SELF-RELIANT REGIONAL PROUTISTIC DEVELOPMENT

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A summary of a three chapter manuscript on

Self-Reliant Regional Proutistic Development.

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CONTENTS

These three chapters introduce the principle concepts of the Progressive Utilisation Theory (PROUT) of P.R.Sarkar and apply them to the problem of third world underdevelopment. Chapter One places underdevelopment in the context of today's global economy, briefly refers to the two traditional development options, capitalism and communism, and finally introduces the Proutist option, self-reliant regional development or cooperative development. Prout is introduced as a series of principles which have applicability to any economy, developed or undeveloped, but their application to the problems of underdevelopment is stressed. Chapter three ends with a summary of the main proposals.

Chapter One:- Models of Economic Development

UNDERDEVELOPMENT

Third world underdevelopment has been attributed to many factors, cultural peculiarities, over-population, bureaucratic mismanagement, corruption and the bleeding of wealth. Of these only the 'bleeding of wealth', that is the systematic removal of excessive wealth, so that it becomes impossible to maintain or build a capital base, can account for the current magnitude of third world underdevelopment. The 'first world' over several centuries has devised many colonial and neo-colonial schemes to expropriate wealth generated in the third world.

EXPLOITATIVE DEVELOPMENT

Although first world economies have the appearance of strength, in fact their strength is derived from centuries of exploitation and is substantially dependant on continued cheap imports from the third world and the ability or willingness of the third world to tolerate debt. Furthermore the continued concentration of wealth into first world countries generates speculative instabilities and cycles of 'great depressions'. Thus the capitalist development option is seriously flawed. The communist development option has already discredited itself.

SELF-RELIANT REGIONAL DEVELOPMENT

The defining characteristics of a self-reliant and regionally developed economy are; 1) maximum utilisation of all local resources, both material and human resources; 2) constant endeavor to increase real purchasing capacity of all individuals; 3) equitable distribution of wealth; 4) balanced development of all sectors of the economy; 5) rural development given same importance as urban development; 6) sustainable development, that is ecological and economic homeostasis. 7) use of appropriate technology that does more with less; 8) exports mostly manufactured goods with minimal export of raw materials.

Principle of decentralised planning:- Economic development should be decentralised, that is planned from grass roots up.

Principle of appropriate planning:- The closer a planner is to the object of planning, the more likely the plan is to succeed.

Principle of pyramidical planning:- There should be multiple levels of economic planning with coordination and cooperation between levels.

Principle of Organic Communities:- Economic Units at each level of integration are organic communities comparable to living organisms.

Principle of balanced economy:- All the sectors of an economy should be developed in balance.

Principle:- Development planning should be guided by cost of production, productivity, purchasing capacity and collective necessity.

Principle:- Development must be planned around all four parts of the economy - people's economy, psycho-economy, commercial economy and general economy.

Chapter Two:- Economic Democracy and Development Policy

RESOURCE MANAGEMENT

Principle of economic self-reliance:- Local resources should be developed in preference to imports. Self reliance means developing the local economy using local resources, local savings, local labour, local initiative and local markets as opposed to importing these resources from outside. However in pursuing this goal, priority should be given to the production of essential goods and services using appropriate technology.

Principle:- Resources are physical, intellectual and spiritual.

Principle of equitable distribution of wealth:- No individual (whether person or institution) should be allowed to accumulate physical wealth without the clear permission of the collective.

Principle:- Every socio-economic unit must guarantee 100% employment for local people.

THE INDUSTRIAL SECTOR

Principle of production for consumption:- The foremost purpose of production is to produce the consumption requirements of humans, animals and plants.

Principle of objective efficiency:- There should be maximum utilisation and rational distribution of resources.
- Principle of balanced resource inputs:-
- Principle of industry location:-
- Principle of appropriate technology:-

Principle of subjective efficiency:- There should be maximum utilisation of individual and collective potentialities.

Principle of personal responsibility for the collective:- Every worker should by means of collective participation in management, have a sense of personal responsibility for the final product and for the quality of the work place.

Principle of a three tier business sector:- The production of goods and services should be organised within three tiers; the key industry sector, the large scale sector, the small scale sector.

Principle:- The agricultural sector should be organised as a three tier industry.

Principle:- Land is the common property of humanity. Only the responsibility for its conservation and management should belong to individuals or groups.

THE GOVERNMENT SECTOR

Principle:- Government participation in the economy is primarily to provide social services, coordination and policy making.

Principle:- The government should prepare two budgets, an extensive budget and an intensive budget.

Principle of factor input taxation:- Taxes should be levied at the starting point of production.

PRICES AND INCOMES

Principle of GMI:- Every one should be guaranteed a minimum standard of living.

Principle:- Incentive income should be given according to social merit.

Principle:- The primary distribution of money income should be linked to production (supply) not to demand.

Principle:- The primary income distribution ('Incomes Accord') should be decided cooperatively by a broad cross section of community interest.

Principle:- The prices of goods and services produced by key industry should be set so as to make no profit and no loss. Free market mechanism should determine prices in the private sector and where appropriate in the cooperative sector.

Principle:- Stability of commodity prices depends upon planning, maximum utilisation and stockpiles.

Chapter Three:- Trade, Money and Banking for Regional Self-reliance.

TRADE FOR REGIONAL DEVELOPMENT

Principle of Intra and Inter Community Trade:- Multilateral trading within communities, bilateral trading between communities.

Principle:- Free trade offers the best possibility for regional development.

THE MONETARY SYSTEM

Principle of social credit:- Money is a social tool belonging to a community to catalyse its economic activity.

Principle:- The system used to distribute wealth should be appropriate to the commodity and the prevailing economic conditions.

Principle of appropriate money:- Different money systems suit different purposes. Three systems are discussed, LETSystem, Producer Currencies and Central bank system.

Principle:- Money must have a stable standard of value. The 'basket of commodities' approach to establishing a money standard for developing countries appears to be the best solution at the present time.

Principle of money circulation:- Money should be kept rolling but flows into or out of an Economic Unit must be regulated.

Principle:- Stamp currency retains value by circulating faster.

BANKING

Principle:- The Banking industry should be structured like any other, in three tiers.

Principle:- The average interest rate should not exceed the average growth rate.

Principle: The banking system should manage flows of money not the volume of money.

SUMMARY OF THE THREE CHAPTERS

The management of any economy revolves around four kinds of policy; structural policy, fiscal policy, monetary policy and trade policy. We conclude with a summary of the more important principles of self-reliant regional development grouped into these four areas of policy.

Structural Policy;

1) A developing country should delineate *block, district* and *state* boundaries based on the concept of organic communities. Each community develops its own economic plan and strives to become self-sufficient in the production of its essential requirements.
2) Economic development, infrastructure, population, etc should be decentralised.
3) The different economic sectors should be developed in balance.
4) The production of goods and services should be organised into three sectors; public utility sector, cooperative sector and private enterprise sector. The boundaries between these sectors should be fixed by public policy but adjusted as technology or other conditions demand.
5) An upper limit should be placed on the expansion of cooperatives (including credit unions) and private enterprises. This will encourage competition and prevent concentration of economic power.
3) The banking industry should be organised in three tiers; the central bank as a public utility, the commercial banks as cooperatives or credit unions and advisory services as individual enterprises. The central or reserve bank is the banker for governments (local and state), cooperative banks (credit unions) and key industries. The cooperative banks act as bankers for the cooperative and private industrial sectors.

Fiscal Policy;

1) The primary distribution of income should determined by an "Incomes Accord" which is formulated by cooperative collaboration of a broad cross section of community interest.
2) The four key income parameters to be decided by the Incomes Accord are personal income (its two components being, GMI and incentive increments), total government taxes, gross business saving and interest rates. The GMI or essential income will have to be reassessed each year and is guaranteed to all. The permitted levels of investment for all public utilities should also be decided in the government's extensive budget.
3) An upper limit must be placed on income and wealth accumulation. These ceilings might vary from year to year and thus come within fiscal policy.
4) Fiscal policy should decide stockpile levels of key and essential commodities used as a buffer to maintain stable prices.
5) Interest rates should be no more and preferably less than the growth rate of the economy.
6) The government sector must draw up a balanced intensive budget. The predominant if not only source of government income is taxation, determined within scope of the extensive budget or *incomes accord*. Government should not be able to run up a deficit by drawing on central bank credit. Nor should it finance deficits by selling bonds except in unusual circumstances because this creates an extra interest burden that must be borne by taxpayers. The government draws on central bank credit to the amount of its 'value added production' just in the same way as any other producer.
7) Provision of 100% employment is a priority goal for self-sufficient development.

Monetary Policy;

1) The creation and destruction of money must be linked to the production and consumption of wealth. This will de-emphasize the importance of money volume. Thus reserve levels and reserve ratio are no longer instruments of management. Rather the banking system maintains 100% reserves in the form of guarantees provided by producers when credit is issued.
2) Banks should be prohibited from lending money for speculative investments. Credit must be distributed rationally and equitably in accordance with the Incomes Accord.
3) The value of money is maintained by maximising its circulation. This can be achieved by placing limits on accumulation and by implementing a stamp currency scheme or equivalent. The traditional means of 'tight money policy' to boost the value of money is illogical. Rather the only restriction on the creation of money is the creation of goods and services.

4) Banks must keep a strict separation between operating accounts and savings accounts or term deposits. Banks charge interest on operating accounts as a means to encourage the circulation of money. Only deposits in savings accounts are to be used by banks for lending.

Trade Policy;

1) Trade at all levels within a *samaj* can be by way of a central bank money system as described. *Block* level LETSystems would be a complementary feature.
2) Trade between *samajs* within the same federation can be bilateral or they can form a LETSystem type trading bloc (which offers the advantage of monitored multilateral trading).
3) Trade between *samajs* of different federations is best done bilaterally. However in case of non-essential commodities, multilateral trading is satisfactory.
4) The money denomination used for multilateral trading should be independant of any of the participating countries. Each trading bloc can establish its own money unit and standard using a basket of commodities appropriate to it. The creation of money for global multilateral trading can be managed by a 'world bank' on the same basis as a central bank. However such a bank should not be controlled by the most powerful nations.
5) The import of essential commodities and the export of raw materials is the sign of a weak economy. Economic development should procede so as to minimise these.

Chapter One

Self-reliant Regional Development

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CONTENTS

Until recently, underdeveloped countries had two strategies for development, the communist strategy and the capitalist strategy. Communism promised a better life for the poor and oppressed while Capitalism promised riches if you could stomach its inequalities. Now that the communist strategy has been discredited, it appears as if capitalism is the only salvation of the world. Indeed the Director of the US State Department, Francis Fukuyama, declared that the collapse of communism marked not only the end of cold war rivalry but also "the end of humanity's ideological evolution". The triumph of democratic liberalism and capitalism, he enthused, signaled "the end of history".[1]

Although the capitalist world is currently 'riding high', it is a seriously flawed system whose present outward appearance hides an inner state of crisis. Far from offering a model of development for underdeveloped countries, capitalism is in most cases the cause of that underdevelopment. In this chapter we briefly consider the context of underdevelopment as the natural consequence of the present global economic order. But our primary purpose is to present a third development strategy, Self-reliant Regional development. We present this development strategy in the form of principles. This chapter is concerned with principles of planning. The subsequent two chapters deal with Economic Democracy in its broadest sense and financial reform.

UNDERDEVELOPMENT

The indicators of an underdeveloped economy are listed by Hunt and Sherman as; *"(1) low income per person, (2) the existence of a very high portion (often 80 percent or more) of the population engaged in agriculture; (3) a low level of techniques used in production, (4) a low level of education, (5) a low level of capital formation."*[2]

To this list could be added a small unsophisticated manufacturing sector, a large proportion of exports in the category of raw materials (or low level processed goods) and a high debt servicing to export income ratio. There are additional non-economic indicators such as lower life expectancy, prevalence of diseases resulting from poor public hygiene programs, social problems arising mainly from widespread poverty. No one indicator by itself is sufficient to describe the syndrome of underdevelopment. Hunt and Sherman rightly point out that average per capita income is a meaningless index because it "may hide wide disparities in individual incomes". Again tertiary education may be available but if it imitates that of a foreign or imposed culture it will not be relevant to regional development needs.

At least four factors are commonly invoked to explain underdevelopment. 1) the cultural legacy of underdeveloped countries does not foster industrious spirit; 2) over population; 3) industriousness and entrepreneurial potential are present but they are not realised due to mismanagement; 4) wealth is 'bled' by one means or another so that it is impossible to build up a capital base, the prerequisite for economic development.

Although it is not our intention to discuss them in detail, these four require some comment in order to set the context for later discussion. The first 'explanation' with its racist overtones is all too often used by western politicians as a synonym for 'laziness'. Third world poverty, they claim, is a product of laziness. But in truth, most impoverished people of the third world are obliged to work long hours just to survive. It may be true that some cultures do not mesh well with the cut-throat competitive ethos of capitalism, but this is quite a different argument. From a cultural point of view, a wide range of countries have succeeded in the hard world of competitive capitalism apart from so-called 'western' countries. Japan, South Korea and Singapore, for example, are models of capitalist 'success'.

Like the previous explanation, the 'overpopulation' argument is another attempt to blame underdevelopment on the local people themselves. While it is obvious that any population increase will create difficulties for an economy that is standing still, there is no evidence that high population is the *cause* of underdevelopment. Rather the available evidence suggests that underdevelopment is the cause of rapid population increase. In underdeveloped rural economies, large families provide free labour and security in old age whereas in industrialised economies children are perceived as an economic burden until they have undergone a long education. Hunt and Sherman conclude, *"Thus all the developed areas from the United States to the Soviet Union have witnessed rapid declines in birth rates as the agrarian sector has shrunk and education and culture have spread as a result of economic development."*[3]

The third explanation for under-development is certainly supported by the communist experience. All the east European communist economies had slower rates of development than their west European neighbours. Indeed several, such as Poland, Albania and Rumania regressed to the point where today they have indicators of underdevelopment. A centralised command economy with its attendant ideological suppression, stifles individual initiative causing output and efficiency to decline.

However, the one convincing explanation for the widespread and chronic phenomenon of third world poverty lies in the 'bleeding of wealth', that is, the removal of so much wealth from a region that it becomes impossible to build or maintain the capital base required for further development.

The bleeding of wealth occurs in several guises and of course it is not a new phenomenon, although its current magnitude and global scale belong only to the 20th century. Corrupt regimes bleed the wealth of a country by siphoning its income into overseas banks or by selling its resources at cheap prices in return for 'kickbacks'. But again, the scale of this exercise, although significant for the Philippine economy under the Marcos regime, cannot account for the global phenomenon of third world poverty. Corruption pervades the economies of rich countries[4], yet they remain rich!

The present position of the underdeveloped world can only be understood in an historical perspective. The rise of the European colonial powers in the 16th to 19th centuries was possible only because they bled wealth from the peoples they colonised. Initially it was direct pillage, as in the Spanish conquest of South America and Clive's conquest of India. Once militarily secure, the strategy shifted to prohibitive trade practices. Britain diverted much of India's agricultural production to cotton. Indian growers and merchants were forced to sell at low prices to the Manchester Mills. Prohibited by stiff penalties from manufacturing cloth locally, they were forced to buy back cloth from Manchester at inflated prices.

Up until the 17th century, India had a manufacturing industry comparable to Europe's and exported cotton fabrics all over the world. The results of enforced "reindustrialisation" (as it was euphemistically known) following colonisation are shown in trade statistics. *"India, still an exporter of manufactured products at the end of the eighteenth century, becomes an importer. From 1815 to 1832, India's [manufactured] cotton exports dropped by 92 per cent. In 1850, India was buying one quarter of Britain's cotton exports. All industrial products shared this fate. The ruin of the traditional trades and crafts was the result of British commercial policy."*[5] All the European colonial powers used similar 'bleeding' strategies over several centuries and thus they were able to build immense and powerful economies. Even in the 20th century, the USSR used similar methods against its peripheral republics and 'satellites. When the communists took over Poland in 1945, they dismantled its rural cooperative structure of "Farmer's Rings" and imposed centrally controlled "collectivization" which diverted cheap produce to the Soviet Union.

With the formal dissolution of colonial empires in the 20th century, the newly independent nations did not find their situation improved. The economically powerful nations found other means to bleed wealth from their former colonies, such as currency manipulation, 'development' loans at high rates of interest, monopoly control of commodity prices and discriminative trade barriers. Even more dangerous are 'neo-colonial' strategies which destroy indigenous culture and infuse inferiority complex. Where these are not sufficient, direct destabilisation of governments is still the final option. Neo-colonial strategies have been well documented and again it is not our intention to discuss them here.

The consequences of 'bleeding' of wealth go far beyond the economic. A United Nations report observes that there are serious environmental consequences which ultimately threaten to engulf even the most powerful nations. *"Ecology and economy are becoming ever more interwoven - locally, regionally, nationally and globally - into a seamless net of causes and effects ... The recent crisis in Africa best and most tragically illustrates the ways in which economics and ecology can interact destructively and trip into disaster. Triggered by drought, its real causes lie deeper. They are to be found in part in national policies that gave too little attention too late, to the needs of smallholder agriculture and to the threats posed by rapidly rising populations. Their roots extend also to a global economic system that takes more out of a poor continent than it puts in. Debts that they cannot pay force African nations relying on commodity sales to overuse their fragile soils, thus turning good land into desert."*[6]

Only when we acknowledge chronic 'bleeding' of wealth as the prime cause of third world underdevelopment, will it be possible to take appropriate development action. Five year development plans are nothing better than high sounding rhetoric if they don't include steps to prevent the 'bleeding' of wealth. The intransigent attitude of the first world to the third world debt crisis indicates that it has little interest in the genuine development of these countries. The best hope, indeed the only hope, for underdeveloped countries is to help each other and to extract themselves from trade agreements such as

GATT which impoverish them. It is in this context that 'South-South' cooperation assumes the greatest importance.

EXPLOITATIVE DEVELOPMENT

Economic development necessarily implies an economic objective. But what objective? What path of development is desirable? The economies of Western Europe and the USA are often assumed to represent desirable models of 'development'. But we have observed that most of these countries achieved their present economic predominance in a parasitic way at the expense of the underdeveloped world. In this context the term 'developed' economy is definitely undesirable. We have chosen to use the term 'exploitative' development to describe that concentration of wealth and capital development which is achieved by the bleeding of wealth from others. Economies developed in this way have the appearance of strength resulting from access to cheap resources at the expense of their 'hosts'.

The indicators of exploitative development arise directly from concentration of wealth and the economic 'warfare' mentality behind it. These indicators have been well described by Batra[7] and Beckman[8]. They include; 1) Over concentration of industry and commerce into ever growing cities; 2) Take-overs and mergers which concentrate wealth ownership into fewer and fewer hands; 3) Dependance on cheap imports from underdeveloped economies; 4) Speculative transactions a significant proportion of all economic activity; 5) Social problems arising from neglect of the psychological and spiritual welfare of people.

According to this model, under-development and exploitative development become different faces of the same problem. Wherever there is a net flow of wealth from one locality to another, either in large quantities over a short time or in small quantities over a long time, the twin phenomena of under- and exploitative development appear. Thus it is possible to find large pockets of relative underdevelopment in so-called developed countries. For example the wheat belts of eastern and western Australia show obvious indicators of underdevelopment: high levels of unemployment, many growers producing crops at a loss, little or no manufacturing industry, wheat as the only export and high levels of debt relative to income potential. Conversely, in underdeveloped countries, major cities show indicators of exploitative development.

Contradictory though it may seem, the very concentration of wealth in capitalist economies which projects an aura of riches and unassailable strength, also results in dangerous structural weakness. Batra argues that the inherent tendency to wealth concentration in capitalist economies accounts for recurring cycles of great depressions. Historically he demonstrates that when 25% or more of privately owned wealth is concentrated in the hands of only one percent of the population, a depression inevitably follows. The critical feature of a depression is bank collapse from over exposure to dubious loans. *"In short, the concentration of wealth has two pernicious effects on the economy, as it increases the number of banks with shaky loans, and it fuels the speculative frenzy in which even the banking system is caught."*[9]

Beckman offers many historical examples of speculative frenzies generated by concentration of wealth. In such a climate, production of real wealth takes secondary importance to accumulation of paper wealth. Speculators buy shares, land, gold or any commodity, if they believe they can sell it at a higher price in the foreseeable future. The more prices are bid up, the more other speculators are drawn into the market in hope of easy profits. Banks are drawn into the frenzy by giving loans to speculators using the speculative purchase as security.

When the speculative bubble bursts as it finally must, the banking system is left in a precarious position. At first only small banks and peripheral financial institutions are threatened but if the bubble is big enough even the biggest banks are threatened. Today the entire banking system of the capitalist world is in a precarious state, as currency speculators shift huge sums of money around the world in search of paper profits. The concentration of wealth from the hands of many (including the third world) into the hands of a few makes this scenario possible.

Once we accept chronic wealth transfer from one region to another (whether across national boundaries or within national boundaries) as being responsible for both underdevelopment and exploitative development, the appreciation can be used to illuminate important strategies for the third and only effective development option, self-reliant regional development.

SELF-RELIANT REGIONAL DEVELOPMENT

"Let us start a system in which all of us may live, each with a sound body and a sound mind."

P.R.Sarkar

In brief, self-reliant regional development is 'grass roots' development, that is, the growth of a local economy using local resources in a climate which fosters local initiative and industriousness for the collective welfare. It also implies economic cooperation between countries for their mutual benefit. Conversely it implies a country disengaging itself from exploitative trade arrangements whether in the role of the disadvantaged or advantaged party.

The **indicators of a self-reliant and regionally developed economy** (and indeed its defining characteristics) are; 1) constant endeavor to increase real purchasing capacity of all individuals; 2) equitable distribution of wealth; 3) balanced development of all sectors of the economy; 4) decentralisation, that is rural development given same importance as urban development; 5) sustainable development, that is ecological and economic homeostasis. 6) use of appropriate technology that does more with less; 7) exports mainly in category of manufactured products or high level services and minimal import of raw materials.

These concepts will be developed further in this and the following two chapters on "Economic Democracy" and "Trade and Finance". It is important to emphasize that principles of self-reliant regional development mean nothing by themselves. Economic development cannot be guaranteed by a set of rules or statutes. It also requires a cooperative attitude of mind and a universal outlook, which recognizes that everyone's welfare is interlinked. It is not possible to have economic cooperation between developing countries where their internal development strategies are of exploitative nature. Conversely it is not possible for a country's internal economy to survive on a cooperative basis, if it leaves itself open to outside investors and traders whose only interest is to bleed wealth.

Thus the meaning of 'South-South cooperation' lies not only in the economic *inter*-relationships between underdeveloped countries but in the internal or *intra*-relationships within each country. **The model of South-South cooperation presented in this and the following two chapters is a federation of economically self-reliant regions.** The term region is used here in a pervasive sense. The federation strives for self-reliance, each country strives for self-reliance, and within each country its various regions, districts, communities etc strive for self-reliance. Obviously there are important ethical, ideological, cultural, social and political considerations that are preconditions for self-reliant regional development. It is not in the scope of this article to discuss these; but given they exist, there are rational economic principles that give expression to the development urge. It is to these that we now turn.

Certainly many economists have recognized the shortcomings of capitalist and marxist development strategies. Schumacher proposed an alternative economic philosophy and became famous for the slogan "small is beautiful". Kennedy[10] and Otani[11] have proposed new systems of land ownership and monetary management based on rational principles (avoiding both capitalist and Marxist dogma) but do not address themselves specifically to problems of underdevlopment. On the other hand, the 'Progressive Utilisation Theory' (PROUT) of P.R.Sarkar provides a comprehensive socio-economic development strategy that includes both general principles as well as detail on agricultural and industrial problems.[12]

The Progressive Utilisation Theory (or PROUT as it is known) includes; 1) a spiritual and social philosophy for the development of all living beings, human, animal and plant, both as individuals and as collectivity; 2) an analysis of social class structure; 3) a theory of history; 4) a decentralised, self-reliant economic system for the "progressive utilisation" of physical, mental and spiritual resources; 5) a political theory based on concept of collective sentiment; 6) an analysis of leadership and social dynamism. Prout offers a general theory of economic development applicable to both underdeveloped and 'developed' countries. These chapters however are more concerned with its application to the underdeveloped world. We draw upon other economists, such as Kennedy in the area of monetary reform, whose proposals give practical support to regional self-reliance.

In November 1990, Proutist Universal, the organisation founded by Sarkar to promote the principles of Prout, was accepted by the United Nations Secretarial Committee as an associated Non-Government Organisation (NGO). NGO's are playing an increasingly important role in the formulation of economic development policy. Local community development projects based on Prout principles have been established in several parts of the world. The largest is located in West Bengal, India, near the Bihar boarder, one of the poorest districts in India.

PLANNING FOR SELF-RELIANT REGIONAL DEVELOPMENT

"Centralised planning has totally failed in all countries of the world, including India."

P.R.Sarkar[13]

Principle of decentralised planning:- Economic development should be decentralised, that is planned from grass roots up.

Economic decentralisation has many ramifications. To start with it means self-reliance, that is, developing the local economy using local resources, local savings, local labour, local initiative and local markets. It means developing rural areas as well as cities. It implies a diffusion of wealth as opposed to a concentration of wealth. It implies a diffusion of economic power and shared decision making. Each of these themes will recur in subsequent principles. Economic decentralisation can bring an end to hunger and unemployment by development of local agriculture and local industry but it has consequences that go far beyond the purely economic. It would, for example, result in demographic decentralisation, and halt the 'flight to the cities' that plagues underdeveloped economies.

Decentralisation of economic power is not to be confused with deregulation. The benefits of a decentralised economy are realised only if it is planned and managed. Experience shows that deregulation allows the honest to become easy targets for the greedy. Thus the necessary concomitant to decentralised development is decentralised planning. None of the problems of underdevelopment can be solved satisfactorily in a deregulated climate where it is possible for the cunning and unscrupulous to grab economic power.

The goal of decentralisation is to maximize economic welfare and security by devolving economic decision making to its most effective level. Experience shows that centralised planning is not effective. After seven years of extensive consultation with thousands of people and organisations all over the world, the World Commission on Environment and Development, (a United Nations initiative) has come out firmly in support of decentralisation. In its report "Our Common Future" (OCF), the commission says;

"The law alone cannot enforce the common interest. It principally needs community knowledge and support, which entails greater public participation in the decisions that affect the environment. This is best secured by decentralising the management of resources upon which the local communities depend and giving these communities an effective say over the use of these resources. It will also require promoting citizen's initiatives, empowering people's organisations and strengthening local democracy."[14]

Principle of appropriate planning:- The closer a planner is to the object of planning, the more likely the plan is to succeed.

This principle applies to all levels of economic activity from the international scale down to the factory floor. The 'closeness' of a planner is to be understood in a mental as well as a physical sense. It is not practical for a Moscow bureaucrat to plan shoe production in Vladivostock, yet this was a feature of communist planning! Similarly there is no virtue in company managers planning events on the factory floor if they go there only once a fortnight to pay the wages, a common feature of capitalist production. An appropriate plan is one which has been conceived with an all round familiarity of that being planned, including a familiarity and sensitivity for the people concerned.

There are of course different levels of planning for complex processes. The government economist may be planning how to increase steel production by 10%. The company manager may be planning how to get ships to transport the extra ore. The foundry manager may be planning how best to utilise the extra workers. Each planner or planning group plans their sphere of activity and attempts to coordinate with higher and lower level plans without intruding on the detail of those plans as per the following principle.

Principle of pyramidical planning:- There should be multiple levels of economic planning with coordination and cooperation between levels.

In the framework of a new global socio-economic order, economic cooperation will extend from the global level down to local level. To this end, Prout promotes the concept of five-tiered economic planning; *global* planning, *federal* planning, *state* planning, *district* planning and *block* level planning. These need some explanation.

A *block* is a jurisdiction of some 10,000 to 100,000 people, something akin to a local Shire in Australia or the subdivision of a County in Britain. But it is much more. It also incorporates the 'bioregion' concept developed by the Permaculture Association in Australia. A bioregion is an area of land that is sufficiently homogenous to be considered an ecological and social unit for purposes of community and economic planning. It may be defined by a river catchment or a high altitude plateau. In Australia it turns out that bioregions (as determined by the Permaculture Association) have some correspondence with Aboriginal tribal boundaries prior to European colonisation. Bioregions in highly productive, high rainfall, coastal or hilly areas are smaller in size but support higher populations, whereas bioregions in inland, dry, flat areas are larger in size but support smaller populations.

Certainly, *block* boundaries should reflect factors such as topography, soil type, river system and vegetation, similar to the bioregional concept. But they should also consider existing economic circumstances and people's aspirations. In other words, people and culture are as much a part of the 'landscape' as topography and vegetation. Of course the two are inter-related since a given soil and climate gives rise to a particular agriculture which in turn gives rise to a particular economy and culture.

The *block* is a person's daily community. Outside major cities, a *block* appears to extend about the distance one could travel in an hour's commuting. It is the area in which most people are capable of travelling to work or doing their once a week major shopping. The *block* is the smallest but most important unit of economic planning because it represents 'grass roots'.

The next level of economic integration is the *district*. It constitutes the lowest level of local government, something equivalent to a County in Britain. Geographically it is similar to a province with environmental and agricultural homogeneity but on a larger scale than a bioregion. Its economic plan is primarily concerned to provide infrastructure such as roads, rail transport, communications, irrigation schemes etc that are on too large a scale for any one *block* to manage. Key industry should also be planned at this level. (See principle of three tier industry in the next chapter.) The boundaries of districts should be decided primarily on similarity of required infrastructure, which will in turn depend on climate, topography etc. For example parts of West Bengal in India have little rain throughout the year, while other parts have much rain but restricted to the monsoon season. Provision of irrigation water is a major infrastructure problem in both cases but the solution for each will be different. Delineation of districts within Bengal should be based in part on irrigation requirements.

The *state* level needs some clarification. Geographically speaking, this level is intermediate in size between a subcontinent and the district level. Let us use the formal term *region* to describe this intermediate geographic entity. (Elsewhere, as in the term self-reliant regional development, 'region' is used in its general sense.) Politically speaking this level corresponds in size to the countries of Western Europe or the states which make up the federations of Australia, the USA and India. For the purposes of this article, we assume that most underdeveloped countries are equivalent in size to a *region* and that they have independent nation status. Thus their planning will be three tier, that is *state* (national) level, *district* level and *block* level.

However the federal or fourth level of economic planning (geographically equivalent to a continent or sub-continent) is also important for underdeveloped countries, because 'south-south' cooperation should begin with trade agreements between neighbouring states. Thus the federal level first manifests as a trade bloc and gradually its member countries become increasingly economically integrated while not reliquishing their self-reliance. Europe is rapidly becoming a political as well as economic federation and it is inevitable that all countries in the world will eventually become grouped into federations, for example a S.E.Asian federation, a South American federation. But political integration should not be forced by larger states on smaller states. Between federations, there is an urgent need today for *global* planning to redress problems common to all regions of the world, such as huge disparities in wealth, pollution problems, acid rain, green house gases, ozone layer depletion and human rights violations. But these issues are beyond the scope of this article.

We observe today that several federal systems, such as the USSR and Yugoslavia are breaking up and India appears to be on the verge of breaking up. This is a natural consequence of poverty exacerbating local cultural and religious disputes which might otherwise have been transcended given sincere leadership and sound economic planning. However the problem leads us to consider a key component of Prout's self-reliant regional development (SRD) strategy, the *samaj*.

A *samaj* is a socio-cultural entity as much as an economic entity. The word is of Sanskrit origin and is used to mean a group of people sharing a sense of togetherness as a result of their common cultural and economic heritage. Most of the countries in Western Europe for example, are *samajs*. By contrast, the states of the USA, India and Australia, although similar in size to a *samaj*, are products of historical and political consequence. **The *samaj* is an organic community that has a natural economic, political and cultural cohesiveness.** Cooperative development will be far more successful where it arises from a cohesive unit.

The *samaj* is a political socio-economic unit that strives for economic independence and self-reliance even within the federal context. It is a unit of monetary management. It should prepare its own economic plan, but within each *samaj* there should be decentralised planning down to block level. When each block develops its economic potential by increasing purchasing capacity (see later), then the entire *samaj* will rapidly achieve economic self-sufficiency.

According to Prout's concept of *samaj*, the existing state boundaries in India should be scrapped, and the country reconstituted as a federation of some 44 *samajs* which already exist but presently have no economic or political status. If each of these is permitted to develop as an independent socio-economic unit (in other words a *samaj*), the political unity of federal India would be assured.

Likewise many of the state boundaries in Africa, eastern Europe and the Middle East have been inherited from colonial days or past conquests. They unnaturally divide ethnic communities between two or more countries, as in the case of the Kurds. Allowing these communities to become economically self-reliant would contribute both to economic rejuvenation and political stability. However the generation of many unnecessarily small states, each with its separate budget, should be avoided because it creates waste, duplication and increases the burden of taxation. Thus people's welfare will not be increased.[15]

Having stressed the importance of economic decentralisation, we now stress its counterbalance which is centralised political coordination. As a general principle, **economic decentralisation should take place within a political unity which coordinates the parts.** In the interests of social and environmental integrity, each level of organisation and planning has as much economic independence and self-determination as possible but within the umbrella of the higher level of integration which establishes a uniform code of trade, ethics, human rights, environmental management, quality control, production standards etc.

At the global level, Prout supports in principle, strengthening the power of the United Nations to deal with urgent global problems. But it must be acknowledged that the UN is largely impotent to deal with these problems due to lack of trust between member nations. It is not possible to achieve a unity of parts where the parts themselves are economically and socially unstable or where there is a huge disparity between the power of the parts. Only when small countries are free from the threat of economic domination by big countries and when the conditions which propagate economic disparity are removed, will global cooperation be possible. Thus solving global problems depends upon establishing economic security and viability at the bioregional level and building global cooperation from grass roots upwards. This is the wisdom behind economic decentralisation with centralised coordination.

"This approach will enable different socio-economic groups to develop to a level which fulfils their potentiality. When two groups reach nearly the same level of development they should merge together to form a larger unit. This process of unification will gradually result in the formation of one socio-economic unit for all India. In the next phase, through continued growth and development, the whole of South East Asia will become one socio-economic unit [samaj]. Eventually, the whole world will function as one integrated socio-economic unit. At this stage universal fraternity will become a reality."[16]

Principle of Organic Communities:- Economic Units at each level of integration are organic communities comparable to living organisms.

The five levels of economic planning correspond to five levels of community. Each unit of planning at whatever level may be termed an **Economic Unit (EU)**. It is important to recognise that EU's are not arbitrary units of administration but rather living organic entities. If the world is considered to be a living organism, then bioregions are its cells and the various districts, states and federations are its organs. In fact **any EU is comparable to a living organism**. The comparison is much more than analogy. An EU must consider such issues as internal homeostasis (ie maintaining constant level of prices), balance of imports and exports, waste disposal, regulated vs unregulated growth and so on. In particular, **EU's require a skin to shield them from the vagaries of the outside.**

Deregulation of the banking system, unrestricted foreign investment, unrestricted repatriation of profits and floating exchange rates, in short all the 'dry' policies typical of the 1980's are harmful because they effectively pierce the skin of an economic unit and let it bleed slowly to death. Indeed the whole notion of unrestricted and unregulated free enterprise is contrary to economic health, but the rules of the capitalist system were never designed with any other intent than to allow the big to get bigger by sucking the life out of the small.

The boundary of an economic unit is therefore not just a line on a map, an arbitrary geographic, economic and political boundary. Rather it represents the skin of a natural organic community. The ultimate identity of a community, whether it be bioregion or federation, lies in the minds of its inhabitants. Its people see themselves as a single entity with common interests and aspirations. Therefore very special care must be taken when establishing an economic unit, to ensure that its boundaries correspond to the local sense of community.

Principle of balanced economy:- All the sectors of an economy should be developed in balance.

Underdeveloped countries have a high percentage of the population dependant directly on agriculture. For India the figure is 75%. The excessive concentration of the workforce in any one sector of the economy is a sign of economic ill health.[17] To illustrate this principle, we divide the economy into three sectors, the *agricultural sector*, the *non-agricultural manufacturing sector* and the *service sector*. Planners at each level should strive for balanced development within and between sectors. The agricultural sector is further divided into the primary producer sector, the agro-industry sector and the agrico-industry sector (agro-industries are pre-harvest industries while agrico-industries are post-harvest). For purposes of this discussion, we divide the service sector into the commercial and non-commercial sub-sectors.

In the first stage of self-reliant development, planning should endeavor to decrease those dependant directly on agriculture by starting agro- and agrico- industries. The goal would be 30 to 40% of population depending directly on agriculture, 20% depending on agro-industry and 20% on agrico-industry. No more than 10% of persons should be engaged in trade or commerce and no more than 10% in other white collar jobs, because at this stage of development the critical requirement is for industrial development which immediately and directly increases wealth. Private merchants acting as go-betweens should not be given the opportunity to cream off profits. Instead, producer cooperatives should market their own commodities and sell directly to consumer cooperatives.

In the second stage of development, the endeavor is to develop the non-agricultural manufacturing sector by a gradual reduction of workforce in agricultural sector. But the percentage of population employed in non-agricultural sector should not exceed 20 to 30%. Over-industrialisation has its own set of problems which should be avoided as much as industrial underdevelopment. So in a balanced economy, there is proper adjustment between the agricultural sector, the (non-agricultural) manufacturing sector and the service sector, with no more than 30% in each. The **principle of balanced economy should be applied at all levels of planning** ie *block* to *global*.

Balanced economic development should also proceed area wise. That is all *blocks* within a *district* should adopt development plans to bring about their equal development. All *districts* within a *samaj* should be developed equally, otherwise scope arises for social unrest. Many problems such as labour surplus (unemployment), labour deficit, environment conservation, economic security can be solved by following the principle of balanced economy.

Principle:- Development planning should be guided by cost of production, productivity, purchasing capacity and collective necessity.

Cost of production:- Due either to ignorance or force of circumstance, families engaged in subsistence agriculture seldom calculate all their costs of production. Children may work hard but their labour is not costed. Depreciation of machinery is ignored. Such omissions mean that peasants do not get a just return and remain trapped in poverty. Furthermore, the true value of their produce is not signaled to the market.

Even in industrial economies, it is the practice to exclude many costs of production, for example, labour of spouse caring for children and home, non-renewable resources, pollution costs and the social costs of damaging products such as alcohol and tobacco. Development planners must calculate all costs before launching a new industry. If true costs of production exceed market value, then neither workers nor local community will benefit from the project.[18]

Productivity:- To maximize productivity, local industry should utilise local resources and raw materials. As a corollary, **industry should be established where resources are readily available.** This may seem obvious but it is often ignored. Maximum productivity also depends upon having a local market, thus obviating the need for expensive packaging and transport. The practice of importing labour from outside, who then export their earnings back home is to be discouraged since it does not help productivity of local economy. Employment of local people generates local saving which can then be invested in local industry.

Purchasing Capacity:- The purchasing capacity of everyone should be progressively increased first by increasing the provision of minimum necessities and only after these have been satisfied, the provision of non-essentials. Concentration of income is damaging to the economy because it leads to stagnancy, waste and encourages imports of luxuries to the neglect of local industry.

Modern so-called 'supply side' economics considers business investment to be the controlling factor of an economy and hence they place much emphasis on increasing business income. By contrast **cooperative development must be driven by demand.** *"In fact, the increase in the purchasing power of each individual is the controlling factor in a Proutistic economy. Because the purchasing capacity of the people has been ignored in many undeveloped, developing and developed countries of the world, economic systems are breaking down and heading towards a crisis."*[19]

Collective Necessity:- Planners should pay special attention to key commodities and essential commodities, and should anticipate the future demand (for energy, steel, irrigation water etc). In planning, a distinction must be made between essential, demi-essential or non-essential goods and services. As an example, milk would be an essential food, cream and butter demi-essential foods and ice-cream a non-essential food. Goods and services are not equivalent in their contribution to human welfare. Obviously planners should give greater concern to the availability of bread and milk than to the availability of cakes and ice-cream. The distinction between essential, demi-essential and non-essential items becomes important in subsequent principles especially those concerned with self-sufficiency and trade. The categories should be redefined from time to time according to changes in technology, living standards etc.

Principle:- Development must be planned around all four parts of the economy - people's economy, psycho-economy, commercial economy and general economy.

The subject of economics, as it is taught today, is usually divided between macro and micro economics. Sarkar advocates that the subject be divided into four branches, peoples economy, psycho-economy, commercial economy and general economy. However the distinction between these is more than academic. They are in another sense four sectors of an economy and thus come within the jurisdiction of planning.

People's economy deals with the guaranteed supply of the minimum essentials of life, that is food, clothing,. health care, housing and education. As such it studies their production, distribution, marketing, storage, pricing etc. It looks to solve these problems at a decentralised or grass roots level.

Psycho-economics is concerned with the relationship between economic activity and cultural and intellectual activity, using the former to augment the latter. Whereas people's economy is the primary concern of underdeveloped countries, psycho-economy is the concern of more developed countries where mechanisation is giving people more 'spare time' and where cultural and intellectual capital increasingly require management.

Psycho-economics is the economics of the future. It has two branches. The first seeks to analyse and eradicate forms of economic exploitation which have their origin in cultural and psychological domination, as for example the economic subjugation of women. The second seeks to directly enhance the intellectual and spiritual potential of people through management of the workplace and even manipulating the economy on a macro scale.

The aim of *commercial economics* is the maximum utilisation and rational distribution of all resources, whether at the micro or the macro level. It is concerned with trade, banking, monetary and fiscal policy, cost accounting and so on.

General economics is concerned with issues such as planning and budgeting at all levels, defining of the three tiers of industry, population planning, economic growth as well as theoretical subjects such as comparative economic systems.

"In a Proutist society, these four parts of the economy would be dynamically integrated and adjusted according to Neo-humanistic principles to ensure the maximum utilisation and rationalisation of all resources, and to harmonise human progress with the progress of the rest of creation."[20]

The importance of psycho-economic exploitation in understanding the condition of the third world should not be underestimated. In their analysis of the African continent, Ghista and Krtashivananda attach particular importance to cultural suppression as paving the way for and subsequently maintaining economic exploitation. *"This European culture has been at odds with African culture and has created cultural subjugation. With the imposition of European language, the evolution of local language was discouraged. This has created an inferiority complex and a defeatist psychology. The socio-religious sentiments of the colonisers and the imposition of their religions increased the complexes and opened the way for perennial subjugation. Anything indigenous was considered to be inferior. The language, religion, economic system, political system and lifestyle were inherited from Europe. Even after gaining political freedom, this legacy has continued in Africa."*[21]

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[1] Francis Fukuyama in Washington Post 6-8-90.

[2] (EC) p555

[3] See Hunt and Sherman for a more general discussion of causes of underdevelopment (EC) pp559

[4] At the time of writing six of Australia's seven states have Royal Commissions of Enquiry investigating bribery, misconduct and corruption involving senior ministers and high flying entrepreneurs. The United States is still reeling under the fallout of the 'Savings and Loans' scandal which has left $500 billion of bad loans.

[5] "India Independant" by Charles Bettleheim, pub NY: Monthly Review Press 1968, p47 as quoted in (EC) p557

[6] (OCF) p5

[7] (GD1990)

[8] (DW)

[9] (GD1990) p 45

[10] (EE)

[11] (LP & MP)

[12] see (PN) vol XIX for Sarkar's specific development projects for Bengal, Bangladesh, Tripura and Bihar. See (PN) vol XVII for his specific comments on water consrervation projects.

[13] (PN) vol XIII p12.

[14] (OCF) p63

[15] (PN) vol XIII p21

[16] (PN) vol XIII p23

[17] "Principles of balanced economy", (PN) vol XII, pp 25.

[18] "Inter-block and Intra-block Planning", (PN) vol XII, p35

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Chapter Two

Economic Democracy and Development Policy

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CONTENTS

This chapter discusses a range of development issues, but its underlying theme is the necessity for *economic democracy* in self-reliant regional development. Economic democracy, to conservatives, implies little more than the free market mechanism. For liberals it is decentralised economic decision making and for others it includes equitable distribution of wealth. In this chapter, economic democracy is understood in its broadest sense as that system of resource management and policy making which is cooperative, decentralised and broadly participatory.

In the previous chapter, much importance was given to the notion of decentralised planning as a prerequisite for regional development. One of the many implications of economic decentralisation is the diffusion of economic power by implementing democratic or cooperative decision making at all levels of economic organisation. Surprisingly the solution to one of the 20th century's most intractable economic problems, inflation, lies not in monetary or fiscal policy alone but in economic democracy.

RESOURCE MANAGEMENT

"We should not forget even for a moment that this whole animate world is a large joint family in which nature has not assigned any property to any particular individual. The individual ownership has been created by opportunists guided by selfish motives, so that the defects of this system may provide good opportunities and enable them to grow fatter in a parasitic way. When the whole property of this universe has been inherited by all creatures, how can there be any justification for the system in which someone gets a flow of huge excess, while others die for a handful of grains?" (P.R. Sarkar, Problem of the Day)

Principle of economic self-reliance:- Local resources should be developed in preference to imports.

Political independence is worth nothing without economic independence. India received independence in 1948, yet today it is still dependant on international aid for her survival. In 1991, the Soviet republics won their political independence but in many cases they have single product economies which are not viable in isolation. According to one report "the old [Communist] planning bureaucracy worked tirelessly to deny individual republics a sense of self-sufficiency, lest they were tempted to go their own way."[1].

Neither India nor the Soviet republics are able to enjoy economic independence because they are reliant upon outside super-economies for some of their essential requirements. Even a comparitively developed country such as Australia, relies almost entirely on the export of primary produce and raw materials to the neglect of its manufacturing sector (an indicator of underdevelopment). Should there be a breakdown in trade, Australia cannot manufactuie some of today's essential requirements such as computer chips and to this extent it is susceptible to 'diplomatic pressure'. Thus political independence is predicated upon economic self-reliance.

Self-reliance is not an absolute concept. It is not possible for a small community to satisfy all its needs according to today's standards and even a large community cannot satisfy all its reasonable desires. There has always been and always will be a need for trading between communities and in this sense communities are inter-dependent. Economic self-determination means that a community is able to determine the course of its economic well being, free of coercion from stronger communities.

Self reliance means developing the local economy using local resources, local savings, local labour, local initiative and local markets as opposed to importing these resources from outside. However in pursuing this goal, priority should be given to the production of essential goods and services using appropriate technology (see Principle of Appropriate technology). Self-sufficiency in luxury goods and services is not a critical policy issue.

The need to become self-reliant in production of essentials is so important that it takes priority over other principles such as economies of scale. For example a developing country may not have local oil resources. It should therefore put maximum effort into finding substitutes and alternative energy sources even though the production of these is at first more costly than importing cheap oil.

Principle:- Resources are physical, intellectual and spiritual.

It is becoming more evident in developed economies that intellectual resources are more valuable than physical. Witness the push in the USA and Europe to establish intellectual property rights. The value of intellectual property was recognized by the victors of World War Two. In the tradition of plundering the wealth of the conquered nation, the allies systematically took every available technical, trade and industrial idea they could find. Under the guise of operation code names such as Dustbin and PaperClip, they pursued "the complete exploitation of Germany for technical information."[2]. Everything from the recipe for synthetic fuels to the manufacture of teddy bears was considered important enough to take. Even scientists were kidnapped. According to J.C.Green, the then Director of OTS (Office of Technical Services), the plundering of ideas was "the only solid and permanent reparations we are going to get out of this war." Thus when economic development is defined as the building of a capital base it must be remembered that capital means intellectual capital as much as physical capital.

To develop spiritual capital means to develop open mindedness, broad heartedness and intuitional subtlety. Spiritual capital is recognized by its universal outlook. It radiates the idea of 'one for all and all for one'. It avoids narrow sentiments based on geography or social status that set people apart. Yet at the same time it recognizes individual differences otherwise individual welfare cannot be realised. In short, spiritual capital develops benevolent intellect which in turn promotes social, economic and political harmony. So it is in the interests of all people to develop spiritual capital.

Economists are not used to thinking in terms of spiritual resources or capital, but just as intellectual capital is the catalyst which builds physical capital, so spiritual capital is the catalyst which builds useful intellectual capital. The faculty of human intellect has helped us to generate much physical wealth but not to distribute it equitably. Our 20th century intellectual capital has not been able to guarantee freedom from starvation or the access to a livelihood. This can be attributed to lack of development of spiritual capital which directs intellectual capital towards human welfare.

The accumulation of wealth above and beyond the need for health and reasonable self expression is in fact the attempt to appease a psychic hunger. Where an individual accumulates extraordinary wealth regardless of rationality and the suffering caused to others, this should be understood as a mental disease, an addiction not dissimilar to bulimia or alcoholism. When analysed at the psychic level, chronic transfer of wealth from underdeveloped regions to artificially developed regions is ultimately driven by a psychic addiction. Indeed the entire global economic order is presently geared to this psychic addiction. Spiritual capital has the capacity to satisfy psychic hunger and to redirect individual psychic longings from destructive ends to constructive ends.

Spiritual capital like intellectual capital does not appear by accident. It must be cultivated through education and through all kinds of research institutes. A poor country in the initial stages of development, should concentrate on agricultural and engineering research which lead to physical self-reliance. But this should be extended as soon as possible to the more technical and abstract areas of human learning. Spiritual capital should be developed at all stages because it is the secure foundation for cooperative development.

Principle of equitable distribution of wealth:- No individual (whether person or institution) should be allowed to accumulate physical wealth without the clear permission of the collective.

> *"Inequality is the planet's main 'environmental' problem; it is also its main 'development' problem."*
>
> UN World Commission on Environment and Development[3]

As described in the previous chapter, concentration of wealth is responsible for the dual phenomena of under-development and exploitative development. Thus control over wealth is the *sine qua non* of cooperative development. It applies to physical wealth rather than intellectual or spiritual because by its very nature, physical wealth is finite and consumable. The others do not disappear in consumption, rather they multiply when passed from person to person. Physical wealth here includes its many forms, raw materials, land, space, energy, machines, buildings, manufactured goods etc.

Of course the accumulation of wealth is necessary to a certain degree. We have already noted that economic development is not possible without the accumulation of a capital base. Manufacturing is impossible unless resources are gathered from other places and 'concentrated' in a factory. But there is a limit beyond which the concentration of wealth does not benefit the economy or the welfare of people as a whole. At this point, wealth concentration becomes nothing more than a concentration of power for the benefit of those controlling the process.

A fundamental principle of warfare is the concentration of power to defeat the enemy. In the cut-throat world of competitive capitalism, economic activity assumes the mantle of economic warfare. Accumulate wealth or be taken over by someone who has accumulated more wealth than you. But this is exactly the mechanism that leads to underdevelopment. Thus those countries which wish to pursue a path of co-operative development are obliged to introduce mechanisms to prevent excessive accumulation of wealth. To be effective, these mechanisms and the levels of permissible wealth accumulation should be determined cooperatively by which ever governing body represents the collective.

It must be acknowledged that exploitative bleeding of wealth also occurs within the third world and this constitutes an additional impediment to self-reliant regional development. In 1980, the Organisation of African Unity adopted the "Lagos Plan of Action" which is designed to establish an African Economic Community by the year 2000. The plan envisages a gradual merging of existing economic groupings such as the CEAO (the West African Economic Community). But Nwokedi observes that economic relationships within the CEAO are building a "coastal-hinterland" dichotomy "in which the disadvantages of the latter group of states are bound to be aggravated not ameliorated."[4] Now that this situation has been allowed to develop it will be very difficult to obtain cooperation of the CEAO in the Lagos plan "owing to enduring suspicions within the elite of the leading West African states." Here is a case of third world development based on the same exploitative model used by the first world.

In same way, there should not be concentration of wealth in one part of a nation at the expense of another part. This is contrary to the principle of balanced development. Where such a problem exists, the affected *block* or *district* must demand that all government revenue collected locally be invested locally until such time as its average per capita income is on a par with the most developed part of the country.[5]

Principle:- Every socio-economic unit must guarantee 100% employment for local people.

Employment cannot be guaranteed in the capitalist system where production is for profit only. With long term and short term planning and an emphasis on increasing purchasing capacity through increasing production of essential goods and services, it is possible to realise full employment without the use of senseless 'work for work's sake' schemes. Indeed a country pursuing self-reliant regional development would be able to give a constitutional guarantee of full employment.

A socio-economic unit is a *samaj*. Local people are "*those who have merged their individual socio-economic interest with the socio-economic interest of the socio-economic unit they live in.*"[6] It should have nothing to do with religion, mother tongue, birthplace, race etc. However those who earn their living in a particular *samaj* but who spend it outside should not be considered local people because this practice undermines development of the *samaj*.

In the short term, 100% employment can be achieved by starting labour intensive cooperative industries that supply essential goods and services. Where production is motivated by consumption, demand is assured. However costs of production must be fully calculated to enable the cooperative to make rational profits. Otherwise the scheme will fail and unemployment will increase.

In the long term, 100% employment can be solved by starting capital intensive (that is automated) cooperative industries which increase productive capacity of the economy using fewer resources. This will allow a reduction in working hours while maintaining purchasing capacity.

It is important that planners be aware of the composition of the surplus labour force (skilled, unskilled, manual, intellectual etc) within their jurisdiction and start new industries appropriately. There should be constant endeavor to retrain and increase skills.

Seasonal rural unemployment can be solved by crop diversification. *"All socio-economic units have the potential to increase their plant and crop varieties by properly matching these with soil, topography and climatic conditions etc. in their units. Reafforestation can reclaim arid and semi-arid regions and some unique plants, like the Puranica fern which have the capacity to attract clouds, can help radically transform the rainfall and weather patterns of a region. Agro and agrico-industries based on the productive potential of different plants can also help solve rural unemployment by creating a range of new goods and services. There are many dimensions to this revolutionary plant rationalisation program.."*[7]

Given proper planning, people will not be forced to travel to other regions for work. This practice should never be encouraged because it adds the burden of maintaining two homes quite apart from psychological pain that results from splitting of families.[8]

THE INDUSTRIAL SECTOR

The term 'industrial sector' is used here in its widest sense, to mean the production of goods and services including public utilities, the banking industry, tourism and entertainment industries etc. But it excludes goods and services produced by the government sector such as education services and the police force.

Principle of production for consumption:- The foremost purpose of production is to produce the consumption requirements of humans, animals and plants.

This is a seemingly obvious principle which nevertheless needs repeating. Its non-observance is one of the critical defects of capitalism. In capitalist economies, the foremost motivation to produce is profit. "It doesn't bother us", say the big corporations, "what we produce. We are here to make money." Invoking 'the invisible hand' of Adam Smith, capitalists claim that in the process of making money, they satisfy other people's needs. But in reality, the basic necessities for many people are not produced.

Unemployment, waste of resources and environmental pollution are further consequences of 'production for profit'. Unless production is motivated by consumption requirement, it will be impossible to achieve self-reliant regional development. Production motivated by consumption can be achieved with decentralised planning and decision making and the implementation of the following industrial principles.

Principle of objective efficiency:- There should be maximum utilisation and rational distribution of resources.

Not only is it important to consider what goods and services are produced but how they are produced. In this connection there are objective and subjective considerations.

From an objective and practical point of view, production requires the coming together of the 'factors of production' - labour, space, raw materials, tools, machinery, capital etc. Since these factors or resources are usually limited and costly, the production process must satisfy some criteria of efficiency and minimum waste. We consider three important principles of objective efficiency.

Principle of balanced resource inputs:- For any given production technology, there is an optimum mix of resource inputs that achieves their maximal and rational utilisation. This principle includes as one sub-principle, the well known law of diminishing returns. The principle has many ramifications in the organisation of production, apart from profit maximisation. For example it condemns Mao's development policy of making all students 'work in the fields' as an irrational utilisation of human resource.

Principle of industry location:- Major industries should be placed near their source of raw materials to avoid unnecessary transport and storage problems. *"Huge oil refineries, like those in Mathura and Barauni (India), as well as steel plants in other parts of the country, have been constructed where there are no raw materials within 1000 miles, or where there is no supply of cheap power. Such a policy is not only a great waste and misuse of resources and power, it also illustrates the lack of foresight and ignorance of India's planners."*[9]

Caetanya[10] refers to a similar example which he cites as "extremely common in Africa" - an oil refinery was constructed in the north of Nigeria (the then head of State's home territory) while all the oil is found in the south. Oil goes to the north to be refined and then comes back to the south to be consumed!

The principle of appropriate technology:-This principle demands that for any given level of output, the technology used should maximize efficiency and minimise waste of resources. Note that whereas in the previous principle, technology is fixed and output varies, in this principle output is fixed and technology may vary. It is a more general restatement of the principle of economies of scale but whereas capitalists use it to justify the centralisation of production into huge factories thus maximising their profit, it is applied here in a more general way. Certainly a developing economy should modernise to increase output but modernisation should consider all aspects of the local situation, not just profit. Sarkar calls it "appropriate modernisation"[11]. The story of third world development is replete with examples of technologically advanced projects capable of large output, which do not realise maximum efficiency due to insufficient local demand, education and infrastructure support.

In capitalist economies, increased profits are taken as the only measure of increased efficiency. But profits are a reliable indicator of efficiency only when all costs, including hidden social and environmental costs are taken into consideration. Modernisation cannot be supported where it leads to unemployment. But in a cooperative system, modernisation gives scope for decreasing work hours without decreasing income, because profits are distributed to workers.[12]

Principle of subjective efficiency:- There should be maximum utilisation of individual and collective potentialities.

The struggle for objective efficiency is only half the story. From a subjective point of view, work must not only be socially useful but personally meaningful. All human beings have the desire to improve themselves, to become more capable physically, mentally and spiritually. This desire for self-improvement and to express one's potential is an extremely powerful force that can and must be utilised in the work place. Not only does it give a feeling of satisfaction to the individual but it also benefits the collective. Thus work should satisfy the creative urges of those involved and allow their potential to unfold remembering that human potentialities are physical, mental and spiritual.

Apart from individuals, the collectivity also has hidden creative potential. It is frequently observed in time of war, that people 'feel' more collective identity and their productive output increases many fold. This is the power of collective sentiment which can also be tapped for constructive purposes. National drives to eliminate poverty, disease and to help victims of natural disasters are positive examples.

The greatest challenge for a developing economy is to synthesize the subjective and objective constraints to production. Pollution and waste of resources cannot be condoned in the name of creative work, nor can tedious or dangerous labour be condoned in the name of efficiency. The solution to this problem will not be found in the systems analysis approach of a computer. It will in the final analysis require the warm touch of a human heart. But there is no final solution. Continual changes in technology and human sensitivity will always demand reassessment of the means of production.

In the context of maximum utilisation of individual and collective potential, special attention must be paid to the position of disadvantaged groups and minorities. The most significant disadvantaged group, probably in every country of the world, is women. Prout's objective is for "coordinated cooperation" between the sexes not "subordinated cooperation". To this end women everywhere must be guaranteed economic independence (that is, the same independent status as men) and non-discriminative access to education.

Principle of personal responsibility for the collective:- Every worker should by means of collective participation in management, have a sense of personal responsibility for the final product and for the quality of the work place.

Except in the case of some arts and crafts, production of goods and services requires the cooperation of many people. All workers, no matter what their role, should have a sense of responsibility for the final product. Otherwise product quality and work satisfaction will decline. In capitalist economies, the only reason to work is to make enough money to live, while in communist economies work has little more significance than to fulfill someone else's plan.

The best way to achieve collective responsibility is for workers to have maximum feasible control over their work place and conditions. A cooperative economy attempts to break down the artificial divide between labour and management, between worker and entrepreneur. All workers create and all creators work, but not of course in the same way. The challenge is to organise production so that it becomes a creative expression for all while at the same time preserving managerial and material efficiency.

In addition to participation in management, all workers should participate in a share of profits. These two policies alone will dramatically increase output, profitability and work satisfaction. "Let the laborers feel", says Sarkar, "that the more the factory earns a profit by increased out turn, the more will be their share of profits."[13]

Principle of a three tier business sector:- The production of goods and services should be organised within three tiers; the key industry sector, the large scale sector, the small scale sector.

The division of production into three sub-sectors is one of the most 'visible' characteristics of a Prout economy. The division is based on considerations of planning, objective and subjective efficiency and social welfare.

Key industry:- 'Key' industries are those which supply essential raw materials for the economy. They are vital for the community either because they stand at the beginning of chains of productive activity or because they coordinate this activity. Examples at the present time are mining, crude oil production, heavy transport and satellite communications.

Note there is a difference between a 'key' commodity and an 'essential' commodity. Bread might be an essential commodity but it is not a key commodity. Fertilizer is a key commodity because it is a raw material input required to grow the wheat, to make the flour, to make the bread.

According to Prout, such industries should be organised as public utilities. They are independent statutory authorities, managed by a board of directors which has the status of a 'local body'. Members of the board might be elected by the public whom the utility serves, be elected by its workers, be appointed by government or some combination of each of these. Key industry should be planned and budgeted within the context of the budget for the entire economic unit.

Key industry is usually large scale, capital intensive and difficult to decentralise. Nevertheless efforts should be made to decentralise key industry as far as is consistent with economies of scale. Scientific research can be devoted to the problem of increasing the efficiency of decentralised technology. For example, Denmark uses more than 2000 windmills to generate electric power, most of which are owned by local windmill cooperatives.[14] The situation might arise where a key industry could be managed efficiently on a small scale. Such industry can be managed by individuals but must be regulated by a state authority. Private enterprise should never be given scope to control key goods and services. It is no accident that the greatest fortunes in the capitalist world are made in the production of key goods and services such as oil, steel and communications.

Cooperative sector:- Any industry which requires a large workforce and/or a large concentration of capital in order to produce efficiently but which is not a key industry should be managed cooperatively. Examples might be the automobile industry, agriculture, advanced electronics. Since the products of these industries are not 'key' commodities, they do not need to come within the scope of centralised planning. Nevertheless, the production of essential commodities should be monitored in order to circumvent possible shortages.

The cooperative system of management effectively combines efficiency, incentives and worker satisfaction. However for cooperatives to be successful, certain conditions must be satisfied. 1) They require a supportive economic environment. In particular they should be free from the threat of take over by multinational corporations, for which reason cooperatives do not perform well in a capitalist environment. 2) They require a supportive social and political environment. In other words, the value of cooperative management should be appreciated by the public at large. 3) They need the assurance of long term demand for their product. In part, this is achieved by appealing to the sentiment of the local community to purchase locally made goods. Thus cooperatives have to advertise and do their market research as does any company. 4) Cooperatives need to be managed efficiently and honestly. Because management is elected there is scope to remove inefficient managers more quickly than in privately managed companies.

An important feature of cooperatives is that all employees have a financial stake in their cooperative. Non-employee shareholders receive a dividend but have no say in management. An upper limit must also be placed on the number of shares owned by any one person or interest group.

Private Sector:- Small scale industries are best managed by private enterprise. It is in the small scale sector that those with individual entrepreneurial drive can both express their talent and contribute usefully to society. Ideally there should be many small businesses to foster competition, keep prices down and maintain quality.

The boundary between large and small scale industry is not defined in terms of the product but in terms of size. Local government would be responsible for devising a formula which takes into account turnover, labour force, capital investment etc. When a successful private business grows beyond the publicly declared boundary, it would either adopt cooperative management or split into two smaller businesses. Likewise a declining cooperative should be reorganised under private management.

Principle:- The agricultural sector should be organised as a three tier industry.

Subsistence farming is an impediment to self-reliant regional development. Agriculture should be subject to the same principles of planning and efficiency as non-agricultural industry. Raw material inputs such as fertilizer, irrigation water and fuel should be managed by public utilities. Agricultural production itself and the agricultural processing industries are best organised by producer cooperatives.[15] Distribution of agricultural produce can be done by consumer cooperatives.

Because the products of the agricultural sector include numerous *essential* commodities, it is preferable that cooperative enterprises dominate this sector rather than private enterprise.[16] Economies of scale in modern agriculture do not permit efficient small scale farming except in the production of specialty items. Provision of agricultural machinery and equipment, specialist services etc can be offered by private enterprise.

To increase food supply, productivity of existing arable land should be increased before marginal lands are bought into cultivation. The cultivation of marginal land cannot be supported because it leads to land degradation, inefficient use of resources and reduced commercial viability. Development of agriculture in India has lagged because too much emphasis was placed on development of marginal land. This was due to the unwillingness of politicians to dismantle the existing inefficient and exploitative zamindar (landlord) system. With the combination of cooperative management and scientific research, the productivity of existing arable land could easily be increased.

Principle:- Land is the common property of humanity. Only the responsibility for its conservation and management should belong to individuals or groups.

The system of land ownership and management in every country of the world is defective. The consequence is land speculation, underutilisation, over cropping and grazing, soil degradation etc. A solution to these problems is impossible in a system of private land ownership or in a system of centralised land planning.

Land management should start from the perspective that land is the common heritage of all. Thus it is irrational that an individual can own land in the absolute private sense to do with as they like. Rather than ownership, one should think in terms of management responsibility. This management responsibility, in the first place, resides with a public utility (or local government) that is accountable to the local community because land is a *key* input to agricultural production. The public utility *"in its turn, will carry out its obligations through the medium of producers co-operatives comprising the actual cultivators."*[17] In the case of urban land, its management would devolve upon housing cooperatives.

However, in times of economic uncertainty it is not wise to impose changes of land ownership where this would increase the climate of insecurity. Rather farmers will voluntarily organise themselves cooperatively when they see the advantages of doing so. In the first stage where a group of farmers join cooperatively, the total profits can be split 50% distributed on basis of labor input and 50% on basis of area of land donated to the cooperative.[18]

THE GOVERNMENT SECTOR

> *"...the value of life surpasses all other values... The significance of everything lies in developing humanity to the optimum point through knowledge, culture, health and affluence. It is for the unfoldment of humanity that civilisation has so much variety, the state prescribes various forms, theories multiply and the scriptures abound in ordinances and regulations. What does the state stand for, what is the use of these regulations, or what are the marvels of civilisation for, if humanity is deprived of manifesting itself, if human beings do not get any chance to build a good physique, to invigorate their intelligence with knowledge and to broaden their hearts with love and compassion? Instead of leading humanity to the goal of life, if the state stands in the way, then it cannot command loyalty because humanity is superior to the state."*
>
> *P.R.Sarkar*

Principle:- Government participation in the economy is primarily to provide social services, coordination and policy making.

Government participation in the economy is traditionally concerned with four items; 1) construction and maintenance of economic infrastructure (roads, canals, administrative buildings etc); 2) security and defence; 3) social income and welfare (education, health, pensions etc); 4) planning, budgeting and coordination of different sectors within the EU. However governments should not be directly involved in business enterprises In fact, in *"the matter of production and distribution, the less the government is involved with the public, the better its relationship with them will be. In this regard the less power the center wields the better."*[19]

Public utilities should be run by 'local bodies' as described in the previous section. Provision of education and welfare services should only indirectly come within scope of political influence. The role of government is to coordinate, to make sure things happen, to catalyse rather than to be directly involved. Thus the government sector in an economic democracy, would be smaller in economic terms than that usually found in socialist countries. On the other hand its role in coordinating and planning the economy would be greater than found in capitalist countries.

Governments should not pay unnecessarily high salaries to public servants nor employ numerous workers to reduce unemployment. This policy hampers economic development and is ultimately not in interests of government employees. Instead maximum government expenditure should be devoted to productive development projects.

"Increasing the expenses of a government department at the cost of development projects amounts to committing economic suicide. Instead if production is increased through investment in development projects, the purchasing power of the people can be increased without increasing their salaries. If purchasing power is increased both government and non-government employees will benefit. In pure economic terms, development projects are those projects which directly and indirectly increase national wealth. Projects which only increase national wealth indirectly, not directly, cannot be regarded as developmental projects unless the concerned country is in a position to meet the minimum requirements of its citizens."[20] To give an example, suppose government wishes to finance the construction of a railway. In first stage maximum money should be spent on laying track and purchasing rolling stock because these directly increase national wealth. Expenditure of money on architecturally impressive railway stations only increases national wealth indirectly and is justified only where the minimum requirements are readily available to all.

Principle:- The government should prepare two budgets, an extensive budget and an intensive budget.

An economic unit (EU) can be divided into three sectors, the business sector, the government sector and the consumer sector. It is the responsibility of government to coordinate the preparation of an 'extensive' budget which encompasses the activity of all three sectors within the EU. An extensive plan does not go into detail. It is the responsibility of the government and business sectors to prepare their own 'intensive' budgets. The extensive budget is an *'Incomes Accord'* because it budgets the primary distribution of income.

This is an important departure from usual practice in capitalist countries where no extensive budget is made. Instead the government prepares an intensive budget for its own activities which indirectly attempts to influence business and consumer activity. The business sector as a whole does not come within scope of the government budget. Nor does the business sector prepare its own intensive budget, although individual enterprises of course do. Self-reliant regional development is impossible without the preparation of an extensive budget which incorporates all sectors of the economy.

Government income is traditionally from three sources: printing of money, taxation and borrowing by selling government bonds. It is not a wise policy to allow governments direct access to the printing presses because experience shows that they invariably abuse the responsibility. Furthermore in a system of economic democracy, the government's capacity to generate income by taxation and borrowing comes within the scope of the *'Incomes Accord'* for the whole economy.

Principle of factor input taxation:- Taxes should be levied at the starting point of production.

Government should avoid reliance on income tax because it is bad psychology to first give and then take away. Furthermore income tax encourages black money economy.[21] Indeed, income tax should be abolished and tax collection should be "levied at the starting point of production".[22] Such taxes would include a resources tax, land tax and payroll tax. If wealth is inequitably distributed then there is scope for wealth and capital gains taxes but these would not be particularly useful in a Proutist system where limits are already imposed on the accumulation of wealth.

An extremely important creative opportunity for government will be the use of resource taxes to encourage the use of some resources, discourage the use of others and to fund research into alternative technologies. The tax rate on each resource should be adjusted to reflect its reserves and all social and environmental costs.

While a payroll tax must be used judiciously since it has the effect of discouraging employment, it is usefully imposed on dirty jobs where the government would like to encourage investment in robots or cleaner technology ie the car production lines. Payroll tax would also be used to pay for worker's compensation and other social costs associated with employment.

A pollution tax should be imposed on polluting technology whether it be coal fired power stations or motor cars and the proceeds used to clean up the environment. Land tax and rates can be used to fund the construction of economic infrastructure, defence and so on.

Sales taxes on essential commodities and on commodities produced by newly started cooperatives should be avoided except in special circumstances. Excise taxes can play an important role in shaping consumption patterns for the collective good. Excise tax on petrol could be used to build roads and reduce green house pollutants. Excise tax on tobacco, alcohol and other deleterious substances should be used to fund the medical care costs of their use. In all cases an attempt should be made to make the source of the tax, its method of collection and its use both rational and morally defensible in the public eye.

PRICES AND INCOMES

Principle of GMI:- Every one should be guaranteed a minimum standard of living.

A minimum standard of living is that which supplies the essentials of life, that is, food, clothing, health care, housing and education. Transport, media and communications are essential to the extent they provide access to the others. The monetary value and contents of the GMI will vary according to time, place and person but its local definition should be public knowledge. Distribution of food and clothing is best achieved by money system so catering for individual taste. Health care and education are better distributed 'in kind'. While the GMI must supply minimum necessities, it should not be a 'satisfying' income otherwise work incentive will diminish.

The guaranteed minimum income is an important development policy. It creates a sense of security and stability in a community and forms the foundation for further development. Where people sense that their essential requirements for living may not be forthcoming, a climate of bribery and self-interest is fostered. Building a capital base should not be at the expense of peoples necessities. It could be argued that the demise of the USSR today is a long term consequence of Stalin's traumatic policy to industrialise the country by starving its people. President Gorbachev admitted this in a recent address to the Communist Party; *"The party unconditionally denounces the crimes of Stalinism that resulted in death and damaged fates of millions of whole peoples."*[23]

Principle:- Incentive income should be given according to social merit.

Incentives are a critical component of development policy. Distributive justice cannot be achieved in the capitalist system, where income depends upon owning the factors of production. Nor does the Marxist slogan "From each according to their ability, to each according to need" have any merit. Human psychology is such that incentives draw out maximum initiative and effort. Thus a rational incomes policy demands first, that every one should receive their minimum requirements, and secondly, that they receive incentive/rewards according to their output, social value of work etc.

Incentive income might be earned as money or in kind and it might be personal or social. For example, the incentive income for a group of factory workers could be a better canteen and child care facilities. In order to reduce the potential for those on high money incomes gaining disproportinate power, economic democracy favours a gradual increase in the proportion of income received 'in kind' as opposed to money.[24]

Principle:- The primary distribution of money income should be linked to production (supply) not to demand.

A review of some elementary concepts will help to explain this principle. Income is distributed during the production of goods and services. For the economy as a whole we can state;

gross income = aggregate costs of production

Let us consider a simple economy with three sectors, the consumer, producer and government sectors. The producer sector is composed of three sub-sectors as described previously, the public utility sector, the cooperative sector and the private enterprise sector. We make some further simplifications which follow from principles already stated. For example, we assume all government income is from taxes levied on the inputs to production. We assume that 'distributed business profits' are included in wages and salaries as personal income and that 'retained business profits' (business income) becomes business saving to finance investment and depreciation. Thus we can restate the above equation for the whole economy as follows;

Personal income + govt income + business income = wages + taxes + business saving.

Thus in the process of production, enterprises distribute income to the workforce (consumers) in the form of wages and salaries, to government in the form of taxes and to themselves in the form of retained profits that will be used for investment. The proportions of income going to each sector during production constitutes the *primary* distribution of income and must be established by community consensus as described in the next principle. A redistribution of income is achieved by government transfer payments and consumer saving. It is important that the primary distribution of income be both rational and equitable since it is extremely difficult to achieve distributive justice where a large redistribution is required.

The primary distribution of income is determined by benchmark figures for the average wage, the tax rate and investment. Here we come to a critical feature of regional development. These benchmark figures should be decided cooperatively by all sectors *based on projected production.* Two simple scenarios will serve to illustrate the principles involved.[25]

Consider a country faced with a natural disaster (or war) which requires increased government spending to cope with emergency services and reconstruction. The government traditionally has three options; it can borrow from the business and consumer sectors by selling government bonds; it can simply print the money or demand extra central bank credit; it can raise taxes. The first option is immediately available. It will not be inflationary (cause price increases) assuming increased government spending is offset by decreased consumer and business spending. This is a reasonable assumption where limits are already placed on the hoarding of money and wealth. But for the same reason, borrowing from the private sector is a limited option. Individuals and businesses would not have sufficient accumulated wealth to lend for such purposes.

The second option, printing money, is the traditional means by which governments finance their wars and other extravaganzas. The result is necessarily inflationary because money flow is increased without a corresponding increase in the community's gross production. Indeed in a natural disaster, production is likely to fall. By printing money or obtaining bank credit, the government is able to claim a greater share of the gross product and leaves it to inflation to reduce the effective purchasing capacity of consumer and business incomes. In the communist system, governments print money directly. In the capitalist system, governments expand the money supply indirectly by running a budget deficit. In either case inflation is the certain result.

The third option, raising taxes, may or may not be inflationary depending on other adjustments. Raising taxes will increase business costs and thus their demand for money. (We are assuming personal income tax is not an option.) The banks in turn will be under pressure to extend them extra credit. In the capitalist system where government ability to influence bank lending is only indirect, increased business taxes are inflationary because the business sector will receive extra bank credit without a corresponding increase in production. However, in an economy where incomes are decided by cooperative agreement between the sectors, average price stability can be maintained because any increase in the government's share of the gross income will be offset by an agreed decrease in the income share of the business and consumer sectors. Ultimately this is a political agreement which will be discussed further in the next principle.

The two acceptable options open to the government in the above example, borrowing and raising taxes, are not equivalent. In the case of borrowing from the consumer and business sectors, the government has to meet additional interest costs which will require additional taxes. In capitalist economies, interest payments from government to the private business sector are a tremendous burden on taxpayers[26] and serve only to concentrate wealth further in the hands of the rich. Thus of the two options, tax increase by mutual agreement is much to be preferred.

In the second scenario we consider a key industry such as Telecom which wants to increase its investment (business saving) in new communications technology, a typical situation in any developing economy. Telecom has two options; it can borrow from the consumer sector by selling bonds or it can ask the central bank to increase its credit flow to match the increased expenditure. The first option is not inflationary but it is a limited option for a big project. The second option is more complicated. During the construction phase, Telecom's production will not increase, so any demand for an increased flow of credit without a corresponding decrease somewhere else will certainly be inflationary and could not be justified. But as Telecom's output increased following completion of the project, an equivalent increase in money supply would be justified. In other words, any increase in the rate of investment by the business sector will consume more of the community resources which leaves less for other sectors. This diversion of real resources must also be reflected in a diversion of credit flow from other sectors.

There are two important monetary principles illustrated in the above scenarios. First, the flow of credit or creation of money income must match the rate of production of real goods and services. Second if any sector wants to increase its share of gross income for whatever reason, then the other sectors must reduce their share if prices are to remain stable. By contrast, the business sector of capitalist economies fiercely maintains its right to make independent investment decisions, motivated only by profit. In such a system it is impossible to maintain stable prices.

Principle:- The primary income distribution ('Incomes Accord') should be decided cooperatively by a broad cross section of community interest.

The problem of price stability (particularly control over inflation) has never been solved by either capitalist or communist economies because income distribution has never been determined cooperatively. Indeed, twentieth century inflation is best understood as price increases arising from a competitive (non-cooperative) struggle between all the economic sectors to increase their share of the gross product. The outcome of the struggle is determined by the ability of each sector to demand or generate money income, which in turn depends upon its relative economic and political power. To ease the social disruption that would be caused by an uncontrolled distributional conflict, the creation of money is divorced from production. That is, the creation of money is determined the ability of each sector to demand its creation. Thus each sector enjoys the illusion of increasing income, but inflation erodes real purchasing capacity.[27]

A successful prices and incomes policy which maintains stable prices, requires both a political approach and a monetary approach. Monetary policy must ensure that the flow of money income is always equated with the costs of production which are in turn tied to a monetary standard (more on this later). But monetary policy alone will be ineffective without a complementary fiscal policy to formulate the budget. Fiscal policy must ensure that gross income is apportioned between personal income (consumer sector), social income (government sector) and investment (business sector) in a cooperative way and not by the default mechanism of competitive inflation.

It could be argued that some mixed economies are attempting this already. Since 1983, the Australian Labor government has drawn up its budget only after a process of wage negotiations with the trade unions. More recently there has been talk of business sector participation to broaden the consensus. But the "Wages Accord" as it is known in Australia, is very limited in scope. First it sets only a benchmark wage level and the personal income tax level for that year. Business profits, business investment and government surplus/deficit are not on the agenda. Secondly, the discussion is between representatives of only two powerful groups, government and the trade unions. The interests of economically weaker groups such as women, youth and the unemployed are neglected.

It is most important to make the distinction between *mixed* economy and *cooperative* economy. Mixed economy is defined by Padayachee as "an attempt at maintaining mass welfare programmes within a fundamentally capitalist framework."[28] As such it is a much favoured compromise for many developing countries who want to do something for their people without alienating the powerful capitalist nations upon whom they depend. But the mixed economy contains contradictions that make it unworkable. Jamaica is a case in point.

"The Jamaican Prime Minister, Michael Manley, got into office based on promises to improve conditions for the poor. He introduced policies to increase the living standards of the masses but he soon fell out with the private sector. As a result the economy went down. This eroded the living standards among the poor in both rural and urban areas. Manley came under increased pressure from the poor classes to speed up his reforms, and simultaneously was pressed by the private sector and the international community to abandon his reforms altogether, before international investment and loans could resume. In the end he was not able to do either, and was voted out of office. His successor

followed a free market approach and any social gains under the Manley regime were lost."[29]

The contradiction in a mixed economy is that the primary distribution of wealth is left in the hands of private enterprise who are interested only to maximize their profit. Any attempt at redistribution reduces business income which immediately sets the government in opposition to business. The contest is unequal because business sector is able to muster the forces of international capitalism. Thus mixed economy is ultimately doomed to fail. In a cooperative economy the primary distribution is cooperative. The ground rules are such that the business sector works with the government and consumer sectors in a cooperative relationship and it is accepted that production is for consumption and not for profit.

Referring back to Australia's "Wages Accord", in principle it contains the seed of a good idea and we suggest here its extension both in agenda and representation within the context of self-reliant regional development. Let us call it the ***'Incomes Accord'***. It would establish values for the following parameters;

1) the four key income parameters; personal incomes (its two components being, GMI and incentive increments); total government taxes; gross business saving; interest rates.

2) the upper limit on income and wealth accumulation. These ceilings might vary from year to year and thus come within fiscal policy.

3) the permitted investment level (business saving) for each public utility.

4) stockpile levels of key and essential commodities used as a buffer to maintain stable prices. (see later)

In the first principle of Prout (presented above as the 'principle of equitable distribution of wealth'), Sarkar states that these economic decisions should be decided by the "collective body". He leaves it open as to how the actual decision making board which represents the collective body should be constituted, since different cultures and different situations will demand different approaches. Given the critical importance of the *'Incomes Accord'* to community well being, not only should it be decided cooperatively but it should be seen to have input from a broad cross section of the community. To this end we suggest that the *'Incomes Accord'* be drafted by a 'Budget and Planning Board' which has a composition of 27 members, nine representatives from each of the consumer, business and government sectors. These nine members are in turn, apportioned between representative groups within each sector. For example the business sector might have three representatives from each of the public, cooperative and private sectors or some combination that reflects their relative importance. The nine consumer sector members might be apportioned between trade union, environmental, and minorities representatives. Government sector representation could be apportioned between ministers of departments concerned with community infrastructure, finance, defence, education, health and welfare. In this way it is to be hoped that a rational and equitable distribution of income can be achieved.

Membership of the Planning and Budget Board is a political question. Its members might be appointed by some other higher authority, elected by the public or some combination of these. The important issue is that the Board members should be recognized as representing the interests of the whole community. The inclusion of representatives for the environment and the animal and plant kingdoms, is we believe a tremendous innovation. Under the ethical system advocated by Prout, known as Neo-humanism[30], animals and plants also have legitimate claim upon the community budget.

In the end, economic prosperity and cooperation can only come when the many different sectors of an economy consider themselves all to be part of one family. In this case there will be mutual respect and a genuine desire to find solutions to economic problems where no one is disadvantaged. *"Like any other problem, economic problems have only one solution; genuine love for humanity. It is this love that will direct humanity in what should and should not be done. For this one need not study volumes of books. It will not be necessary to depend upon those who play with the fortunes of the mute populace. It is only necessary to look upon humanity with honest sympathy."*[31]

Principle:- The prices of goods and services produced by key industry should be set so as to make no profit and no loss. Free market mechanism should determine prices in the private sector and where appropriate in the cooperative sector.

The prices of goods and services produced by public utilities (key industries) should be based only on costs of production. That is, public utilities set their prices so as to make "no profit - no loss". The slogan "no profit - no loss" needs clarification. In traditional business accounting, bonuses and dividends are described as 'distributed profits' while savings retained for depreciation and investment are described as 'retained profits'. Obviously key industries in a developing economy will want to pay bonuses to their workers, pay dividends to investors who have purchased industry bonds and in addition retain savings to pay for depreciation. From the perspective of public utility accounting, these profits are treated as 'costs of production'. The slogan 'no profit - no loss' implies that the public utility does not exist for the purpose of making a surplus profit for its private shareholders. It exists to produce wealth for the community.

Public utilities are not in a competitive environment because economies of scale do not permit a large (or even small) number of key industries to compete with one another. In the capitalist system, monopolies restrict supply to increase their profits. In the three tier industrial system described here, public utilities are not exposed to real competition but they behave and make their decisions AS IF they are in a competitive environment. They are required to produce key commodities at the lowest possible price for the quantity produced and their performance will be compared with similar key industries around the world. Batra has amply demonstrated that public utilities can be as efficient as private companies (indeed more efficient) if they are appropriately monitored.[32]

The price of commodities produced by the cooperative sector and the private sector should as far as possible reflect the free market mechanism. Competition will keep prices down and encourage efficiency. However since cooperatives also produce essential agricultural commodities, the government may find it necessary to regulate the prices of these by adjusting taxes.

The price structure for the entire economy is determined by the four key parameters of the *Incomes Accord*; the wage rate, the level of taxes, the level of gross business saving and the interest rate. These four figures must be arrived at in the context of an overall plan for the economic Unit.

Principle:- Stability of commodity prices depends upon planning, maximum utilisation and stockpiles.

In abstract terms, the stability of any fluctuating entity is achieved by subjecting it to three counter-balanced forces. Sarkar describes this as the principle of Prama Trikona (balance through triangulation).[33] It is a universal principle with applicability in all fields of human endeavor. He applies it to the problem of price stability by considering supply and demand as two forces acting on price. The net effect of these two can be stabilised by adding a third variable force, a stockpile. Where demand exceeds supply tending to push the price up, then stockpile can be reduced. Where supply exceeds demand, then stockpile can be increased. Obviously use of a stockpile can only stabilise price in the short term. In the long term, planners must endeavor to anticipate demand and restructure supply accordingly. This in turn depends upon the efficiency of production.

Thus price stability and economic homeostasis depend upon planning, maximum efficiency and stockpiles.[34] But such stockpiles should only be made for the collective welfare as a part of economic policy. Otherwise there will be scope for speculators to inflate prices by restricting supply.

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Chapter Three

Trade, Money and Banking for Regional Self-reliance.

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CONTENTS

"It is patent that in our days not alone is wealth accumulated, but immense power and despotic economic domination is concentrated in the hands of a few ..... This power becomes particularly irresistible when exercised by those who, because they hold and control money, are able also to govern credit and determine its allotment, for that reason supplying so to speak, the lifeblood to the entire economic body, and grasping, as it were, in their hands the very soul of production, so that no one dare breath against their will."

Pope Pius XI Encyclical "Quadragesimo Anno".

The powerful language used by Pope Pius XI, conveys something of the magnitude of the crime that is modern international finance. A lot of confusion surrounds money and its management primarily because such confusion suits the international banking and business community. Greed always thrives best in an atmosphere of confusion.

For much if its history, banking practice has confused even the economists and bankers! It was not until the mid 19th century that economists became aware that bank lending resulted in the creation of money[1] and most bankers did not admit the fact until well into the 20th century. Giving evidence to the New Zealand Royal Commission on Finance in 1955, the Chairman of the Associated Banks of New Zealand said; *"They [the banks] have been doing it for a long time [ie creating money], but they didn't quite realise it and they did not admit it. Very few did. .... The system has not changed very* *much; it is the system that stands today, not very much different from what it was 40, 50 years ago, but there has been a development of thought."*[2]

The gradual public realisation that the privately owned banking system creates a community's money supply at little cost to itself and reaps handsome rewards in the process, resulted in the birth of numerous monetary reform movements. Given the vigour with which the banking system has defended its privileged position, it has not been easy to distinguish the sensible reform proposals from the crackpot. Similarly the present international trading system is inherently inequitable and requires thorough reform if underdeveloped countries are to escape their plight. In this chapter we consider a variety of proposals to reform money and trade management, which are compatible with self-reliant regional development.

TRADE FOR REGIONAL DEVELOPMENT

Principle of Intra and Inter Community Trade:- Multilateral trading within communities, bilateral trading between communities.

There are two kinds of economic exchange between individuals, corporate bodies or nations, barter and the money transaction. In barter, there is direct exchange of physical goods or services. There is no need for money since both parties agree that the goods being exchanged are of the same value. It does not matter if the goods are not exchanged at the same time. The essence of the barter agreement is that goods received will at some agreed time be exchanged for other goods of the same value. By comparison, in the money transaction, goods received are exchanged for money. The cash recipient is then free to do whatever. The two traders may never see each other again. There is no agreement to have a later reciprocal transaction.

Both forms of trading have advantages and disadvantages. Barter can go ahead without money and there is no chance of being caught with money one can't use. On the other hand barter is cumbersome in a fast moving and complex economy. Money transactions are convenient and flexible but in large, complex economies it is quite possible for one community to end up with an excess of physical wealth and another to end up with an excess of money. These imbalances can destabilise and stagnate the communities concerned.

The barter system at the international level is referred to as *bilateral trading*, whereas money transactions give scope for what is called *multilateral trading*. Multilateral trading means trading between three or more countries using money as the medium of exchange. The difference between the two systems has proved to be most important. The weaknesses of multilateral trading were (and still are) exploited by the first world to bleed wealth form the third world.

Just after World War II the capitalist bloc countries signed two trading pacts, the Bretton Woods Agreement and the General Agreement on Tariffs and Trade (GATT). According to the Bretton Woods Agreement, the U.S. dollar would be used as the standard currency for all trading between capitalist countries. And according to the GATT agreement, multilateral trading was to be the dominant system of trade.

The combined effect of these two agreements was to force poorer and weaker countries to accumulate US dollars so they could have a reserve of money to enable them to engage in international trade. The only way to do this was to export more goods to the U.S. than were imported. By this arrangement, the U.S.A. was able to accumulate much physical wealth for as long as the exporting countries were prepared to hold onto U.S. dollars. This would not have occurred with bilateral trading.

Today the whole system is threatened with collapse because the U.S. flooded the international markets with a huge excess of dollars primarily to finance the Vietnam war, oil imports and Reagan's Star Wars program. The excess of US dollars means they are no longer so valuable to hold onto. The only thing which keeps the system going is the fear of those holding dollars that they will be worth nothing if the system collapses! So today we find the central banks of western Europe and Japan buying US dollars for no other reason than to keep their price up.

Despite this abuse at the international level, multilateral trading has an essential role to play both within nations and between nations. The problem to be solved is what mix of bilateral and multilateral trading should be used so that the advantages of each can be maximised and their disadvantages minimised?

Experience suggests the following. Multilateral trading (via money transactions) should be used within a community because of its convenience. Potential instabilities can be corrected due to the cultural and political coherence of the community. (Here the term community means any socio-economic community whether at the level of a *block, district, state* or *federal* trading bloc -see principle of organic communities) On the other hand barter or bilateral trading should be used between communities because this system prevents one community gaining at the expense of another. Multilateral trading requires much cohesiveness between the numerous trading entities if it is to be of mutual benefit to all concerned. As a corollary, **the further two communities are apart, whether in distance, culture or politics, the more bilateral trading is the preferred system.** This principle can be used to formulate trade agreements for South-South cooperation and more generally in the reform of international trade.

Bilateral trade is especially beneficial for underdeveloped countries because it helps to isolate them from the economic cycles (of inflation and depression) which originate in exploitatively developed countries (with excessive wealth concentration). Global inflation and depression spread through multi-lateral trading networks rather like a contagious disease. Bangladesh exports raw jute, animal hides and some manufactured goods. It imports foodstuffs and almost everything else. In the event of a global depression, multilateral trading grinds to a halt and Bangladesh would suffer greatly. By arranging bilateral trading agreements, Bangladesh could lessen the impact of a global depression.[3]

As indicated previously, there should be minimal trade of raw materials and only where absolutely necessary. Local industries should be established to utilise local resources. This benefits local industry, increases economic security and prevents drainage of capital. Manufactured goods are less subject to price manipulation and command better prices than raw materials. *"Local raw material prices in the export market are subject to manipulation and erratic fluctuations as they are currently traded through speculative commodity markets which are controlled by vested interests."*[4]

Principle:- Free trade offers the best possibility for regional development.

Here it must be noted that free trade is defined as the absence of government imposed import and export duties and the absence of private speculators controlling international markets. It does not mean unregulated trade. The difference is extremely important. Free trade offers many economic advantages for underdeveloped nations principally because it enables them to dispose of local surplus profitably. Import and export duties, tariffs and trade restrictions reduce the mutual benefits to be gained by trade. Despite their rhetoric, wealthy western nations practice free trade only when it suits their purpose. "*Neither the capitalist or the communist countries like the free trade system because it is detrimental* *to their respective self-interests. But there are free trade zones in the world which are very bright examples of the success of this sort of system.*"[5]

However in formulating a trade policy, each economic unit should make a distinction between raw materials and manufactured commodities and between essential commodities and luxuries. The export of unprocessed raw materials is an indicator of economic ill health. Rather such commodities should be converted into manufactured goods at place of origin of the raw materials. Manufactured commodities invariable command better prices than raw materials. In the case of perishable agricultural commodities excess production depresses world prices which benefits only the first world. But canned and processed foods allow possibility of higher prices. Research into product diversification is another means to dispose of a surplus.[6]

Similarly the import of essential requirements is a sign of economic ill-health. While the free trade of demi-essential and non-essential commodities is to be encouraged, the trade of essential commodities should be regulated on a global basis to ensure that every citizen in the world has their minimum essentials of life.

THE MONETARY SYSTEM

Principle of social credit:- Money is a social tool belonging to a community to catalyse its economic activity.

The most important principle of monetary management is that money is a social tool whose only purpose is to facilitate the economic activity of a community. In capitalist economies, money is a privately owned commodity managed like any other commodity to make a profit. Here is another fundamental flaw in the capitalist system. Since no limit is placed on hoarding, there is excess of money in some places leading to frenzied speculative activity which is unproductive in real terms. At the same time, concentration of money in one place leads to scarcity in another with consequent decline in economic activity and gross underutilisation of resources. In the communist system, distribution of money is entirely in the hands of government planners. Experience shows that such centralisation of monetary power is inefficient and lends itself to abuse.

Stable prices (meaning the absence of inflation or recession) can only be achieved if the *primary* allocation of money is decided in a cooperative way as described in the previous chapter. In such a system, neither the banking sector nor the business or government sectors, gets the opportunity to manipulate money as a means to gain control over real wealth. The central or reserve bank becomes a public utility with the constitutional responsibility to maintain stable prices by carefully monitoring the creation and destruction of money supply. It is also required to distribute money as per requirements of the *'Incomes Accord'*. It is the bank used by government, key industries and the cooperative banks or credit unions.

Principle:- The system used to distribute wealth should be appropriate to the commodity and the prevailing economic conditions.

If this principle sounds vague, it is to convey the idea that there are several ways to distribute wealth apart from the medium of money and that no dogma should be allowed to prevail on this issue. Communist dogma about money, arising as a reaction to capitalist dogma, did nothing to help clarify the proper use of money.

Early Marxists believed money to be an 'evil' that would not be necessary in a utopian society. Rosa Luxemburg went so far as to claim that "The realisation of socialism will be the end of Economics as a science."! Her prediction, which in hindsight seems remarkably naive, was doubtless inspired by a belief that the dismantling of capitalism would allow the full flowering of the utopian human being. In the absence of distributive injustice, greed would diminish, society would become classless, economic rationality would prevail and distribution of wealth would be decided by central planners obviating the need for money or a science of money.

Dogma aside, there are several ways to organise the distribution of resources. Direct allocation, ration cards and of course money spring immediately to mind. Extremely important resources such as land or rare commodities such as kidney dialysis units might best be distributed by allocation decisions of planners rather than the money signals of a free market. The advent of rapid communications and powerful computer based economic simulations has enhanced the ability of economic administrators to make some kinds of allocation decision both equitably and rationally.

Likewise in times of emergency shortage, allocation of staple foods might be best done by rationing. But for 'normal' commodities in 'normal' times, money will be with us for a long time to come because it fulfills three extremely important functions; it decentralises decision making about the exchange of goods and services; it is a measure of value or unit of account; and it is a convenient store of wealth.

A brief summary of the two kinds of money, commodity money and credit money, is in order. The value of commodity money lies in its physical substance. For example shells, flintstone and gold have all been used as money. In each case the physical substance has some desirability and therefore value. For the most part commodities are subject to decay or wear and tear, so in practice only rare metals, such as gold, silver or platinum are used as commodity money. Today bullion metals are used only in international trade.

Credit money is simply a promise to pay written on paper. There are many kinds of credit money, but the two most important are currency notes and cheque book money ie deposits in bank accounts that can be transferred at will. It is found in most countries that businesses and people like to hold about one tenth or less of the total money supply as currency and the remainder as bank deposits.

The three uses of money (facilitate exchange, standard of value and store of wealth) are discussed in the following principles.

Principle of appropriate money:- Different money systems suit different purposes.

Just as there are different distributive options apart from money, so too there are different money options apart from traditional bank money. The following is a description of three rational and equitable money systems that either individually or in some kind of combination, would encourage rather than hinder self-reliant regional development.

1) LETSystem;

The Local Enterprise Trading System (also known as Local Energy Transfer System or in New Zealand as Greendollars) was developed in Canada by Michael Linton. Since 1986 it has spread to many parts of the world. Australia in 1990 had over 40 LETSystems.

In simplest terms, LETSystem is an accounting system which keeps a record of all transactions between participating members. Membership is confined to members of a clearly defined local community and the purpose of the scheme is to facilitate trade in a community which has productive resources but is depressed merely for lack of traditional bank money.

Each system coins a name for its own unit of money. Most LETSystems assume a one to one exchange rate with national currency, but in practice the exchange rate is flexible. At the present time this is not an important issue because all LETSystems are small compared to the national economy.

Every member of a LETSystem has an account number and can trade with any other member in LETS money. All members start with a zero balance. For any transaction between two members, the account balance of the buyer will decrease and that of the seller will increase by exactly the same amount. A little thought will make it clear that since all members start with a zero balance, then at any time some members will have negative balances and others will have positive balances. The sum total of all positive and negative balances will always be zero. It is important to understand that LETSystem is NOT a barter system. Barter is one to one exchange of goods and services. LETS is a multilateral trading system that operates without currency.

LETSystems have advantages and disadvantages. They are easy to understand, easy to establish and easy to operate without becoming involved in government regulation. This makes them ideal for isolated villages or towns with little access to 'banking expertise'. Since they are community based, they offer a degree of independence from outside financial institutions which care nothing for the welfare of small communities. LETSystems also keep a record of all transactions, so it is easy to monitor what is happening in the economy.

LETSystem has what many consider to be a psychological weakness, in that individual consumption is not linked to income. Any member can 'create' money when they write a 'cheque' whether they already have a positive or a negative balance. People new to the system sometimes worry that an unscrupulous member could abscond with a negative balance. In practice this has not proved to be a big problem and besides, any such loss is spread over the community and not borne by an individual. Certainly LETSystems work best where there is a strong sense of community.

Compared to orthodox currency, LETSystems do have some disadvantages. All transactions have to be mediated by a 'cheque' which is not transferable. This is inconvenient where money has to change hands rapidly, as in a village market. Furthermore one can only trade with another member of the system. Committing an economy entirely to LETSystem is a commitment to a cashless economy which is just not possible in an underdeveloped economy. Currency is an extremely rapid and convenient way of trading numerous small items without the necessity to keep voluminous transaction records. LETS is cumbersome in this regard. It is true that 'Point of Sale Cash Card' technology may eventually make currency obsolete but this is a long way off yet. Finally, the tremendous flexibility and freedom of trade that LETSystem offers has a negative side, because it does not offer the possibility of managing an economy by regulating flows of credit as in the central currency system.

Nevertheless LETSystems are enjoying growing success around the world because they fill a vacuum left by capitalism which is increasingly unable to distribute purchasing capacity to rural towns and poor suburbs. While LETSystem does not appear to offer a satisfactory alternative to national currency, it does appear to have two advantageous roles in a developing economy, one at the grass roots level and the other in inter-regional trade. Each *block* could have its cooperatively managed LETSystem to promote private enterprise activity. In this way the freedom and flexibility of LETSystem is utilised to flush out initiative and entrepreneurial spirit which national currency and block level planning might fail to do. On the larger scale, LETSystem could be used the trading mechanism between *samajs* (socio-economic regions) within a federation. Here currency is not an advantage but monitoring certainly is. Each trading bloc can define its own 'unit of exchange' independent of other global currencies.

2) Producer Currencies;

In this system, producers of important commodities such as agricultural crops, energy and minerals, are given the responsibility to print their own currency denominated in the goods they produce. Let us suppose a coal producer, 'United Coal Company', has 100 tonnes of coal for sale. It would be empowered by local government to print 100,000 paper notes which bear the inscription, *"United Coal Company promises to pay the bearer one kilogram of coal."* The company would use them to pay wages, taxes and other costs. The notes would circulate as money (a promise by the company to pay over a quantity of coal) and would be withdrawn from circulation when presented by a person purchasing coal from the company. A nice feature of this system is that exactly sufficient purchasing power can be distributed to purchase all the coal produced. The central bank would determine which industries should have the responsibility to issue currency.

Although producer currencies sound unusual, they have often been used in times of scarcity of 'orthodox' money. For example when coin money was in short supply amongst early colonists of Virginia, USA, tobacco receipts were issued by the warehouse to the grower in lieu of money. These were then used by growers to pay their debts and circulated as money. The receipts were simply made transferable to another person.[7]

During the last depression, many town councils in Austria paid their employees to work on road repairs and other government works using 'stamp currency' which they issued themselves. These notes were legal tender and were redeemed when paying taxes or using government services. More will be said of this later. During a banking strike in the 1960's, a Dublin brewery paid its workers in notes bearing the inscription *"Promise to pay bearer 12 bottles of beer"* and could easily be redeemed at a hotel either for cash or beer.

Like LETS, producer currency is a self-help measure to maintain economic activity where for one reason or another, orthodox money fails to do the job. Like LETS, producer currency systems could operate as a purely electronic book keeping systems making use of 'bank' cards and point of sale electronic devices. However producer currency requires great care. There is the danger of counterfeiting and the system devolves considerable social responsibility and power to business.

Apart from the possibility of counterfeiting, the biggest drawback of the system as described is interconvertibility. With a lot of different producer currencies circulating in the community, how is one to decide the exchange rate between coal notes and wheat notes for example. A universal standard is required.

3) Central bank system;

A central bank solves the problem of interconvertibility by issuing only one currency which acts as the universal standard. The system described here however differs in many important respects from the modern capitalist banking system.

Instead of issuing its own currency, each producer approaches the central bank (or a credit union which is part of the banking system administered by a central bank) for 'credit' equal in amount to the 'value added' portion of the goods or services they have produced. The producer might claim some portion of credit even before production is complete. Credit in the form of paper currency or bank deposits would be given in exchange for a piece of paper that gives the bank a claim on a portion of the company's production. It does not want to take this product of course. It is merely a security.

This point needs to be emphasised because it may appear as if the banking system is acquiring something for nothing. The claims on production are the equivalent of reserves and would be held by individual credit unions on behalf of the central or reserve bank. The central bank in turn, is a public utility, owned by and acting in trust for the community.

Having obtained credit, the producer would pay wages, taxes etc. The money circulates as an intermediary in the exchange of other commodities until it again arrives in the hands of the producers selling their products in the market. The credit is thus repaid to the bank which cancels its claims. Many producers are 'borrowing' and 'repaying' money at the same time.

In this system, as in 'producer currency', the creation of money is tightly linked to the creation of wealth. The credit advanced to a producer is not really a loan, rather it is the transmission of a signal to the rest of the economy that Producer X has produced a certain amount of wealth which is up for sale. The banking system's function is merely to provide a guarantee as to the truthfulness of Producer X's claim and to provide a paper currency which is difficult to counterfeit. As with producer currency, the final redemption of money constitutes a cancellation of credit. This is what is meant by the rolling of money; its creation, its circulation and its cancellation. The cancellation of money is as important as its creation. The value of the money issued is guaranteed by the claims on goods and services held by the banking system as its 'reserves'. However a money standard is required to maintain stable value over time.

Principle:- Money must have a stable standard of value.

The use of money as a measure of value or unit of account raises the question of the standard used. For example when length is measured, the units used are meters and a standard meter is kept in Paris for ready reference. Temperature is measured in units of Celsius degrees and the standard is defined by having 100 degrees difference between the boiling point and freezing point of pure water. In case of money the units are dollars, pounds or whatever, but of much greater significance is the standard.

The traditional standard for money has been the gold standard, that is one dollar has the value of a certain weight of gold. In the 20th century however, most countries have disengaged themselves from the gold standard and adopted a fiat or arbitrary standard, that is a dollar note has whatever value that arises from the monetary policy followed by the government of the day.

The volume of money in circulation is obviously important, the ideal amount being that which maintains stable prices. So, as long as stable prices are maintained, what is the need for a standard? Unfortunately experience has shown that whenever governments disengage money from a standard (which they frequently do in times of war) they allow excessive quantities to be printed so causing inflation. This enables them to accumulate a greater share of the national product without apparently reducing the money incomes of the population. The 20th century has been characterised by unusually severe inflation. This can be attributed directly to the lack of a money standard following the abandonment of gold.

So what should be the standard? Should developing countries return to the gold standard? Experience shows that gold has its own considerable problems because the quantity available to act as a standard is itself variable. This variability, which may be due to fluctuations in discovery, hoarding or dishoarding, has had grave consequences in the past. Records of wheat prices in England going back some 700 years, offer a fascinating history of inflation. The long term trend shows two periods of relative price stability (actually periods of slow price decline) and two periods of extremely rapid inflation in the 16th and 20th centuries. We have already attributed twentieth century inflation to the absence of a standard which thus enables governments to increase the volume of money in response to the competitive demand for money. However an even more severe bout of inflation in the 16th century was due to massive imports of gold into Europe (and particularly Spain) from South America. By contrast in the 14th and 15th centuries and again in the 17th, 18th and 19th centuries, there was a gradual decline in prices simply because not enough gold was being discovered to accommodate the fast growing European economy. If in the past, gold has not been responsive to the needs of our economy, why should it be any different in the future?

A government could simply change the value of gold if it wanted to increase or decrease the money supply but in so doing, gold is no longer a standard. Bernard Lietaer suggests that rather than having any one commodity as the money standard, it is better to have a 'basket of commodities'.[8] He suggests a basket of six to twelve commodities in fixed proportion; for example one hundred dollars could be defined as having the combined value of one gram of gold, five grams of silver, one barrel of oil, three cubic meters of natural gas, five kg of copper and five kg of lead. These commodities are all raw materials produced by key industries. While the price of any one may fluctuate, the combined fluctuations of all of them will be much reduced. The advantage of such a standard is that when production of key commodities increases, leading to an increase in economic activity within the economy at large, the volume of money can increase as well without needing to change the standard. Furthermore stockpiles of these metals are usually kept to even out supply and this would also increase stability of the standard.

The 'basket of commodities' approach to establishing a money standard for developing countries appears to be the best solution at the present time. Where a group of underdeveloped countries want to establish a trade bloc then it is only necessary that they establish a money standard to suit their own needs. They do not have to be dependant upon a global money standard that has been fixed by wealthy countries for their own interests. It is quite possible for different trading blocs to have different money standards and for a country to belong to more than one trading bloc.

It should never be forgotten that whatever the physical standard, the real value of money is its purchasing capacity, that is, its capacity to obtain the necessities for an acceptable standard of living. This in turn is not only a function of the money standard used but also of the speed of money's circulation.

Principle of money circulation:- Money should be kept rolling but flows into or out of an Economic Unit must be regulated.

At the present stage in the evolution of our global economy, a central bank issuing its distinctive currency should be established within every *samaj* (socio-economic region). The *samaj* becomes the unit of monetary organisation. In future times the federation will become the unit of monetary organisation. And still later, the entire globe may use a common currency. But at the present time, the interests of minority communities are best served with *samaj* level currencies.

In the capitalist world today monetary boundaries between nations have effectively disappeared. Thus global banks are able to siphon money not just from rural communities to big cities but from third world countries to first world countries. It is often overlooked that economic independence also means control over money, both its supply and its distribution. To be economically independent, a community cannot surrender itself to the vagaries of the outside world. We can return to the analogy of a living cell, surrounded by a 'selectively permeable membrane' which allows passage of some substances but not others. This is how the cell preserves its integrity in a fluctuating environment. A community which mimics an open market and allows anyone at anytime to enter or leave with as much money as they like, is going to suffer the same fate as a cell without a membrane or an animal without a skin.

The *samaj* system, that is the system of self-reliant socio-economic regions (see Principle of pyramidical planning in previous chapter), with monetary boundaries is not in itself a magic panacea. The effectiveness of the central bank system also depends upon unimpeded internal circulation of money. Any tendency to hoard money will generate bottlenecks in the flow of goods and services, so causing economic stagnation. For this reason, limits must be placed on the hoarding of money and the shorter the time period on credits to producers the better. The elimination of private enterprise control of the banking system is another *sine qua non* of cooperative economics.

Principle:- Stamp currency retains value by circulating faster.

During the 1930's depression, a number of towns in Austria experimented with stamp currencies. The relevance of stamp currencies to a developing economy will become apparent after a simple explanation of a famous example. In the depths of the depression, the Austrian town of Worgl had high unemployment, roads which needed repair, and an empty treasury because people couldn't pay their taxes. The local burgomaster, in 1932 realising that the only problem was a lack of money, decided to pay council workers in numbered 'labour certificates' and declared them legal tender in the local community. Each certificate was backed by Austrian currency kept as a reserve in the local bank. Almost immediately the town's economy responded and within two years Worgl was the most prosperous town in Austria. So successful was the scheme that over 300 other towns began to institute their own currencies at which point the Austrian National Bank, seeing its monopoly endangered, forced the Tyrol Labour Party to outlaw all such currencies![9]

The scheme as described above is not remarkable. It is similar to a central bank printing and issuing currency but on a smaller scale. The special feature of the scheme was that holders of notes were charged a weekly or monthly fee for having them. A currency note was valid tender only if stamped with a date no more than a month old. Stamps could be affixed to the note (hence the term stamp currency) for a fee of 1% of its face value. After one year (and twelve stamps) the notes were withdrawn from circulation.

The stamp fee is in fact a interest rate charged to holders of money and hence the scheme is also known as 'negative interest money'. The interest charge is a disincentive to hold money. It discourages hoarding (a contributory factor to economic stagnancy) and thus encourages spending. Experience has shown that stamp currency notes circulate at very high velocity, the result being a rapid increase in the community's productive activity and economic prosperity. For more on stamp currencies and the extraordinary successes they claim, the reader is referred to Bernard Lietaer's proposals for reform of the Soviet Union's troubled financial system.[10]

Today, most money is held in the form of bank deposits and only some 10% as currency. But the stamp currency idea is easily extended to bank deposits by charging interest on deposits! We are used to the idea of banks charging an interest rate for credit but what is the justification for charging interest on positive balances? Surely one is supposed to receive interest on deposits.

Up until deregulation in the late 70's and 80's, chequing accounts did not receive interest and indeed were charged significant fees. A clear distinction was made between operating accounts, term deposits and savings accounts. Today the distinction between these has been blurred. It seems important however that some distinction should be retained between operating accounts which consist of money used in day to day activity and accounts which consist of money set aside for genuine long term saving. The rationale for charging interest on operating accounts is that money is not personal property but rather a community resource which must be used efficiently like any other resource. This efficiency must be demanded of individuals as much as of business. An interest charge on money discourages hoarding and encourages either spending or saving.

According to the proposal of Otani,[11] a clear distinction must be made between operating accounts and savings accounts. Every person would have two bank accounts, one operating account (also known as current, checking or access accounts) and one savings account. Money in operating accounts would be treated like cash and attract an interest charge of around 5% per year. Savings accounts where money is being held for longer term would neither lose nor gain interest. But they would retain their value relative to operational accounts. It is important to appreciate that each dollar held in an operational account retains its purchasing capacity. The value of money is preserved in this system. But there is a cost attached to holding onto it.

Banks should be allowed to lend only the deposits in savings accounts. Varying savings packages and interest rates can be offered to suite different needs.

The social benefit of charging interest on currency and operating accounts is the impetus it gives to the circulation or rolling of money, which is of tremendous economic significance.[12] In the case of operating accounts, the account could be debited automatically, while currency would have to be stamped in automatic tellers and the person's account debited accordingly. It is important to charge an interest rate on the balance rather then flat fees or fees for use. The last, for example, would discourage trading. .

BANKING AND INTEREST

Principle:- The Banking industry should be structured like any other, in three tiers.

The central bank should be managed like a key industry. Its board of directors would be a 'local body government' elected either by universal suffrage or by the members of an appropriately constituted electoral college. Since the bank is not dependant on political appointments from the legislature, and since its operations are constitutionally defined, it will enjoy some degree of protection from political manipulation. When organised this way, the money system as a whole becomes the property of the community, and the creation and destruction of money can be monitored according to established rules of rational money management.

However the central bank should not be an all embracing monobank as in communist system. Commercial banks, special purpose banks and savings banks have an extremely important role to play in facilitating the flow of money to places where it can do most work. However these organisations should operate as cooperatives (much as credit unions do today) and their profits should be distributed to employee shareholders. A feature of

Prout's system is an upper limit imposed on the expansion of individual credit unions, thereby preventing any one institution gaining a disproportionate amount of power.

Cooperative banks will earn income by charging interest on their depositor's operating accounts. But they will be required to pay interest on credits advanced by the central bank. In a sense, cooperative banks are nothing more than intermediaries in the distribution of credit. Competition will help to improve services and keep interest rates down.

The private sector's role in finance should be limited to stock broking, advisory services etc. Other kinds of financial institutions, such as insurance and superannuation companies, may or may not have a significant role to play in a developing economy depending on need. Always it should be remembered that the financial system must have sufficient flexibility to allow entrepreneurs to respond to perceived needs with vigour, but without giving the selfish minded of them a chance to exploit the system.

Principle:- The average interest rate should not exceed the average growth rate.

Human psychology is such that some incentive is required to forego current consumption. In the language of economics, the incentive to save rather than consume takes the form of an interest payment on the amount saved or, in the case of the 'stamp currency scheme', money saved does not attract negative interest. In order to pay interest, the borrower must put their borrowed monies to productive use. The disadvantage felt by saving makes interest necessary and the productivity of capital makes interest payable.

Interest rates fulfill three important functions; they encourage people to save and lend; they ensure that borrowers put their money to productive use; and they provide a measuring stick by which businesses can compare the relative efficiencies of different investment possibilities. Interest rates fulfill these functions as long as the prices of goods and services are able to fluctuate according to supply and demand.

An important issue is the overall level of interest rates in the economy. What is the appropriate rate? A wise business person will borrow money only when they are certain that increased output will be sufficient to cover repayments of principle and interest. For the economy as a whole, interest rates should not exceed the long term growth rate of the economy. If output increases 5% per year, then bank credits (money supply) will also increase by 5% per year and this increased income will be sufficient to cover an interest rate of 5%. Of course some sectors of the economy will be growing faster than others, so it may be prudent to set different interest rates for different sectors but the average interest rate should approach the average growth rate. (Compare this with Australia's current interest rates of 18% to 25% in an economy which is presently suffering negative growth!)

Even for those resources that are not distributed by money circulation (possibly land, for example) an interest rate calculation can still be performed to compare efficiency of alternative resource uses.

In a Proutist economy the largest productive sector is the cooperative sector. Here workers will be encouraged to save by purchasing shares in their own cooperatives. In this way, workers receive dividends directly in proportion to their own productivity.

Principle: The banking system should manage flows of money not the volume of money.

Monetary management in capitalist countries has a preoccupation with the volume of money. Governments attempt to alter the volume of money in circulation directly by changing the reserve requirements and the reserve ratio and indirectly by changing the interest rate. In the 'social credit' system described in this chapter, money management is more concerned with flows of credit. The appropriate image is of two flows of value, one being the creation and consumption of wealth, the other being the creation and redemption of credit. These two flows should be equal. The shift from preoccupation with monetary volume to monetary flow is an extremely important shift in economic consciousness.

Preoccupation with the volume of money arises where money is mistaken for real wealth and its accumulation becomes part of legitimate economic activity. Of the three functions of money noted earlier, two of them are contradictory. Money as a store of value tends to mitigate the effectiveness of money as the facilitator of exchange because, if money is seen to have value, then it is something to accumulate. But when money is hoarded it immediately loses value. *"The value of money increases with its mobility. That is, the more money changes hands, the greater is its economic value. If money is kept locked in an iron safe it gets rusty and its economic value decreases. This is the most fundamental principle of economics."*[13]

Schumacher also expressed concern about the contradiction between money as income and money as wealth, when he warned that capital and income had become confused in the capitalist world. Capital values increase because of inflation but so do prices. Speculators do not worry about their effective loss of income (due to price increases) as long as this loss is more than offset by capital gains. Warned Schumacher, "In such a situation we dare not let the piper stop playing."

SUMMARY

The management of any economy revolves around four kinds of policy; structural policy, fiscal policy, monetary policy and trade policy. We conclude with a summary of the more important principles of self-reliant regional development grouped into these four areas of policy.

Structural Policy;

1) A developing country should delineate *block*, *district* and *state* boundaries based on the concept of organic communities. Each community develops its own economic plan and strives to become self-sufficient in the production of its essential requirements.
2) Economic development, infrastructure, population, etc should be decentralised.
3) The different economic sectors should be developed in balance.
4) The production of goods and services should be organised into three sectors; public utility sector, cooperative sector and private enterprise sector. The boundaries between these sectors should be fixed by public policy but adjusted as technology or other conditions demand.
5) An upper limit should be placed on the expansion of cooperatives (including credit unions) and private enterprises. This will encourage competition and prevent concentration of economic power.
3) The banking industry should be organised in three tiers; the central bank as a public utility, the commercial banks as cooperatives or credit unions and advisory services as individual enterprises. The central or reserve bank is the banker for governments (local

and state), cooperative banks (credit unions) and key industries. The cooperative banks act as bankers for the cooperative and private industrial sectors.

Fiscal Policy;

1) The primary distribution of income should determined by an "Incomes Accord" which is formulated by cooperative collaboration of a broad cross section of community interest.

2) The four key income parameters to be decided by the Incomes Accord are personal income (its two components being, GMI and incentive increments), total government taxes, gross business saving and interest rates. The GMI or essential income will have to be reassessed each year and is guaranteed to all. The permitted levels of investment for all public utilities should also be decided in the government's extensive budget.

3) An upper limit must be placed on income and wealth accumulation. These ceilings might vary from year to year and thus come within fiscal policy.

4) Fiscal policy should decide stockpile levels of key and essential commodities used as a buffer to maintain stable prices.

5) Interest rates should be no more and preferably less than the growth rate of the economy.

6) The government sector must draw up a balanced intensive budget. The predominant if not only source of government income is taxation, determined within scope of the extensive budget or *incomes accord*. Government should not be able to run up a deficit by drawing on central bank credit. Nor should it finance deficits by selling bonds except in unusual circumstances because this creates an extra interest burden that must be borne by taxpayers. The government draws on central bank credit to the amount of its 'value added production' just in the same way as any other producer.

7) Provision of 100% employment is a priority goal for self-sufficient development.

Monetary Policy;

1) The creation and destruction of money must be linked to the production and consumption of wealth. This will de-emphasize the importance of money volume. Thus reserve levels and reserve ratio are no longer instruments of management. Rather the banking system maintains 100% reserves in the form of guarantees provided by producers when credit is issued.

2) Banks should be prohibited from lending money for speculative investments. Credit must be distributed rationally and equitably in accordance with the Incomes Accord.

3) The value of money is maintained by maximising its circulation. This can be achieved by placing limits on accumulation and by implementing a stamp currency scheme or equivalent. The traditional means of 'tight money policy' to boost the value of money is illogical. Rather the only restriction on the creation of money is the creation of goods and services.

4) Banks must keep a strict separation between operating accounts and savings accounts or term deposits. Banks charge interest on operating accounts as a means to encourage the circulation of money. Only deposits in savings accounts are to be used by banks for lending.

Trade Policy;

1) Trade at all levels within a *samaj* can be by way of a central bank money system as described. *Block* level LETSystems would be a complementary feature.

2) Trade between *samajs* within the same federation can be bilateral or they can form a LETSystem type trading bloc (which offers the advantage of monitored multilateral trading).

3) Trade between *samajs* of different federations is best done bilaterally. However in case of non-essential commodities, multilateral trading is satisfactory.
4) The money denomination used for multilateral trading should be independant of any of the participating countries. Each trading bloc can establish its own money unit and standard using a basket of commodities appropriate to it. The creation of money for global multilateral trading can be managed by a 'world bank' on the same basis as a central bank. However such a bank should not be controlled by the most powerful nations.
5) The import of essential commodities and the export of raw materials is the sign of a weak economy. Economic development should procede so as to minimise these.

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