



The PROUT Paradigm of Economic Development

Because of this difference in core values, the structural features of PROUT's economic system differ from those of a command economy and of a free market economy. With the Soviet economic system now rejected and with the effects of economic globalism increasingly unsustainable, PROUT's alternative paradigm deserves attention.

Principles of Economic Decentralization

Most economies are characterized by economic centralization. In capitalism control is centralized in the hands of a few big capitalists, while communism centralized control in the hands of party dominated planning bodies. Economic planning cannot be effectively undertaken by people who live far from the place where economic activity occurs. Economic planning must start from the level where the experience and expertise of local people can be applied to solve economic problems and create prosperity. Decentralization of economic control is therefore essential for promoting people's all-round welfare. PROUT's economic system emphasizes five important principles of economic decentralization, intended to create a holistic approach to decentralized development.

1. *The resources of a region should be controlled by the local people.* At the very least, local people need to control the production of their basic necessities in order to insure economic security. They should also process raw materials locally so that their natural resource endowment gets used to build the local economy.

2. *Production should be based on meeting consumer needs, not on profit.* Production should be based on meeting the needs of the general population, not on creating profits for of small numbers of capitalists. Production should be geared to local markets and general consumption rather than to export or consumption of luxury goods. If this is done, money will circulate locally, creating increased production, more jobs, and greater purchasing capacity. An economy based on healthy local consumption will thus maintain much greater vitality than one based on exports or expensive imports for a wealthy elite.

3. *Production and distribution should be organized primarily through cooperatives.* Cooperatives, by their structure, help decentralize wealth and economic power. At the same time, a decentralized economy is essential for the survival of cooperatives. Preserving raw materials for local use assures their constant supply to cooperatives and reduces market uncertainty. Because cooperatives serve local needs, there is also less uncertainty of product demand. Economic certainty gives local people a sense of economic security, and because of this they will support the cooperative system.

4. *Only local people should work in and control local economic enterprises.* Local people should determine basic policies connected with their own economic wellbeing. Outside economic

interests should not interfere with the local economy, and the use of outside laborers should be avoided, especially if there is not full employment of local people. The economy should provide employment for local people, and ensure that their skills and expertise are fully utilized. Opportunities must exist for employing educated people so they are not forced to migrate in search of work that makes use of their talents.

5. *Essential commodities should be produced by local enterprises.* Imports should be restricted for a period, if needed, in order to support development of local industries and reduce drainage of capital from the local economy. If goods are locally produced, the economy will thrive, and capital will remain in the local area where it can be used to enhance the prosperity of the local people. Free trade advocates contend that consumers should have the right to buy the best or cheapest products available. However, PROUT gives greater importance to the right to be employed and have a stable, strong economy. Healthy economic development generally fosters quality of production. But if local commodities do not satisfy people's needs, steps should be taken to improve their quality or decrease their cost.

Structural Features of the PROUT Economy

Brief description of important distinguishing features of the PROUT economy is given below.

Socioeconomic units. Regional socioeconomic units should be formed on the basis of common cultural, geographic, social and economic factors. These socioeconomic units should be affiliated into a federated state, but they should possess sufficient self-determination in social and economic sectors to create and control their developmental policies.

Three-tiered economy. Economic activity should be undertaken by three types of enterprises: cooperatives, key industries, and small private businesses.

1. *Cooperatives.* Most economic activity should be undertaken by cooperatives owned and controlled by their workers. Cooperatives increase worker motivation and job satisfaction because they give workers control of their enterprise and a stake in its profits. Where cooperatives have access to necessary inputs of production, they typically out-perform comparable private enterprises. Cooperatives are controlled by their worker members through a democratic decision making system. All members must purchase a membership share in the cooperative; this capital contribution is important for each worker-member to have a financial stake in their enterprise. Workers must sell their membership share back to the cooperative upon leaving. Through this system, worker's ownership rights are based on their functional role as workers, and not on the basis of their capital contribution.

2. *Key industries.* Large, capital-intensive, strategic industries, such as utilities, or industries producing raw materials or goods which are vital to the regional economy, should be designated as key industries. Because they play a crucial role in stimulating production and development for the region as a whole, they should be under social control, not worker control. Key industries should be overseen either by the local or regional government, or by autonomous public boards. The work activity within a key industry would be organized on a cooperative basis. Key industries should operate on a no profit, no loss basis. The state should not subsidize their operation, and profits should not be extracted beyond that required for capitalization and

development purposes.

3. *Small private enterprises.* Most small businesses would be privately owned. As a general rule, private enterprises would not be involved with producing or distributing staple commodities. Beyond a certain size of workforce, there should be strong incentives for private enterprises to become cooperatives.

Planning. Economic planning should take place at the global, regional, district, and local levels. So far as is practical, planning authority should reside at the local level. The basic unit of planning for most purposes is the district. District boundaries should not be determined on the basis of political considerations, but on the basis of geographic factors, social commonalities, common economic problems, and common economic potentialities.

District level planning will have the following benefits: planners can better understand the major and minor problems of the area, planning will be more practical and give quick results, local leaders can solve problems according to local priorities, grass roots groups can play an active role in mobilizing human and material resources, unemployment is more easily prevented, and a balanced economy is more readily established. District planning should give particular importance to the following factors:

1. *Cost of production.* Unit costs of production should be carefully determined, and the cost of producing a particular commodity should not exceed its market value. Every economic enterprise must be economically viable, without need of state subsidy.

2. *Purchasing capacity.* A major objective of planning should be to increase the purchasing capacity of each person. For this, there must be: (a) availability of commodities according to local demand, (b) stable prices, (c) periodic increases in wages, and (d) steady increase in collective assets (such as roads, electrical supply, and telecommunications).

3. *Productivity.* The economy should be organized so that it has capacity to continuously increase its productivity. There should be maximum production according to the collective need, and full utilization of the productive units. Money should be properly reinvested, and not hoarded or squandered in unproductive ways.

4. *Collective necessity.* Planners should determine the current and projected needs of the community and form their developmental plan accordingly.

Capitalization. Investment capital should be generated from within the region or through inter-regional trade. Capital for large-scale development can come from developmental bank loans, worker shareholdings, and government grants. Smaller scale enterprises can be capitalized through worker shareholdings, private investment, and loans from cooperative banks.

International trade. To avoid trade deficits and the loss of currency, inter-regional and international trade should be conducted on a barter basis where feasible and appropriate. Locally produced basic commodities should be protected from competition with cheaper goods produced in other countries. To protect local employment opportunities, international and inter-regional trade in raw materials should be avoided; only finished products should be sold outside

of the region.

Regional economies should be self-sufficient in the production of basic commodities. Except for basic commodities protected from foreign competition, there should be free trade. All local enterprises should be able to conduct international trade, so long as they follow trade policies established by the government administration.

Taxation. The primary sources of government revenues should be value added taxes at the producer level and excise taxes placed on non-essential goods and services. Income taxes are not recommended, as they encourage a black economy where earnings go unreported. Nor should there be sales taxes on basic commodities, as such taxes have greater impact on the poor and thus increase economic disparity.

Incentives. For the prosperity of society, incentives are essential to motivate workers to develop and use their full productive capacities. At the same time, rewards should not be so large as to create unnecessary disparity in society. Society should set minimum and maximum income levels. The minimum level should be adequate to insure purchase of basic necessities according to the prevailing standard. The maximum level should balance society's need to maintain high worker motivation with its need to distribute wealth equitably. Over time, the minimum and maximum income levels would rise with rising purchasing power, and the range between the minimum and maximum incomes should be gradually lessened – unless this has the effect of diminishing worker motivation. Incentives should be incorporated into all productive activity. Some effective types of incentives are given below.

1. *Special amenities.* Individuals with skills having special value can be given amenities that provide increased opportunity for them to utilize their talents: for example, special research equipment, or opportunities for continuing education.

2. *Wage differences.* Workers should be paid according to their skill and their labor. This can be done through salary gradations, payment for piecework, or bonuses. Cooperative workers can be rewarded by dividend payments based on the profitability of their enterprise.

3. *Psychological incentives.* Non-material incentives are also very effective for motivating productivity. For example, motivation increases when workers feel compatibility with their job, when their work environment is pleasant and safe, and when their work activity provides interest and challenge. Perhaps the most important psychological factor for increasing worker motivation is the ability to control or influence decision-making. Teamwork can be reinforced by material incentives based on team performance.

Currency. Currency should be backed by bullion or commodities having stable value. If the state is required to guarantee the value of money by issuing bullion on demand, the tendency to engage in excessive deficit spending will be checked and inflation controlled. There should be international stabilization of currency values so that currency speculation can be eliminated.

Commerce. Distribution of essential commodities should be done through consumer cooperatives, rather than through traders, middlemen, or the government. This reduces the possibility of manipulation of prices, hoarding, and bureaucratic inefficiency in the marketing of products that are necessary for consumers and producers. Decentralization of production and

marketing will reduce the opportunity for expensive advertising campaigns designed to manipulate consumer demand.