

Restructuring the Market Economy:
An Introduction to the Progressive Utilization Theory
Edward J McKenna, Roar Bjonnes and Govinda
Connecticut College and Proutist Universal

Authors Note

Edward McKenna, PhD, is a professor of Economics at the Connecticut College in New London, USA.

Roar Bjonnes and Govinda are Research Associates with Proutist Universal, Copenhagen, Denmark.

Abstract

Prout provides both a critique of capitalism and an alternative understanding of how an economy and a society can be structured. The critique demonstrates that those who support capitalism possess a narrow, materialistic view of human nature in contrast to Prout's view that sees people as being composed of physical, mental and spiritual capabilities. Further, the capitalistic understanding of the idea of free markets rests on the false view that freedom consists solely in being able to make choices unhindered by government action, rather than in actually possessing a set of reasonable possibilities from which to choose. Finally, the critique demonstrates that markets have never actually been free of government rules and regulations, but that in fact markets have only come into existence as a result of governmental actions.

Because people do possess physical, mental and spiritual capabilities, and because people can only thrive in the context of community, Prout advances an alternative economic vision based on the principles of economic decentralization and of maintaining a proper balance among individual capabilities and between individuals and community. Creating and maintaining a proper balance requires alternative working conditions to those existing in present-day capitalism. In particular, Prout calls for the bulk of production and distribution to be undertaken in worker cooperatives. In economic conditions where cooperatives are not feasible (for example in large, complex industries that produce products and services that are necessary throughout the economy), Prout recommends that such industries be regulated at the local level to the greatest extent possible. We illustrate these ideas by explaining the role of finance in the context of a

Proutist economy and by illustrating how these principles have been followed by successful economic cooperatives, such as the Mondragon group.

Restructuring the Market Economy:

An Introduction to the Progressive Utilisation Theory (Prout)

The Progressive Utilisation Theory was originally conceived in 1959 by P. R. Sarkar. Sarkar's worldview was rooted in a spiritual and social vision beyond humanism, which he termed neo-humanism. Envisioning the underlying unity of all things, neo-humanism holds that the world's resources are to be shared by all its inhabitants—people, animals and plants—in a coordinated and balanced way. This broad vision contrasts with capitalism's narrow individualistic and materialistic view of the world.

Neo-humanism and Prout maintain that material progress and increased profit are not the true goals of an economy, but rather that an economies' purpose is to create market conditions for providing people with enough material amenities to pursue cultural development and personal growth without jeopardizing the needs of the environment. Prout's intent is to foster the holistic development of a liberated, unified society.

Fifteen years after the appearance of Sarkar's work, British economist E. F. Schumacher independently provided a critique of capitalism similar to that of Sarkar's. Schumacher claimed that every economic system has an underlying worldview, metaphysics, and philosophy by which it is guided, and that capitalism was guided by the philosophy of materialism, the view that production and the acquisition of wealth is society's main goal. (Schumacher, 1973)

In this paper we will develop a critique of capitalism from a Proutist perspective. We will then provide an understanding of how a Proutist economy can serve as an alternative to capitalism.

The Fallacy of Free Markets

There is a consensus—among media outlets, politicians and economists—that a free market is the best way to organise the economy. The free market economy, they claim, leads to more trade and more prosperity for everyone. Most governments are therefore working hard to ensure that their countries are as pro free trade as possible, in order to create the most favourable conditions for increased business and prosperity.

Here, in a few words, is the current economic vision: free markets and free trade are the best ways to increase prosperity. In the real world, however, prosperity has not reached everyone. Inequality is in fact increasing, in some places at an alarming rate. According to an Oxfam briefing for the economic summit in Davos in January, 2015, concentration of wealth is on the rise: 80 people now own the same amount of wealth as half the world's population. By 2017 the 1% richest will own more than the other 99% of the world's population combined. (Hardoon, 2015) This troubling state of global inequality is a direct outcome of free market policies. Free trade and free market policies also threaten to erode many of the advances in global environmental protection, endangering our planet and the natural resources necessary to support life.

“Free Markets” Not Free

When we contrast the often stark reality of free markets with the glowing theory behind them, we are forced to ask some deeper questions. First, just how free are free markets? A market, by definition, means that people trade goods and services according to certain agreed upon rules generally set by the government and international trade agreements. A free market is never free of such rules, there are always restrictions on activities in any economic market place.

In *23 Things They Don't Tell You about Capitalism*, economist Ha-Joon Chang, writes,

The free market doesn't exist. Every market has some rules and boundaries that restrict freedom of choice. A market looks free only because we so unconditionally accept its underlying restrictions that we fail to see them. How 'free' a market is cannot be objectively defined. It is a political definition. (Chang, 2010, p. 10)

Second, is it not frequently true that one's view of freedom depends on the perspective that one adopts? Do restrictions on trade union activities make the market less free? It depends on whom one asks. Company owners are likely to think the market is freer if there are restrictions on trade unions, because that makes it easier to keep wages low and profits high. But workers, whose interest it is to demand better working conditions and higher wages, are likely to feel that the same restrictions makes the market less free.

Third, has our view of what constitutes market freedom remained constant over time? The simple answer is no. What may have been considered acceptable and 'free' yesterday may no longer be considered so today. In the beginning of the industrial revolution, child labour was accepted as necessary in a free market economy, but today it is banned in most countries. Preventing child labour makes the market less free from one perspective, but from a humanitarian and ethical standpoint, most people today consider child labour abhorrent, and nobody would say that rules preventing child labour undermine the market place. Moreover, such rules increase a child's freedom by freeing him/her to obtain an education that will be of value

throughout their lifetime. As Chang emphasizes, the definition of what constitutes ‘a free market’ results from political decisions that determine the rules governing markets.

Markets and Governments

Anthropological studies have made clear that markets have never developed spontaneously in the absence of government intervention. All markets that have ever existed came into existence due to government action. In the words of David Graeber,

[D]espite the dogged liberal assumption – again, coming from Smith’s legacy – that the existence of states and markets are somehow opposed, the historical record implies that exactly the opposite is the case. Stateless societies tend also to be without markets. (Graeber, 2014, Loc. 1062)

Libertarians and anarchists who think that the reduction of government intervention would mean an absence of power should think again. Power will always accumulate somewhere, and if it is not with a democratic government, it will be with corporations, the military, or organised crime. So the absence of government regulation will not lead to a market free from coercion from such outside sources, but rather more interference with the market from these coercive, non-governmental influences.

What is Freedom?

Political philosophers have defined two types of freedoms. The first is the freedom to do what you want to do, which means freedom from restrictions on your actions. Believers in so called free markets are adherents of this type of freedom, which is known as negative freedom. They think that this is the only freedom that matters. As long as you follow the rules of the

market, you should be allowed to accumulate as much wealth as you can and you should be free to choose how to utilize this wealth, regardless of how this affects the rest of society.

Unfortunately, this type of freedom often stands in direct opposition to the second type of freedom, known as positive freedom, which is the ability to undertake independent, meaningful actions. Under this definition, someone in poverty is not free because they do not have the means that would enable them to make meaningful choices. The rules of presently existing market systems do a poor job of ensuring that all people, or even the majority of people, have this type of freedom.

Research by Thomas Piketty, author of the best-selling book *Capital in the Twenty-First Century*, has shown that inequality in wealth and income has reached such levels that social stability (and hence freedom) is threatened. The world's current wealth concentration—that 1% of the richest own as much wealth as the remaining 99% of us—does this really lead to positive freedom for even a majority of the world's population? If we created rules and regulations to prevent such a wealth gap, would that make the market less free? It may restrict the negative freedom for a small group of people, while enhancing positive freedom for the vast majority of human beings.

No market is free. All market economies have rules. And the rules change according to the objectives we wish the market to achieve. They change according to our answer to this fundamental question: do we want negative freedom for the few, or positive freedom for the many?

By emphasizing negative, as opposed to positive freedom, free market advocates have created an unstable economy that continually engenders deep societal problems that the market is, by itself, unable to solve. These include:

- A high concentration of wealth and rising inequality
- A level of financial speculation that far exceeds productive investment
- An unsustainable level of debt and economic instability
- A rapid depletion of natural resources and a level of Environmental destruction that is potentially threatening to our survival.

Changing the Rules of the Market

Would different market rules preventing and reversing the above trends make the market less free? No. Rather, they could potentially increase positive freedom for the majority of people and make markets more efficient, environmental and humane. Indeed, to strive for improvements in the present market economy is not utopian; it has become necessary in order to create more economic equality and environmental balance.

The current world economy was not created overnight. Since the dawn of the industrial revolution, it has taken several centuries and decades of concerted effort by governments, inventors, entrepreneurs and labourers to establish, expand and maintain it.

Introducing a new set of market rules that support sharing and sustainability, over competition and profit, will also require much time and effort. All economic systems operate with the permission of the society within which they exist, and always require the full power and authority of the government to maintain. Changing the market rules to the benefit of more people and the environment will require persistence and struggle.

Maintaining the present system, with its many foundational faults and cracks, and preventing it from collapsing, will also require a significant struggle. So, why not struggle for a new system that will give meaningful freedom to all people, rather than preserving a system that is giving freedom to the very few while denying these freedoms to the vast majority?

The Progressive Utilisation Theory

The Progressive Utilisation Theory (Prout) is a socio-economic theory with a different set of rules for markets than those currently in existence. In the following section, we will look at Prout's fundamental outlook, goals, and principles.

Outlook

Prout's underlying philosophy is that all humans are equal in their search for spiritual freedom. But on the material level, no two things are created equal, thus complete economic equality is impossible to achieve. This does not mean, however, that we need to encourage inequality, or that individualism or competition must be the main drivers of progress in an economy—sharing and unity are equally, if not more, important. Thus, acknowledging that absolute equality is not a practical goal, market rules are to be formed to minimise inequality, to provide everyone with enough to lead a decent life and to be able to develop their full potential.

Prout's reconstruction of reality—of the meaning of ideas like wealth, development, and progress—starts with the fundamental outlook that human life is more than a physical existence; that we have three fundamental potentials and needs: physical, mental and spiritual. The physical, or objective, world is represented by matter, nature, and of natural resources, as well as our own physical body with its brain, nervous system, glands, etc. The mental, or subjective aspect of reality, is the realm of emotions, thoughts, memory, analytical ability, artistic talent,

deep insight, and intuition. The third layer is the deeply subjective, spiritual sphere – the silent, subtle, and unchanging part within us; that part beyond the rational mind, which gives us the experience of deep peace, connection and awe; that inner state which sages and saints of all traditions seek to explore in meditation and contemplation.

In Prout's view, taking into account all these three spheres of reality is integral to developing a balanced society and economy. The goal of a reconstructed market economy is thus to form a social and economic system allowing individuals and society to progress in all three spheres of existence—the physical, mental and spiritual.

Objectives

The broad goals of a Prout economy are the following:

- Provide everyone with guaranteed full employment and a guaranteed living wage to ensure access for everyone to all the minimum requirements of life.
- Provide extra amenities to people who contribute more to society and to those who have special needs, such as the sick and handicapped.
- Gradually increase the living standard for all people in a manner that is consistent with environmental sustainability.

These objectives should be part of the constitution of each and every country.

Principles of Prout

To implement these stated objectives, Prout has developed five fundamental principles that an economy should adhere to. These principles deal with the restriction of wealth accumulation and the optimal and balanced utilisation of resources, both natural and human.

These principles are general and universal in nature, and do not consist of specific policy suggestions. However, these principles lie at the heart of Prout policies, and serve as guidelines for the development of new policies.¹

Prout's Economic Model

Prout envisions a decentralized economy in which most production and distribution takes place within worker cooperatives and in which most important economic decisions are taken at the local level. According to Prout, development at both the individual and the community level requires a proper balance among physical, mental, and spiritual capabilities. Just as an individual who neglects their physical health often comes to find maintaining mental peace more challenging, a community that fails to maintain balance among its members may soon come to experience difficulties in maintaining social peace. Economic decentralization is a means of ensuring that communities will have the power to create an environment in which everyone may thrive.

Economic decentralization means that a community owns and controls its own locally-based resources. In the absence of such control, a community may find that its development is subject to the decisions of non-locally-based corporations whose interest may diverge from that of the local community. Equally important, when a community relies on the resources of other communities for its own development, it establishes for itself a type of dependency that can lead to severe economic hardship. This is perhaps best illustrated by what has occurred in countries that borrowed from foreign countries to develop their economies. When these foreign investors

sensed the first possibility of trouble, or when they believed that profit making alternatives were available elsewhere, their withdrawal of funding has often led to financial crises.

Economic decentralization is also an important means for limiting the accumulation of wealth in the hands of just a small number of people, an important goal of Prout. Limiting ownership of local resources to local residents means that no one person can accumulate resources from multiple localities, and this places a strong limit on what can be accumulated (though other measures may be required as well, particularly for limiting accumulation within a locality). Limits on accumulation are important for ensuring that everyone has sufficient resources for developing their capabilities. Limits on accumulation are also important for ensuring that no one individual, or small group of individuals, is capable of acquiring the type of economic power that can lead to the acquisition of such political power that the few can dominate the many.

While Thomas Piketty has led the way in demonstrating the degree to which inequality of income and wealth has accelerated throughout the world since the 1980s, it is the work of John Rawls that most forcefully demonstrates the dangers involved in such inequality. As is well-known, Rawls believed that justice requires two principles: (Rawls, 1971)

1. Each person is to have an equal right to the most extensive basic liberty compatible with a similar liberty for others.
2. Social and economic inequalities are to be arranged so that they are (a) reasonably expected to be to everyone's advantage, and (b) attached to positions and offices open to all. (Rawls subsequently reformulated this principle to what has become

known as the difference principle, i.e., that social and economic inequalities must be arranged so that they benefit the worst off person in society).

What is less widely known is that one of the principal justifications provided by Rawls for the second principle is his view that severe economic inequality enables the few to acquire such extensive political power that the first principle is undermined. But when the first principle is violated, the absence of liberty means that people are no longer in a position to make decisions regarding the direction of their lives. This, in turn, means that their ability to lead a meaningful life through the balanced development of their capabilities is severely diminished. Economic decentralization, according to Prout, is a way to avoid such a result.

Prout also envisions that most production and distribution within an economic region will take place in worker cooperatives. A number of reasons are advanced to support this view. First, since the ultimate purpose of an economy is to serve as a setting in which the physical, mental, and spiritual potential of all can be developed, the workplace must be a setting that fosters such development. If workers are not able to participate in the decision-making process of the firm in which they spend a considerable portion of their lives, then a major opportunity for the development of people's capabilities will be lost. Participation in decision-making engenders the types of skills that enable a person to truly become an agent in shaping the course of their own life, rather than being someone who simply responds to the will of others. Moreover, by recognizing the right of workers to participate in decision-making, a community makes clear that it values all workers, that they are all worthy of respect.

Participation also helps to develop a person's sense that they are not an isolated individual, but rather that she/he is a valued member of a community whose welfare depends

upon the actions of all its members. Prout's spiritual foundation teaches that while we are all inherently part of one spiritual family, the realization of this wisdom requires a set of individual and institutional practices that help to reveal this truth to each person. By fostering the view that we all play an important role in bringing about the progress of our community, the workplace can become a setting that not only provides for one's physical needs, but that also provides for one's mental, and spiritual evolution.

Not all economic activity, however, will take place in worker cooperatives. Small businesses, which are unlikely to acquire the kind of power that can lead to domination, will continue to be owned privately in a Proutist economy. Such businesses can serve as a site of entrepreneurial activity, generating new ideas that will foster economic growth and development. There will also be a number of key industries, whose size and importance will require government regulation, preferably at the local level. An examination of one such key industry, the financial industry, and its relation to worker cooperatives will provide insight as to how an economy based on the principles of Prout will operate.

Recent research has established that one of the principal reasons for the failure of worker cooperatives is their lack of adequate finance (Dow, 2003, p. 188). In most cases, workers do not have sufficient capital to either establish or take over a firm. As a result, they must seek loans from financial institutions. But, financial institutions, if not locally-based, are often unwilling to provide the needed credit. The difficulty often arises from a type of moral hazard, a situation in which worker-borrowers have incentives that run contrary to the interest of lenders after a loan has been made. (Dow, 2003, p. 186). After a loan has been made, if the project to which the loan is applied fails, workers can always simply leave their jobs, defaulting on the loans to the lending

financial institutions. Because of this possibility loans are not made in the first place, and this helps to explain why worker cooperatives fail to develop, especially in industries where large-scale capital is required.

One solution to this problem is the establishment of community banks. Because community banks are local, they will have a better understanding of the economic viability of local worker cooperatives seeking finance. They are also more likely to share the same commitment to an ethos that emphasizes both individual and community development, and the importance of workers sharing responsibility for decision-making. But the nature of finance, in particular, the existence of economies of scale, inevitably creates a situation in which a small number of banks are capable of serving the financial needs of large numbers of cooperatives. This is what makes finance a key industry, the services that finance provides are essential to a wide range of economic activities. A disruption of financial services will have a great impact on the ability of large numbers of cooperatives to obtain the credit that they need to function. As a result, special steps will have to be taken to ensure the stability of the financial sector. Because financial activities take place largely on the basis of trust, and because trust can be easily lost, special regulations will be required to ensure the smooth operation of the financial system.

The creation and growth of the Mondragon group amply demonstrates these ideas. In its initial stages, it was quite clear that inadequate access to capital posed significant problems. In addition, because of the difficulty of providing guarantees to outside investors, outside participation was limited (Henk & Logan, 1982, p. 21). Don Jose Maria Arizmendi-Arrieta, the original founder of Mondragon, discovered that local legal rules would permit the development of a local cooperative bank that would attract local savings and lend these to the co-ops. Though

there are many reasons for the success of Mondragon, all agree that this cooperative bank was vital to the success and expansion of the Mondragon group. (Dow, 2003, p. 65). This bank not only provided loans, but it also served to monitor the activities of the borrowing co-ops, solving the moral hazard problem. In turn, the bank was subject to limits on the kinds of investments it was permitted to make. In particular, the bank's only investment opportunity was officially approved bonds carrying a low rate of interest. (Henk & Logan, 1982, p. 79). By limiting investment activity, confidence in the bank's solvency was maintained.

Conclusion

Fundamentally changing the direction of society requires a change in the underlying ideals and values guiding our economy. For several centuries, our economy has been guided by the value system of self-interest and materialism, which has led to a world of growing inequality, resource depletion, commodification, strife and environmental pollution. It is time for a change in values. There are two foundational ideas at the heart of the Prout economy signifying such a change of values: that true progress is spiritual rather than material, and that the goal of the economy is to serve the interests of all individuals and the community.

As spiritual beings, we are all equal and have the same rights to learn and develop our full capacities, in all realms of existence. To make this possible, everyone needs to be given the positive freedoms of security from want and the opportunity to grow. If these fundamental needs interfere with the an individual's unrestricted freedom to exploit people and the environment, then the rights of the community have to be protected and safeguarded against such unrestricted individualism and materialism.

To bring about meaningful and permanent change in society, the collective spirit of humanity will have to change and accept these values as a cornerstone of human civilisation.

End Notes

For a detailed exposition of these principles, see *Principles of a Balanced Economy* (Bjonnes, 2012).

Works Cited

- Bjonnes, R. (2012). *Principles of a Balanced Economy*. Copenhagen: Proutist Universal.
- Chang, H.-J. (2010). *23 Things They Don't Tell You about Capitalism*. London: Penguin Books.
- Dow, G. K. (2003). *Governing the Firm*. Cambridge: Cambridge University Press.
- Graeber, D. (2014). *Debt: The First 5,000 Years* (Amazon Kindle ed.). New York: Melville House.
- Hardoon, D. (2015). *Wealth: Having it all and Wanting More*. London: Oxfam International.
- Henk, T., & Logan, C. (1982). *Mondragon: An Economic Analysis*. London: George Allen & Unwin.
- Piketty, T. (2014). *Capital in the Twenty-First Century*. London: Harvard University Press.
- Rawls, J. (1971). *A Theory of Justice*. Cambridge: Belknap Press.
- Refoy, J. (2014, September). Delivering Responsible Capitalism—The Growth of Employee Ownership. *Forbes Magazine*.
- Schumacher, E. F. (1973). *Small is Beautiful: A Study of Economics as if People Mattered*. London: Blond and Briggs.