

Will Proutist Economics Work: Futures after Capitalism

A Dialogue between Sohail Inayatullah and Thor Thorgeirsson on Proutist
Economics and the Futures of World Capitalism

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PROUT, the Progressive Utilization Theory was conceptualised by Indian philosopher and social activist P.R. Sarkar in 1959. Grounded in spiritual ethics, economic democracy, and cultural pluralism, Prout, Sarkar has argued, is the alternative to communism and capitalism.

Sarkar lived from 1921 to 1990, writing extensively on society, civilization, economics and spirituality. He also began numerous social, spiritual as well as political organizations. Sarkar's economic writings have been compiled and published as Proutist Economics (Singapore, Ananda Marga Publications, 1993), available from Proutist Universal, PO Box, 56466, Washington DC, 20040. Also see www.prout.org.

Inayatullah:

Let us dive straight into the subject. While I am quite convinced about PROUT, what I don't understand is the balance between self-reliance and trade in PROUT. In some places Sarkar seems like a protectionist and other times he extols the virtues of Singapore and "free trade" zones. Is it that once regions are self-reliant, trade leads to win-win solutions but in conditions of centre-periphery relations, trade leads to the opposite condition?

Thorgeirsson:

Yes, on the surface of it, Sarkar's various statements seem to be in conflict on the issue. If you separate the argument into (1) production and (2) distribution (intermediating through trade the goods produced elsewhere), then two separate paths may be possible. In the first case, there may be problems. In his extensive theoretical analysis in the 1990s, Ravi Batra has focused almost entirely on the production side of trade, in which case the share of manufacturing sector may be negatively affected as a global

overproduction of manufactured goods and puts pressure on the price of those goods, forcing many high wage countries (at the centre) to cut back their production, resulting in unemployment of such workers who then must seek employment in the tertiary (or service) sector at typically much lower wages - with aggregate wages and welfare hence declining. In this regard, Sarkar has also warned that raw materials should be fully used (in secondary production) before trading. Moreover, he has indicated that this trade should be restricted to bartering off surplus production, in exchange for the surplus production of others. In such a situation both countries are principally self-reliant, but do stand to gain from trade in a limited mutual economic dependence (as opposed to the unmitigated economic dependence inherent in today's trade practices). In the second case, Sarkar emphasised the need for a gold based currency, which should be the basis of the payments system - assume also internationally - and in this case trade could be much like it is today (not barter, but invoiced in a currency at fixed exchange rates). The only question I have about "free trade" zones is the issue of "through-put" production, in which case such areas import e.g. semiconductors and electronic parts to assemble and export computers - a secondary value-added production. This would not be pure exchange, or the act of intermediating the production of others.

Inayatullah:

So basically Sarkar is saying that you trade only the surplus after all local needs are taken care of. Ok, fair enough, but self-reliance, often means not cheap goods but lousy goods, that is, with no competition, the goods produced remain shoddy, made with few inputs from high technology. How then to enhance efficiency and excellence within the self-reliant model?

Thorgeirsson:

The issue of self-reliance is somewhat different from the issue of shoddy goods. The latter is usually related to a lack of competition, which allows the maker to pass off poor quality stuff at high prices. Competition within a given area can be kept good enough - through vigilant domestic competition policy - to keep production efficient (low cost), product quality high and mark-ups (prices to consumers = cost + mark-up) reasonable. The question that arises is: what would be the optimal size of a market for competition to function reasonably well and to support product development. For instance, would a small area, such as a small island, or a sparsely populated large area, be too small for local production

and distribution to be economically feasible? It is well known that to exploit scale economies of production, a certain size of market is required. Indeed, for production to be successful - from initial development to mass market - it should have a reasonably big market. As for self-reliance, it is based on the notion of independent decision making and the complete use of local resources to sustain the community economically.

Inayatullah:

I can see this is protecting industries that relate to basic needs. For example, Australia does not protect its citrus growers and this is leading to citrus growers burning off trees and buying cheaper oranges from elsewhere. In the long run, this means that Australia will become dependent on oranges from overseas. This is fine when they are cheap but what if in crisis they become expensive. Or is the idea that in the long run, it makes more sense to move orange growth to low cost, high production areas?

Thorgeirsson:

Any given area should not be dependent on outside supply of raw materials for its production, as the supply of such materials may dry up if the political situation deteriorates. A local area should also fully exploit its own raw materials, to realise the full value-added of producing it into consumer products. For instance, in Iceland, there is ample fish. Icelanders should therefore export what they don't consume themselves as fully produced food items, but the European Union places a high tariff on importation of all but the unprocessed raw material (frozen filets or fresh fish). This means the Icelanders need to sell the fish with limited value-added applied to it. European Union firms are then in a position to take the raw material and develop it further for consumption. Some Icelanders have set up firms in the EU countries to get around this policy, but even then they are relying on EU labour for its production. Such a policy is therefore unfair to the Icelanders, but they have little choice as this is their main export market for this perishable food item (due to its proximity). The argument on oranges is heard around the world. In the Nordic countries, cheap agricultural produce threatens to undermine the local production of dairy, meat and some local crops. Should this be stopped with high tariffs, or should consumers be given the advantage of sharply lower prices. The issue here is should the Nordics become dependent on other countries, or should they strive to be self-sufficient. Norway and Iceland have decided to stay outside the EU, but Finland, Sweden and

Denmark are now members. The region is becoming integrated as one market and is therefore being considered as one local area. This raises the question if it is too big to function as such, especially since it still lacks a common government.

Inayatullah:

My next questions are about Sarkar's views on gold. Hasn't the growth in the world economy been partly due to its delinking from gold, that is, by delinking from a fixed asset this has allowed the incredible expansion of wealth? Won't returning to a gold standard diminish this ascent?

Thorgeirsson

On the gold standard, it is true that Keynes in the 1930s thought that the UK should not rejoin it at too high a value for the pound. And when it did rejoin, the situation turned unsustainable. But this does not mean that a gold standard is unsustainable in and of itself. As to the question that it limits the expansion of wealth, more than a "fiat" system of money, the answer is somewhat complex. First the expansion of gold through natural production (mining) would determine the growth in the stock. If the growth in the stock is consistent with the growth of the real value of production, there is no problem. If however, this is not the case; some revaluation of the national monies may be required from time to time. As for the fiat standard, where one country's money becomes an international reserve and vehicle currency, such that other people use it to store their wealth in and as a basis for their international transactions - in this case, the adequate supply of the money requires the centre country to run deficits (as opposed to the world's aggregate trade surplus with it), which allow the "international" money supply to expand in line with international need for this money. The question arises if an unchecked expansion of money, based on ever larger deficits, is unsustainable not only for the centre country, but also for the financial system. Such a situation may well have arisen today.

Inayatullah:

On a different subject, Sarkar is against income tax and he also states that there should be a maxi-mini wage structure. Sweden and other nations have managed this through taxation, (as Johan Galtung has pointed out to me a number of times), how does PROUT propose to achieve such a

solution? The subtext is how is PROUT different from social democratic alternatives?

Thorgeirsson:

Good question. Now, the idea of an income tax was severely opposed in the United States when it first came up in the last century. The government needed more revenue, and sales taxes weren't generating enough income for the state coffers (I believe). It, therefore, began by proposing rather modest income tax rates, with the same rate for all incomes. As the role of the state gained credibility after the depression - with Keynes' analytical help - especially that of injecting the economy with needed demand through public investment projects, the income tax rate continued to creep up. With social democrats in power, and strong opposition to meaningful wealth taxes, and clear notions that in an unfettered market economy top incomes couldn't be controlled directly, although some minimum wages (if not too high) could be tolerated, in order to ensure some basic equity objectives for the poorest.

Inayatullah:

Of course, that's when the notion of a progressive tax rate was put forward and still applied today in many countries.

Thorgeirsson:

The notion of a progressive tax rate also appeared in this regard, and was embraced strongly in the Nordic countries and Germany in relation to also social insurance. A progressive income tax allowed incomes of high earners to be taxed at a higher rate than the low earners. The state could then redistribute income to the needier population through all kinds of ways (e.g. cash benefits for the very needy, and later, all kinds of subsidised public services for the middle class, like health and education). The problem with this approach is that it not only created a chafing tax burden for firms and economic activity, but began to severely distort work incentives of the less motivated members of society. Around a quarter of the Nordic countries population are currently largely inactive, and subsisting on public handouts in a variety of social welfare programmes (e.g. basic social security, unemployment, insurance benefits, vocational training schemes, medical disability pensions, rehabilitation programmes, occupational pensions, early retirement pensions and housing subsidies, in addition to accepting a variety of more temporary benefits: parent leave,

child care benefits, short term sickness benefits, student loans and grants, etc.). This has severely distorted the work ethic in the welfare states.

Inayatullah:

What approach would you take to remedy those problems?

Thorgeirsson:

A more reasonable approach is to limit incomes, but ensure that the structure of wages is wide enough to give proper incentives for participation. To cut back public handouts and high taxation would need to accompany such reforms. Of course, such an approach will be wildly contested, because the capitalist ethic is based on the “principles” of private property and unfettered possibility for accumulation of wealth, whereby the profitability of any economic activity may not be limited. The argument of the Chicago school (Friedman et al) is that in a laissez-faire capitalism, the only solution to maximise welfare is to allow free adjustment of prices and quantities in all markets based on consumer tastes, investor preferences and then supply and demand will clear in all markets (labour, goods, housing, money, etc.). Such a profit driven economy relies on the wealthy, serving as custodians of the wealth, which they either make through their own ingenuity or inherit, and then continue to accumulate through re-investment in profitable activity. In the process they hire labour and generate incomes. As the wealthy get richer, the wealth also trickles down, and eventually the poor get richer too. In their idealised view, the possibility of a more equitable relative distribution of income and wealth could be a natural result of the system, but only if it operates freely enough and everybody takes the game seriously enough. This, however, is a tall order, as mostly the uniquely talented are winners in this game and most low pay workers typically get some near - subsistence income, while the middle class do better, also reflecting either a rising, stable or declining living standard based on some historical standard. The size of the middle class over time is also an indication of the progress a nation is making. The capitalist ideology also believes that speculation is inherently stabilising if the markets work properly. So bouts of speculation mania and panics and crashes, leading to huge destruction of wealth and mass lay-off and long periods of economic “pause” are then always the result of some imperfect functioning of the market (nepotism in Indonesia, unsound banking structure in Japan, too many Chaebols in Korea), and not because greed-driven speculation itself had run amuck creating a bubble that was ultimately unsustainable in any economy that is

subject to the vicissitudes of real business cycles, natural disasters and the like.

Inayatullah:

So you are arguing that...

Thorgeirsson:

Income taxes as a way to obtaining an equitable distribution of incomes and wealth, it seems to me this is an ad-hoc solution to a system that also tolerates significant extremes in wealth distribution and the attending speculation and financial crises and huge collapse in economic functioning. The system creates dependencies and becomes inefficient, and in a world of free capital movement and tax havens, leads to “tax arbitrage” where the rich move to another country if the welfare state gets too aggressive, leading to a loss of investment and jobs. To avoid all this, income taxes should be abandoned. An equitable distribution should be based on limiting incomes and wealth directly. In this regard, a reconsideration of the suitable forms of enterprises ownership and management control is necessary, and to focus on production in a balanced way, to raise the purchasing capacity of all people over time - this is the Proutist way. Both Sarkar and Ravi Batra have written extensively about this.

Inayatullah:

Won't a consumption tax lead to falling demand, that is, won't the economy falter with the costs of goods so much higher?

Thorgeirsson:

I'm not sure but if the government expenditure isn't that high, a little tax on a broad tax base shouldn't hurt the economy or reduce demand. In a Proutist economy, importantly, all income earners would have a similar (high) propensity to consume, unlike today where the wealthy have a much lower such propensity (due to higher propensity to invest) than the average and low income earners, hence a sale tax is currently highly regressive.

Inayatullah:

You mention that the propensity to consume will be higher in a Proutist society but how do you equate that with the notion of *aparigraha* or voluntary simplicity - that is reducing one's needs/desires.

Thorgeirsson:

That does not represent a conflict at all. The former only means that there will be fewer people living as rentiers, and that most will work for a living and spend most of their income for living expenses. Aggregate savings will continue - and be adequate - as it should become more broadly spread. As people become more spiritual their sense of self worth and happiness should become less tied to material objects or the acquisition of wealth as a means to boost also their social status. This, however, needs to be seen in the context that we as human beings continue to need shelter, clothing, food, transportation etc., and hence voluntary simplicity does not necessarily imply a withdrawal from participation in the real world. It is not for all to become spiritual ascetics but we as individuals - and as a society - can benefit greatly from improving the balance between the three essential factors of life: body, mind and spirit.

Inayatullah:

The other side of this question is that Sarkar claims that in fact PROUT will be better able to fulfil the growth needs of the planet, that it is not a conserver or steady state- green economic model - growth is a dimension of it. Is it because the poor will also have wealth or are there reasons he can make that claim? You see where I am going with this, not only does PROUT appear to be different from greens - i.e. they are anti-growth - but also different from socialists and capitalists, your thoughts on this issue.

Thorgeirsson:

It seems to me that Sarkar's ideas are more realistic than those of most other environmentalists - who seem to react strongly both to capitalism and modernity - in that he thinks once we make the transition to a Proutist economy, many of the problems we as a species have with managing our resource will disappear - and here you may be surprised - as we begin to maximise the utilisation of our common resources in a sustainable manner. Moreover as growth becomes more oriented to satisfy basic needs of all, a steady (or even rising) growth rate will mostly serve to raise living standards (the purchasing capacity of people). In such an economy people will feel that they are making material progress, something Sarkar felt was

very important for a balanced society. A static (no growth) society would be too uninspiring. Sarkar has also proposed that the structure of the economy be balanced in a purposeful way - unlike today where market forces easily tear down important sectors without due regard for the balance of the local economy or the environmental degradation's associated with huge pollution unleashed through the ever rising and largely unnecessary movement of like goods around the planet - with a greater role for agriculture (including pre-and post-harvest industries), small industries, a co-operative sector, and that large monopolies related to utilities or important natural resources be collectively managed to avoid abuses.

Inayatullah:

Given the history of capitalism, how every wave of attempted transformation has been accommodated by capitalism and capitalists, i.e. continued appropriation? Do you think capitalism can be transformed this time? Are you hopeful about a Proutist alternative? This question is asked of me at almost every lecture. When the cultural historian William Irwin Thompson was asked a similar question, he could only respond that on some days he wakes up optimistic and on other days quite pessimistic, that he had no answer. I've argued that there are deep historical forces that promise a transition but at the same time at a much deeper level, I can only say that this is based on faith. Capitalism, like Hinduism and Americanism, is utterly flexible, that is difficult to transform. Hindus believe there is a Hindu in everyone and Americans embrace all culture and make them their own. I remember Galtung argued that yes capitalism will transform but determining when is next to impossible -the important point is to not lose hope.

Thorgeirsson:

Indeed, capitalism has shown itself to be an incredibly flexible system, based on its freedom and ability to harness human creativity for material gain. It is true that the over 200 year history of western capitalism, every wave of invention or challenge to the capitalist system has been accommodated by modifications in the way it works. The depression of the 1930s, which highlighted the failure of market forces to self-correct, notably in providing sufficient investment and consumer demand after a wealth and employment shock, resulted in the successful introduction of new ideas by John Maynard Keynes to solve the problem with public spending. This proposal was initially resisted fiercely by orthodox

economists. However, after the economic profession had gone through these ideas, making some theoretical adjustments, in what is now called the neo-classical synthesis school, a transformation of the capitalist system took place, whereby the government took an ever larger role in the economy, with government tax revenues and expenditure set to rise. This transformation was greatly facilitated in the Second World War - when an even greater threat, fascism, emerged - and in the reconstruction of Europe after the war. However, big government became bloated and inefficient and the wealthy disliked the growing tax burden on them.

Inayatullah:

And more recently? This transformation was greatly facilitated in the Second World War when an ever greater treat, fascism, emerged.

Thorgeirsson:

In the 1980s, after a decade of slowing growth and inflation, under the political leadership of Ronald Reagan in the USA and Margaret Thatcher in the UK, efforts were made to reign in the big government, with a view to generating faster capital accumulation and growth—the so-called supply side revolution. As a result, by the 1990s, the capitalist class in the West had not only survived, through assimilation, the revolutionary ideas of Keynes, but it had regained its sense of social pre-eminence. Meanwhile, the middle and lower classes had suffered severely in the depression, but experienced substantial progress in the first two decades after the war. In more recent decades, however, it has seen such gains eroded as the jobs of the lower skilled have been increasingly taken away by factories and workers in lower wage countries. At the same time, new technologies and efficiency gains associated with a more global allocation of productive resources has raised industrial profits sharply, while wages of western workers have failed to keep up, even considering the gains in labour productivity. As a result, a demand gap has opened up, which has been bridged with ever rising consumer credit. The speculative wealth boom of this decade has of course served to counter the stagnant wage development, especially for the middle class, by doubling and tripling stock investments in a span of few years. Nevertheless, such gains may not last - as they say: easy come, easy go. It is fair to say that capitalism has reached a critical moment.

Inayatullah:

A critical moment for sure because it will be a major challenge to capitalism. Will it be able to survive?

Thorgeirsson:

You ask if it will survive another major challenge. That is hard to say, certainly if the Asian crisis spills into western markets unleashing a stock market crash and another depression, the prospects for the system look grim. Could we go back to Keynesian ideas? Certainly some organised solution would be needed to deal with a crisis. The idea, however, that big government can make capitalism work has been discredited. If a major crisis erupts we may therefore need to consider other new ideas, like Prout. As one Russian thinker once said, while history teaches us nothing, it punishes us for not learning its lessons.

Inayatullah:

It is clear the burden is on us to learn from historical lessons.

Thorgeirsson:

I am, moreover optimistic that whatever happens in the economy, that we will continue to make progress, if only because we are a creative species and social evolution has characterised our historical development. The question seems to be, how long a period of stagnation or backward movement do we risk if the system collapse? Getting back to the words of the Russian thinker, we should strive to do what is possible so that the pain of historical lessons is minimised. In this regard, I think the Proutist ideas are both benign and balanced. It is clear from Sarkar's book 'Proutist Economics', that he is well aware of the failings of both capitalism and communism. His view of Prout reflects that very well. His reforms emphasise the important role of private entrepreneurs and small and medium sized companies, while operating in a competitive market environment, in raising living standards. At the same time, he envisages a more limited albeit very important role for government, to uphold the rule of law and take care of socially important functions such as defence and providing a social welfare net for the handicapped and elderly. His vision of a Proutist economy is rounded out with the need for more effective local decision making, involving a vibrant cooperative sector and the necessary control of large natural monopolies such as public utilities. However, in reforming the economy, he sees the main change coming from within, in the way we see the world and each other. We have to become more

compassionate and considerate if we are to have a balanced and well functioning society

Inayatullah:

But what Prout is advocating would work, if there was a change in consciousness, if human kind was working for the common good instead of participating in the creation of an unjust society.

Thorgeirsson:

While more study is needed of these ideas, they seem to represent a new way of thinking. It is clear that Sarkar's ideas are far from just focused on the logic of one class of social scientists (the economists), but on a much wider concept of the human being as a physical, mental and spiritual being . That is perhaps the most revolutionary difference in his contribution to the whole dialogue. Perhaps that is also what is needed, if we are, as a human society, to find a middle way to meet the needs of all for a decent life. Whatever the solution, if we can find a better solution, we will have made great stride forward as human beings and a species.

At the time of this conversation:

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