 Iceland caught 2 million tones and was on the 11th place in the world. The biggest fishing nation of the world is China. Fish farming or aquaculture has increased much the last years but fish farming in Iceland is very limited.

Fisheries differ from other industries. The fish itself is a wild, living animal, mostly caught on the high seas for human consumption. This kind of food production is very rare in the world. Most animals for human consumption are farmed in limited areas. Fish is an extremely vulnerable, organic product and get worse easily if no protection are done, e.g. by placing it in ice or processing it by salting or freezing. The fish banks in the high seas are far and wide distributed. Although technical progress has been very extensive in fisheries, especially regarding electronic fish finding instruments, catches are very uncertain, which makes fishing a risky business. Management in fisheries by authorities or by private companies is very difficult compared with other industries.

The fisheries management in Iceland is an example of a modern resource management in a society, which has strong infrastructure. That is not the case everywhere in the world. Now I come to the problems of management, especially resource management in the developing countries.

5. The New Institutional Economics in the Developing Countries

80% of the world's population have no access to banking services. The distribution of income in the world is very unequal. Of the six billion people in the world, 1.2 billion have to survive on less than one dollar a day. 10 million children died in 1999 from preventable diseases. In 2000, the gross national income in PPP (purchasing power parity) per capita in the world was \$7,400. In low-income countries, where 40% of the world's population live, the GNI in PPP per capita was \$2,000, but for high-income countries, where 15% of the world's population live, it was \$ 28,000.

Economic growth in the developing countries is uneven and very slow. Out of 95 developing countries, 28 had a decrease in gross domestic product per capita between 1964 and 1999. Although progress in biogenetic sciences will help in the supply of food, increased capital, mainly human capital, in the form of education and knowledge, and social capital is a precondition for success.

The new institutional economics provides useful tools for analyzing incomplete information, weak infrastructure, unreliable legal systems and high transaction costs as is common in the developing countries. Institutions represent the formal and informal rules. Organizations, which include enterprises, are sets of actors who cooperate in production. Property rights are defined as the rights of individuals to use resources.

Transaction costs arise because of incomplete information. One person may know more than another in any given transaction. Communities with weak institutions, as in the developing countries, have fewer possibilities and less confidence in the market, often due to little information.

Anyone who controls something as in the property rights theory must be subject to some rule of order, whether it is a national constitution, legislation or a contract. In many parts of the world,

very big economic activity takes place outside the domestic legal order. NIE is very suitable for analyzing many aspects of such extralegal activities, especially the structure of property rights.

Independent economic activity which is not documented anywhere by public authorities forms a part of the system of informal rules that exist in any community. Activities outside the range of formal rules involve high transaction costs and prevent the formation of capital because assets cannot be used as collateral since their ownership is not formally registered.

The informal rules have a direct relation to the methodology of NIE. If changes are made to the formal side in resource management it is important that they are reliable with the informal rules. If no account is taken of informal rules in the course of reform, it is likely that the reforms will fail.

Hernando de Soto, the Peruvian scientist claims that the primary problem of the developing countries is that assets are not registered and therefore not creditworthy. That is the same problem that the industrial states faced 150-200 years ago. The problem of the developing countries is primarily that they have no possibility of obtaining credit based on assets, which are significant but unregistered. This problem is multiple by the lack of rules and the great migrations from rural areas to urban areas, where a large part of economic activities is extralegal.

Proper administrative procedures for establishing property rights are extremely important, but slow, inefficient administrative procedures, e.g. registration of companies, assets and operating licenses, are a great obstruction to progress.

Of equal importance is the legislative framework. In the developed countries, the sale of real estate is regarded as a relatively simple act, although it involves a complex process, which is hundreds of years old. This process and infrastructure is lacking in many developing countries.

The importance of getting a grip on extralegal property rights is clearly revealed by de Soto, who points out that “the recognition and integration of extralegal property rights was a key element in the United States becoming the most important market economy and producer of capital in the world” (de Soto, 2000, p. 148). Unclear property rights are an obstacle to economic growth.

Appropriate structure of social institutions is a precondition for prosperity and an ineffective institutional environment combined with the inability of government to reform the environment is the major obstacle to economic progress. The problems of microfinance, which we have discussed in connection with property rights, are largely caused by inappropriate institutional environments.

6. Closing Remarks

A precise definition of terms is the essence of science and philosophy. It makes no difference whether the method is experimental, as in science or theoretical, as in philosophy. In any case, the boundary is unclear and there is much that has remained unchanged for a long time, as the saying “in statu quo ante” or “in the state in which it was before” is a very old one.

I believe it is very important, precisely in our discipline of science to focus on the whole picture even though it keeps expanding. Modern economics is a way of thinking, a philosophy to explain activities in an economic environment. Systems of philosophy have always been a part of human culture as a framework for conclusions and research. Our discipline is no exception. I believe it is even more important than before because in the new economy changes are occurring much faster than before.

The flow or the movements of materials and information is nothing new. The Greek philosopher Heraklitos said 2500 years ago: “Everything flows”. And he said too these magnificent words: ”We

can not step twice into the same river. By the second time neither we nor the river are the same.”

The ability to take in the full picture is illustrated also by the fact that many pioneers engaged in many professions but academic ones, thereby gaining a broader view of their scientific studies. For example, Joseph Schumpeter who is regarded as one of the leading scholars of the new economy was for some time the finance minister of the Austrian government.

Although we point out here the necessity of drawing parallels with what has happened before we must not generalize and some questions cannot be answered. For example, is information technology more important than the Renaissance? Did Ronald Coase contribute more to new thinking than René Descartes did? At any rate, these questions show us that development and progress are neither an exclusive feature of the 20th nor the 21st centuries.

We can learn much from the past. Most of you are from other Nordic countries, and may therefore recognize the historian and the poet Snorri Sturluson, who wrote much about the Nordic kings over three quarters of a millennium ago. In one of his best known works, *Heimskringla*, or "The Circle of World" he said, and I quote: “Ari knew very much of old wisdom both from this country and abroad. He learned from old and wise men but he was himself eager to learn and had a good memory”. Unquote. Let these old words be your guideline for your further study.

I declare this conference open.