



Will Proutist Economics Work?

Edited by Maud Peever

SARKAR (SHRII. P. R. SARKAR, PROPOUNDER OF PROUT PHILOSOPHY) 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)

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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

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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.

(To be continued)

At the time of this conversation:

Thor Thorgeirsson is a doctoral candidate at the New School of Social Research. He is writing his PhD in economic history. He is a consultant to numerous international agencies in the USA and Europe.

Sohail Inayatullah is senior research fellow at the Communication Centre, Queensland University of Technology. He is the Editor of the Journal of Futures Studies and associate editor of New Renaissance, a European Quarterly. He received his doctorate in 1990 from the Department of Political Science, University of Hawaii.

Maud Peever is an administrative Assistant at the Communication Centre, Queensland University of Technology. ■

**I asked for riches that I might be happy;
I was given poverty that I might be wise.**

**I asked for all things that I might enjoy life;
I was given life that I might enjoy all things.**

**I was given nothing that I asked for;
But everything that I had hoped for.**

Author Unknown