

The Proutist Model of Economic Development

by

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There is a widespread feeling around the world that humanity's problems are increasingly getting out of hand. Unemployment, inflation, poverty, environmental degradation, crime, bureaucratic corruption, excessive greed, are some of the ills that afflict almost every nation. Most societies face internal fissures and traumas. Thus a clear-cut need exists for fresh thought in order to counter the menace of impending social breakdown. That is where this paper comes in. It expounds the Proutist model of development, which was first offered by a leading Indian scholar, Shri P. R. Sarkar, as early as 1959 but has remained relatively obscure because of its challenge to conventional wisdom.

Prout is actually an acronym for progressive utilization theory. “Pro” from progressive, “u” from utilization and “t” from theory constitute Prout. Sarkar defines progress as any forward movement unaccompanied by a backward step. If life improves in one area but worsens in some other, then the result is ambiguous and there may be no progress. In view of this concept, economic development is a real improvement only if the resulting rise in the living standard does not lead to some side-effects such as increased pollution and inflation. Another side-effect of economic growth observed in most nations is ever-growing wealth concentration, which corrupts political systems and engenders poverty. This if the lifestyle improvement is associated with enhanced pollution and wealth concentration, then according to Sarkar it is not progress, because a positive step went hand in hand with a negative one.

In terms of Prout, economic growth is progressive and really beneficial only if the increase in living comforts generates no additional pollution and inequality in income and wealth. Thus, the Proutist model of economic development plays a strong emphasis on the environment as well as wealth disparity.

In order to generate progressive economic development, Prout advocates that the minimum physical requirements such as food, clothing, education, housing and healthcare should be provided to all. But minimum requirements are not fixed, as they vary with time, place and new technology. Take, for instance, the case of the mobile phone, which has become very popular around the globe. A large number of students possess it and occasionally use it as an educational tool. It gives them a calculator, access to the Internet as well as email. The mobile phone then becomes a necessity for students and enhances their minimum requirement. The point is that minimum needs are not given but they increase with technological advance. That is why Prout strongly emphasizes the income distribution aspect of development.

New technology also increases labor productivity and generates economic growth. Since minimum needs rise with improving technology, it is important that the fruits of enhanced productivity are fairly distributed among workers and the owners of capital. If factory owners and the CEOs claim them all, as they have been doing since 1980 all over the planet, then according to Prout, this type of change is not economic development but economic retardation. Here then GDP grows but society suffers.

Distribution of Income

In order to provide minimum needs to all, the distribution of income has to become more equitable in most nations. Prout recommends rational distribution, one that guarantees everyone's minimum requirements and offers incentives for hard work as well. A simple example serves to illustrate this principle. Suppose labor is the only factor of production and the labor force consists of five individuals. Let their annual incomes in dollars or rupees equal 100, 200, 500, 700, 1,500 respectively. Therefore, national income, i.e., the sum total of all income, equals 3,000. Suppose that the minimum needs require a minimum wage of 300. Then two workers live at subsistence level or worse, two are in the middle class, and one enjoys a luxurious lifestyle. This is the type of income distribution that prevails in most nations around the globe, where a small minority of people consumes a disproportionately large portion of income.

If the economic system is left to itself, then the vast number of people will be doomed to subsistence living forever. Prout, however, would ensure a minimum income of 300 for two workers and reduce the income of the richest, while leaving the middle-income group unchanged. Thus, Prout's income distribution will change from

(100, 200, 500, 700, 1,500)

to

(300, 300, 500, 700, 1,200)

This is an example of rational distribution. Here everyone's minimum requirements are met, while hard work and merit are also rewarded with higher incomes. The Proutist system of rational income distribution is thus equitable and, so to speak, "meritorious" as well.

In terms of practical policy, rational distribution can be achieved in three ways:

- a. Earned income tax credit
- b. Negative income tax
- c. Proper minimum wage

One way to reduce income inequality is to adopt an earned income tax credit (EITC), which has been in effect in the United States since 1975. The EITC lowers the tax burden of low-wage earners by trimming their tax burden. A similar program has also existed in some European nations such as the United Kingdom and Italy. Another way is to introduce a negative income tax (NIT) first proposed by Milton Friedman. The idea is that if family income is below a threshold, then the government pays a subsidy to that family, and collects a tax if the income is above that level. The NIT differs from the EITC in that it applies to all families, whereas the EITC benefits only the low-income workers. However, the NIT has not been put into practice in any nation yet.

The best way to achieve rational distribution is to legislate a minimum wage and to make it sufficiently high so that workers earn enough to provide their families the necessities of life. The EITC and the NIT require a large government bureaucracy to enforce them and may result in corruption and waste of money. Most nations have instituted a minimum wage, which, however, is not large enough to eradicate poverty. The minimum wage should not only be ample, it should also be linked to the nation's labor productivity. In my latest book, *End Unemployment Now: How to Eliminate Joblessness, Debt and Poverty Despite Congress*, I have shown logically and historically that unemployment and poverty in most industrialized countries occurs when the real wage falls short of the rise in productivity. This is because productivity is the main source of supply and wages are the main source of demand, and if the real wage trails productivity growth then supply exceeds demand, causing overproduction and hence layoffs. In other words, the minimum wage should be linked to national productivity not only to mitigate poverty but also to ensure high employment. Thus rational distribution goes hand in hand with prosperity for all.

The Environment

Prout lays extraordinary emphasis on a clean environment, which deteriorates because of new-product technology. There are two types of technical innovations. One replaces labor and is known as new-process technology, and the other generates new items and is called new-product technology. New processes tend to create joblessness, whereas new products generate new jobs. But new products also generate new types of pollution and unknown dangers. Science is very useful but it also generates harmful side-effects.

Today, the constructive and destructive fruits of science are visible in all directions. Can you think of any invention which while reducing life's boredom has not added to life's dangers at the same time? Repetitive work is drudgery; when machines do that work, life seems to be more pleasant than before. If dishwashers wash our dishes, air conditioners cool our rooms, laundry machines clean our clothes, automobiles do our walking and so on, life certainly appears blissful relative to what our forefathers had to endure in a science-less world. But then they did not have to contend with electric shocks, fatal accidents, air, water, land and noise pollution, noxious automobile fumes, urban congestion, crime-aiding devices such as guns and rifles and so on. Indeed the harm done by an invention varies directly with its promises of comfort. Coal results in smoke pollution; so does oil. Nuclear power has none of this; besides it is one vast reservoir of power. But then it is many times deadlier than traditional sources of energy. You can move away from the pollution of oil and coal, but from nuclear radiation there is no escape. It follows you wherever you go.

At present solar energy holds greater promise than nuclear plants. That is because its dangers are not yet known. Every scientific device conceals invisible dangers that become apparent much later. When utilizing new technology, we do not expect any trouble from it. This is faulty logic and thinking. Sarkar corrects this thinking by saying that the side-effects of every invention are inevitable, because this universe is finite and vibrational in nature, and any physical change producing comfort must be counterbalanced by a physical change producing misery.

Does it mean that science should be discarded? Not at all. With our overwhelming problems concerning energy, population and pollution, our relapse to pre-science days is unthinkable. All it means is that we have to be more cautious about inventions. Before translating any new invention into industrial technology, its side-effects should be thoroughly studied, and investments should be simultaneously made in controlling its emissions. In other words, society should also invest in counter-technology. For instance, when autos entered into mass production, nations should have invested money in the discovery of catalytic converters, which tend to mitigate auto pollution. If this had been done during the 1920s, when cars first became affordable and popular, the world would have been spared the vast clouds of auto fumes that followed. Thus, Prout suggests that whenever a major new discovery is made, the government should study its potential side-effects before approving the mass production of the new product.

Monopoly Capitalism vs. Mass Capitalism

Prout argues that the main cause of poverty and unemployment around the world is monopoly capitalism, which is a system dominated by huge conglomerates that exercise vast monopoly power. This system has two varieties. One represents the private sector wherein majority shareowners control the companies and usually become their CEOs. These CEOs pay themselves handsomely but offer low wages, charge high prices and extract huge productivity from their

employees. High productivity generates high production, whereas low wages and lofty prices create low demand. So supply remains ahead of demand, leading to overproduction and hence layoffs. This type of monopoly capitalism prevails in much of the world, including India, the United States, Canada, Australia, Europe and Japan. But there is another variety also that prevails in China, Russia and some African nations. There the state supports the existence of exceptionally large companies, which also pay low wages and extract huge productivity from employees. The end result is the same—high unemployment and poverty, along with mushrooming wealth concentration.

Prout recommends that monopoly capitalism should be broken up to generate competition among its smaller units. Such competition would enhance the demand for labor, raise wages and still lead to lower prices, because such is the inevitable fruit of enhanced competition. Once the government enforces its anti-monopoly laws and creates competing units, it should buy shares in the stock market and sell them on installments to employees. This should be done until employees have enough shares to appoint their own CEOs, who will then reward merit with higher wages and not gobble up the fruit of rising productivity. In most firms just owning 10 percent of shares enables the shareowner to exercise control over the business. Thus employees don't need to own majority shares to appoint their own management team.

Employee controlled firms are the real answer to modern-day problems of unemployment, pollution and poverty. When such firms appear, monopoly capitalism will pave the way for economic democracy and mass capitalism. Hopefully, this system will arise soon, because the prevailing systems have become anachronistic and ultra-exploitative for humanity.*

*For a comprehensive analysis of the break-up of monopoly capitalism, see Ravi Batra, *End Unemployment Now: How to Eliminate Joblessness, Debt and Poverty*, New York: Palgrave-Macmillan, 2015.