



A PLAN FOR THE ECONOMIC DEVELOPMENT
OF KHABAROVSK KRAI

On the Basis of the Progressive Utilization Theory

Prepared at the invitation of the Governor of Khabarovsk Krai, Russia

by
Ronald Logan, M.S.
and Carla Dickstein, Ph.D.

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INTRODUCTION TO THE KHABAROVSK DEVELOPMENT PLAN

The Russian Far East is composed of eight political units that cover a vast area of land to the east of Siberia. Khabarovsk Krai is the principle political unit in the Far East*. It has an area a little larger than that of Texas, but is sparsely populated, having a population of about 1.5 million. The capital city, also called Khabarovsk, is the regional metropolitan center of the Far East. Its latitude is the same as Seattle, but – while directly across the Pacific from Seattle – it has a Siberian continental climate. The Russian Far East, in general, is rich in resources, principally lumber, minerals, fish, coal and natural gas. Its agricultural potential is quite limited. But there is significant industrial development in the major Far East cities, in part because many defense industries were located in the Far East during the Soviet era. Also, metallurgical industries are well developed.

With the collapse of the Soviet Union in 1990, Khabarovsk Krai faced the transitional challenges of the former Soviet empire in general, as well as challenges unique to Far East Russia. There was, at this time, a window of opportunity to explore a range of new developmental models. A number of leading intellectuals of the region had a sophisticated grasp of this position. They also recognized that economic globalism posed a significant threat to the future self-determination of the region. Under the Soviet system, the region had endured economic domination by Western Russia. As a result, there was strong attraction for a model of development based on bioregional autonomy and economic decentralization. There also remained positive appreciation for the socialist value given to collectivity, so that an enterprise system that continued to promote social equity and cooperation held appeal.

In late 1990, Ronald (Ravi) Logan, then Director of the Prout Institute of North America gave a two-day seminar on the PROUT model of development to leading progressive intellectuals of Khabarovsk. Those attending saw in PROUT what they had been seeking: a coherent, synthetic developmental theory that stressed regional autonomy, decentralized development, and economic democracy. Under the guidance of the Public Academy of Sciences, they moved to study and promote the PROUT model.

This led to an invitation being extended, by the Governor of Khabarovsk Krai, for the Prout Institute to participate in a competition among leading economic institutes of the region to conceptualize a vision for the economic future of Khabarovsk Krai. Logan and Carla Dickstein, professor of economics at West Virginia University, collaborated on the drafting of the Prout Institute's report. The Public Academy of Sciences arranged for Logan and Dickstein to be briefed by leading authorities on the Khabarovsk Krai's problems and potentialities. Within the short time of three weeks, concentrated by the time pressure of the competition deadline, they produced a report that was later published and disseminated by the Public Academy of Sciences.

In the end, the combined effects of growing corruption in the post-Soviet era and the dramatic thrust of global capital into the Russian Far East undermined efforts to adopt the visionary economic model outlined in the Khabarovsk Development Plan.

* While the United States has states and territories, Russia has six types of administrative units: [republics](#), [krais](#), [oblasts](#), [autonomous oblast](#), autonomous okrugs, and [federal districts](#). A *krai* is a second level administrative unit, having authority that is only less than that of a republic.

1 – ANALYSIS OF THE CURRENT SITUATION

A conception of the development of Khabarovsk Krai must take into consideration both the historic changes going on within the former Soviet Union and the unique conditions of economic development in Far East Russia.

1.1 Former Soviet Union

The former Soviet Union is in the midst of a transition of immense magnitude. It is abandoning the command economy system and formulating a new framework for economic development. This transition is taking place during a period of profound political change and severe economic crisis. The post-communist vision currently favored by Russian policy makers is that of free market capitalism. Toward this end, prices are being floated to market levels; joint ventures are being established with foreign enterprises; farms, shops, banks and industries are being privatized; and the drive for profit is becoming the new motivating force of the economy.

1.2 Russian Far East

The Russian Far East faces an additional set of challenges to those found in Russia as a whole. First, much of the strategic resource wealth of the region is used to economically benefit other regions of Russia. In the words of Stanislav Menshikov, senior researcher at the Institute of World Economics and International Relations, "The central government in Moscow regards the Far East as a colony" (Japan Times, 10 February 1992). Second, much military industry is located in Khabarovsk Krai, and the projected federal budget calls for major cutbacks in expenditures for military equipment procurement. Third, international capital is mobilizing to exploit the Far East's abundant resources. With the problems created by military production cutbacks added to the desperation created by the failed command economy, Khabarovsk could go from being an internal economic colony of Russia to being subject to both internal and external economic exploitation.

1.3 Predicted Outcome

The economic position of Khabarovsk Krai is indeed a difficult one. There is an understandable desire to embrace capitalism and throw open the door to outside capital investment. But careful

consideration should be given to the negative ramifications of such a course of development. Based on an examination of the long and extensive history of capitalist development, and of foreign capital investment in resource-rich, capital-poor countries, the following negative outcomes are likely to accompany the introduction of a capitalist economy in Khabarovsk.

1.3.1 Decrease in social unity. Institution of a free market economy will inevitably end the egalitarian nature of Russian society and lead to the destructive rise of class disparity. Furthermore, the intrusion of foreign capital will create a comprador class whose loyalty to the socio-economic interests of the region will be compromised.

1.3.2 Corruption of democracy. Under capitalism, people with economic power manipulate the democratic process to protect their financial interests. Russia's newly established democratic processes will lose their vitality if a free market economy gets entrenched.

1.3.3 Drainage of capital. Investment of foreign capital results in the drainage of internally generated capital. This phenomenon is especially pronounced in less developed regions which are resource rich. Not only is there a net drainage of currency, but there is also a loss of the natural resources that can be used for development. Khabarovsk could end up with a Third World-like economy.

1.3.4 Dependency. For economic security and healthy economic development, regional economies should strive for a high degree of self-sufficiency in production of basic commodities. With the present breakdown of distribution systems in Russia, the Far East's suffering is intensified due to its lack of self-sufficiency. If Khabarovsk's economy becomes dominated by export-oriented joint venture enterprises, the Territory's dependency will increase.

1.3.5 Ecological degradation. Environmental destruction is typically greatest in resource-based economies controlled by outside capital. Foreign corporate concerns rarely appreciate the need for environmental protection. Environmental degradation, already a major problem in Khabarovsk, would worsen with the intrusion of numerous joint ventures engaged in exploiting mineral and timber resources.

1.3.6 High unemployment. Free market economies do not guarantee full employment. In the most robust capitalist economies unemployment remains low (except during recessionary times). But in less developed capitalist economies, unemployment is high. In Poland, which is now two years into its transition to capitalism, and has economic circumstances similar to Russia's, unemployment is over 10 percent. In Third World countries that have a free market system, unemployment is often over 20 percent. Under capitalism, Khabarovsk can almost certainly expect a substantial number of jobless workers.

1.3.7 Crisis of capitalism. Global capitalism appears to be entering a period of declining growth. Several developed capitalist economies are nearly in a state of depression. To the extent that the economy of Khabarovsk becomes dependent on foreign capital and foreign markets, its current economic problems would be exacerbated if the problems of global capitalism deepen.

1.4. Preserving a Unique Region

Because of its unique qualities, it would be very unfortunate if the Far East were to become subject to the exploitation and environmental destruction resulting from a massive penetration of external capital. The people of Khabarovsk are at a crossroads. They need wisdom and vision if they are to bring about the revitalization of their economy. In this situation, it is valuable for policy makers to consider a diversity of views on the approach to development that Khabarovsk should take. The central aims of the conception of development presented in this report are to preserve the unique qualities of the region and to promote the common welfare of its citizens.

2 – KEY ISSUES

Khabarovsk has an abundance of human and natural resources. But for the people of Khabarovsk to be able to enjoy prosperity and a high quality of life, several critical problems must be resolved. A brief statement of these problems is given below. Recommendations for their solution are presented in Section 4.

2.1 There must be adequate purchasing capacity and availability of consumer goods.

The present purchasing capacity of the great majority of citizens is barely adequate for buying basic foods and clothes. Lack of purchasing capacity is a particularly acute problem for young adults. Many basic consumer items are either in short supply or prohibitively expensive.

2.2 Full employment must be assured.

Privatization of inefficiently managed state enterprises will result in cutbacks in the labor force. Some inefficient industries now operating at a loss are likely to be closed. The federal budget calls for a substantial reduction in military equipment procurements, which will likely result in job losses at military industrial plants. Sociological studies show that one of the greatest fears of youth in Khabarovsk is unemployment, and this fear contributes to their growing feeling of social alienation. Because of the current economic crisis, the government has very little capacity to provide the human services necessary to assist the unemployed.

2.3 The Far East's economy must build on the basis of economic self-determination.

The central government's control and use of the important raw materials of the Far East has been characterized as "half colonial policy". The people of the region have been prevented from fully benefiting from the assets nature has provided them. The problem of economic colonization will be compounded if foreign enterprise is also allowed to gain control of important resources. Research studies have demonstrated a clear correlation between the amount of foreign investment in an economy and the extent of economic underdevelopment.

2.4 Worker motivation and productivity must be improved.

The former command economy failed to sustain a highly motivated and productive labor force. Worker productivity is an essential factor for economic prosperity. But it is not easy to bring about a radical change in the culture of labor that has developed over a period of nearly three generations. Industrial psychology research has shown that workers are most productive when two conditions are present: (1) they own a portion of the assets of their enterprise, and (2) they can actively participate in decision making. Neither of these conditions presently exists, nor are they likely to exist to a sufficient degree under privatization. In addition to these two factors, an effective incentive system needs to be established which optimizes worker motivation while, at the same time, prevents an excess of economic disparity.

2.5 Developmental capital must be mobilized and strategically invested.

Khabarovsk has tremendous needs for capital. Its infrastructure needs repair, improvement and extension. New sources of energy are required. Production equipment needs to be upgraded. New industries must be established, and social and cultural expenditures must be increased. Yet the existing economic system cannot provide anywhere near the capital required. New systems and sources of capitalization must be developed. This capital must be invested wisely to maximize the collective welfare and prevent misappropriation by private interests or drainage for purchase of non-productive luxury goods on foreign markets. The major portion of investment capital should be generated from internal sources to prevent crippling debt obligations, dependency, and economic colonization.

2.6 Environmental protection must be assured.

Environmental destruction results in the loss of productive capacity, which in turn diminishes the possibility of prosperity for future generations. Environmental pollution takes a severe toll on the quality of human life, and environmental degradation destroys the unique qualities of the Far East region. The source of destructive environmental practices lies in the nature of the economic system and in the people's cultural values. A sustainable economic system is urgently required, and new cultural values based on a realization of the interdependency of all life must be adopted. The growth and acceptance of new values requires the revitalization of regional culture.

2.7 A supportive environment for enterprise must be established.

The present climate for enterprise is stifled by excessive taxation, state control, inadequate communications infrastructure, lack of entrepreneurial skills, stifling government bureaucracy, corruption, exorbitant interest rates, unreliable systems of distribution and inefficient marketing mechanisms. The needs of enterprise must be immediately analyzed and addressed. Finance, legal, tax and information systems must be put in place for enterprise to flourish. Furthermore, a supportive legal framework for cooperative ownership must be enacted.

2.8 Efficiency of production and distribution systems must be greatly increased.

Current systems of production and distribution are in a state of near chaos. This has resulted from a complex web of causes related to the breakup of the once integrated economy of the former Soviet Union, the breakdown of the former command system of organizing production, the inefficiencies of old or poorly constructed production and transportation equipment, and the absence of a modernized infrastructure. A more efficient system of organizing production needs to be established on the basis of increased regional self-reliance, greater decentralization of economic planning, and effective allocation of investment capital for strategic development projects.

2.9 Availability of energy sources must be increased.

The economic development of Khabarovsk is hampered due to inadequate availability of energy to meet current demand and future needs. The Russian Far East has the lowest per capita production of energy of any economic region in Russia, yet its geographic and climatic conditions require comparatively greater energy supplies. Although there is lack of energy supply, there is no lack of energy resources – the Far East has ample energy potential. Increase of energy supply is only partly dependent on availability of investment capital. The proper choice of energy technologies and greater efficiencies in energy use are equally important factors in the development of adequate energy for economic growth. Reliance on coal, nuclear and large scale hydroelectric should be avoided as these sources have environmental costs which made them increasingly uneconomical.



Ronald Logan presenting the completed Khabarovsk Development Plan to Vice-Governor Minakur.

THE PROUT PARADIGM OF ECONOMIC DEVELOPMENT

The underlying values of PROUT are clearly distinguished from those of communism and capitalism. 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 command system rejected and economic globalism unsustainable, PROUT's alternative paradigm deserves consideration.

3.1 Principles of Economic Decentralization

Most countries have adopted the policy of 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. Centralized economies have failed to guarantee

ever-increasing purchasing capacity or to eradicate exploitation. 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, expertise and knowledge 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 follows four important principles of economic decentralization, which are presented below.

3.1.1 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.

3.1.2 Production should be based on consumption, not profit. Production should be based on meeting the needs of the general population, not on creating profits for a small number 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.

3.1.3 Production and distribution should be organized primarily through cooperatives (worker owned and managed enterprises). 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.

3.1.4 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.

3.1.5 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.

3.2 Structural Features of the PROUT Economy

There are several distinguishing features of PROUT's economic system. A brief description of these is given below.

3.2.1 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.

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

1. Cooperatives. Except for a few key industries and small private enterprises producing nonessentials, all production should be organized under worker cooperatives that are 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 had access to the necessary inputs of production – capital, entrepreneurship, skilled labor, and competent management – they have out-performed comparable private enterprises.

Cooperatives are controlled by their worker members through a voting policy of one member, one vote. All members must purchase a membership share in the cooperative. This initial 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 or membership 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. The cooperative system is also inappropriate for key industries as they are generally too large to be efficiently managed by their workers.

Key industries should be overseen either by the local or regional government, or by autonomous 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, nor should it extract profit beyond that required for capitalization and development purposes.

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.

3.2.3 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 be undertaken on the basis of the following principles.

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).

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.

3.2.4 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.

3.2.5 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.

3.2.6 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.

3.2.7 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 level and their labor. This can be done in the form of salary gradations, payment for piecework, or bonuses. Workers in cooperatives will be rewarded by payment of dividends according to the profitability of their enterprise.

3. Psychological incentives. Non-material incentives are also very effective for motivating productivity. 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 their having ability to control or influence decision-making. Teamwork can be reinforced by material incentives based on team performance.

3.2.8 Money. 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 upon demand, the tendency to engage in excessive deficit spending will be checked and inflation better controlled.

3.2.9 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.

There should be a free flow of information about consumer products. Decentralization of production and marketing will reduce the opportunity for expensive advertising campaigns designed to manipulate consumer demand.



Papers being prepared formalizing a joint venture between the PROUT Institute and the Public Academy of Sciences to promote a PROUT model of development in the Russian Far East.

4 – RECOMMENDATIONS

4.1 Regional Self-determination

Khabarovsk needs a favorable environment for economic development to take place. Conditions that would promote a favorable business environment include: price stability, reasonable taxes, and legal frameworks that properly define the ownership, control, and rights of enterprises. Many central policies go against these requirements, and the territorial administration presently lacks authority to counteract central policies. Therefore, greater regional self-determination is necessary for Khabarovsk to implement an effective development strategy.

4.2 Production of Consumer Goods

Economic planners must make it a top priority to create full employment and increase the purchasing capacity of the people. For this, the initial stage of economic revitalization should give comparatively greater attention to starting small businesses or cooperatives requiring small capital investments, or making them more productive where they already exist. As an economic base of healthy small enterprises gets established, more emphasis should be given to forming or strengthening capital-intensive industries which can increase Khabarovsk's productive capacity.

4.3 Supportive Business Environment

A supportive legal and economic environment is required to stimulate local production. Cooperatives and small businesses engaging in production – especially those producing basic goods – should be given privileges over traders and speculators. This can be accomplished through: (a) favorable taxation policy, (b) favorable financing policies, (c) high excise taxes on luxury goods, and (d) strict penalties for those hoarding supplies in anticipation of price increases. In addition, local institutions should either be created or restructured to: (a) provide low interest financing, (b) give training in business and entrepreneurship, (c) transfer technology, and (d) assist local markets. These functions are discussed below.

4.3.1 Financing. For investment in productive enterprise to take place, loan capital must be readily obtainable. This loan capital should be generated by the local economy and made available to enterprises on a low-interest, long-term financing basis. It should be used exclusively to capitalize local enterprises. Sources of locally generated loan capital could include the following:

1. Cooperative banks. Coop bank assets from individual and business deposits.
2. Development banks. Development bank funds for investing in local enterprise.
3. Retirement funds. Investment portfolios of worker retirement funds.
4. Community loan funds. Community revolving-loan funds seeded by government or private grants.
5. Debt instruments. Capital market and debt-financing instruments for investing in small businesses and cooperatives.
6. Lease or sale of state enterprises. Leasing fees or profits from the sale of state enterprises should be deposited in local development banks, rather than in the central treasury.

4.3.2 External capital. Locally generated loan capital may initially be insufficient to give adequate immediate impetus to economic growth. Therefore, some reliance on outside sources of development capital may be necessary to give a quick stimulus to Khabarovsk's economy. Any use of external capital must not result in (a) loss of control of local resources, (b) debt to foreign lenders, or (c) capital drainage out of the region. Some sources of external capital that meet these conditions include:

1. Trade profits. Profits from international or inter-regional sale of surplus raw materials or manufactured goods not needed by the local economy. It will be best if the sale of raw materials occur only if: (a) the need for capital cannot be met by other means, (b) the resource to be exported cannot be manufactured into finished products for export, and (c) raw material export is restricted to resources for which there will not be a local demand for the foreseeable future.

2. Joint ventures. Joint ventures of limited duration. (See Section 4.10 for joint venture policy discussion.)
3. Severance taxes. Severance taxes levied on joint venture resource extraction.
4. International aid. Aid from foundations, foreign governments, and multilateral development agencies.
5. Commodity bonds. International bonds issued by resource based industries that are backed by commodity stockpiles or guaranteed delivery of commodities.

4.3.3 Entrepreneurial training. A successful decentralized, participatory economy requires workers who possess initiative, responsibility, work discipline, and collective decision making skills. Business managers additionally require practical business and management skills. It is therefore essential that training be provided to workers and managers. Experienced local managers and entrepreneurs should be involved in this entrepreneurial training process. External experts may initially be required to assist with training in more complex business skills and new approaches management.

4.3.4 Technology transfer. Small businesses and cooperatives need access to appropriate indigenous and imported technologies. A support organization should be established to help develop local technologies and to bring in new technologies through licensing agreements, information exchanges, and joint ventures. This service could be established inexpensively through computer access to information services and by making linkages with international development and business organizations.

4.3.5 Assistance for local markets. Under the command economy system, the state planning system was primarily responsible for coordinating procurement of supplies and distribution of finished products. In the market system, this economic activity takes place mainly through personal contacts and business networks. To expand production and create markets in Khabarovsk newly developing market economy, there must be a fluid flow of information and exchange of ideas. Existing commercial capacity and underutilized resources should be identified and publicized. (Underutilized resources include stockpiles of excess materials or supplies, unused commercial or industrial space, and unemployed workers.) Specific ways that market related information can be gathered and disseminated include:

1. Community assessments. Conduct community assessments of existing commercial activity (suppliers, distributors, and retailers) as well as unutilized or underutilized local resources.
2. Business directory. Publish and distribute a directory of business enterprises and sources of resources and services.
3. Networks. Facilitate networks of local entrepreneurs to share information, contacts, and ideas.

4.4 Increased Circulation of Money

The availability and rapid circulation of currency are fundamental necessities for a vital economy. If money is not available, or if it is available but is not used, the flow of commerce will be stunted and economic problems will intensify. When goods are produced and consumed locally, all of the currency involved in the production and marketing transactions gets circulated in the local economy. When goods for local consumption are produced elsewhere, the flow of

currency involved with their production goes to the external economy. Therefore, the more that goods are produced locally the more will money remain in, and be circulated in, the local economy. District planning boards should determine which products produced in external economies could be produced locally, and support the development of the concerned local industry.

4.5 Planning Boards

Economic planning boards should be established at the district and territorial levels to oversee the creation and implementation of economic development policy.

4.5.1 Authority. Planning boards should function according to the authority invested in them by the Peoples Council of Deputies.

4.5.2 Use of markets. As a general policy, the planning boards should encourage market mechanisms to distribute resources and establish product markets.

4.5.3 Decentralized planning. Planning decisions should be made at the most local planning level practical.

4.5.4 Strategic goals. Planning boards will see that productive resources are directed toward fulfilling the strategic goals of increased availability of consumer goods, economic self-reliance in the production of basic commodities, and ecologically sustainable development.

4.5.5 Mechanisms of control. The boards can use various forms of assistance, regulation and incentives to influence economic development. These include: (a) targeted investments in industry and infrastructure; (b) subsidies for financing, training, research and technology development; (c) dissemination of market information; (d) facilitation of market development; and (e) control of resource allocation. The specific methods by which the boards materialize their development plans should be primarily determined by local conditions.

4.6 Three-tiered Economy

For a balanced and dynamic economy in Khabarovsk, there should be proper development of vital key industries, medium and large-scale cooperative enterprises, and small private businesses. Each of these forms of enterprise has a strategic role to play in the growth of commerce.

4.6.1 Key industries. Large, complex industries of strategic importance to the economy – such as energy, transport, communications and refining industries – should be designated key industries. These industries should not be sold to private interests, but should come under the control of the territorial administration or the Far Eastern Association of Economic Coordination. Key industries should provide cooperative and small enterprises with reliable delivery of basic materials or services. The cost of key industry products should be kept as low as possible, but their operation should not be subsidized except under unusual circumstances.

4.6.2 Small business development. A healthy small business sector is essential for developing entrepreneurship, stimulating new product development, creating jobs, and

innovating new marketing and service ideas. Technical, managerial, and financial assistance should be made available to promote small-scale businesses involved with non-essential goods and services.

4.6.3 Cooperative business development. A major objective of economic restructuring should be to establish producer cooperatives and convert present state enterprises into cooperative enterprises.

1. Wages. Cooperative workers should receive wages based on the skill level of their job and the amount of labor they perform. The range of wages should be kept small, but not so small as to not adequately reward skilled labor and quantity of labor.

2. Incentives. Workers should be rewarded or penalized according to the firm's productivity. This should be accomplished through a system of worker ownership in which worker equity in the enterprise would be determined in relation to the long-term growth or decline of the cooperative's assets, and in proportion to each worker's labor contribution. (This differs from the failed Yugoslavian system in which workers in labor-managed cooperatives received dividend earnings, but had no long-term ownership claim on the firm's assets.)

3. Profits. As a general rule, profits in cooperatives should be limited to 15 percent. Profit levels greater than this leads to excessive concentration of wealth, which tends to create undesirable social and economic effects.

4.7 Transfer of State Owned Enterprises

Medium and large-scale state owned enterprises should become worker owned and managed enterprises (with the possible exception of a few key industries). Those state enterprises which are presently too large to function efficiently as cooperatives should be divided into smaller productive units. These decentralized units can coordinate their operations as part of a larger production process. For example, the parts and equipment used in a shipbuilding operation could be manufactured by a number of satellite cooperative industries.

The transfer of industries from state ownership to worker ownership presents policy makers with several difficult problems: (1) how best to transfer the national patrimony of productive assets that have been developed over several generations? (2) how to make a timely transition to worker ownership given that the value of these industries far exceeds what workers can presently afford to pay for them? (3) how to justly distribute industrial assets to workers considering that some industrial plants are virtually worthless and others have immense value? and (4) how to justify the distribution of industrial assets to workers, considering that society as a whole contributed to building up these assets?

Political bodies should give full consideration to these issues and devise the most just and practical policies possible. Given below are basic approaches that can be adopted for the transfer of state enterprises to the workers. There are advantages and disadvantages of each. To the extent possible, the approach used should fit the particular circumstances of the industrial property being transferred to its workers.

- 4.7.1 Lease to workers. Workers could lease industrial assets from the state based on a determination of the fair value of the assets at the time of transition and the payment of a yearly interest rate.

4.7.2 Sale to workers. Workers could buy out part or all of their firms, either immediately or in the future. This would require that mechanisms be established for them to raise the necessary capital for purchase. There has been experimentation in Eastern Europe with adapting the Employee Stock Ownership Plan (ESOP) for making a gradual transition to worker ownership. Under this approach, workers acquire stock in their company. Workers then have a stake in the growth or loss of their firm's assets, which gives them greater incentive for high productivity.

4.7.3 Direct ownership transfer to workers. Industrial plants, retail shops, and other state owned enterprises could be given outright to their workers.

4.7.4 Transitional privatization. Cooperative enterprises require proper conditions to function effectively. In many instances, these conditions may not yet be present. Converting state enterprises into cooperative enterprises under such a situation would risk failure. The better approach might be to privatize, but establish a mechanism whereby workers would be able to buy out privatized businesses when proper conditions exist to run them as cooperatives. Two recommended ways to facilitate future cooperatization of privatized firms are: (a) have private businesses be run on the Japanese employee involvement system of management, and (b) establish an ESOP arrangement for gradually increasing workers' share of ownership.

4.8 Establishing Cooperative Enterprise

The following skills, policies and institutions should be in place for the viable development of cooperative enterprise.

4.8.1 Cooperation skills. Russian culture's tradition of social cooperation provides favorable conditions for the efficient functioning of cooperative enterprise. However, the transition to a cooperative economy will require considerable training for both workers and managers in business skills, entrepreneurship, participatory management, and cooperative principles. Workers and managers should receive proper training before starting new cooperative firms, or before converting state owned firms to cooperative ownership.

4.8.2 Legal structure. A suitable legal structure should be formulated for cooperative enterprises to function within.

4.8.3 Support institutions. Various cooperative support institutions should be established to provide education and training, financing, technical assistance, product development and technology transfer.

4.8.4 Capitalization. A capital market for debt investments should be developed. The use of debt instruments would create a means to attract private investors to capitalize cooperative enterprises, but would not force cooperatives to relinquish worker control as could happen if they were to publicly sell stock.

4.8.5 Model cooperative complex. A model cooperative enterprise complex should be established as a means to promote the popularity of a cooperative economy. A successful model will greatly stimulate public interest in cooperatives. If cooperatives serve people's needs, they

will receive popular support. A model cooperative complex would also provide a laboratory of practical experience necessary for evolving an efficient cooperative enterprise system. Such a model complex could demonstrate an integrated system of cooperative production and marketing. For example, soybeans grown by agricultural cooperatives could be processed into various food products by producer cooperatives, who could have their products marketed by consumer cooperatives; and all of the enterprises could get capital from an associated cooperative bank.

4.9 Trade Policies

Most national economies in the present world experience great difficulties as a result of their international trade policies. International commerce is an essential feature of economic development and of meeting consumer needs. But improper trade policies create dependency, a crippling drainage of currency reserves, and the loss of valuable natural resources.

The Far East will suffer from the foreign trade created problems that have afflicted the underdeveloped world, as it shares many of their structural features. There is an abundance of raw materials for export, a demand for imported goods, and a need for investment capital. So care must be taken to formulate proper trade policies so that trade does not cause a worse economic situation in Khabarovsk.

Creation of a healthy trade policy for Khabarovsk is made difficult by the fact that the central government has extensive authority over this sphere of economic life. Several trade policy recommendations are presented below. The Territorial government may lack the authority to implement them. The purpose of presenting these policies is to indicate a proper approach to trade relations and to show what might be possible should greater economic authority devolve to the regional level.

4.9.1 Barter trade. In many instances, it would be preferable for international and inter-regional trade to be conducted on a barter basis. Trading through the barter system prevents drainage of currency reserves. It also serves to stabilize the value of export commodities, thereby preventing hardships should there be a decline in commodity prices on global markets. Finally, barter trade can help stabilize the supply of imported materials, thus preventing disruption of production which is dependent on imported materials. If global economic conditions worsen, reliance on barter trade will become all the more important. So the Territorial government should institutionalize mechanisms for facilitating barter trade.

4.9.2 Raw materials. It would be better for Khabarovsk's valuable raw materials to be exported only when it can be established that there is surplus availability and little opportunity for their use in the manufacture of finished products for export. The export of raw materials results in loss of opportunity for the creating value which gets added during processing and manufacturing. Exporting raw materials may also result in the loss of resources that may be of value to future generations.

4.9.3 Investment of profits. Profits from the sale of raw materials, or of products produced by governmentally controlled industries, should be used to finance infrastructure development, or for development of production facilities having strategic significance. Such a

policy would insure that sale of regional resources would benefit the local population as a whole.

4.9.4 Strategic import commodities. Incentives should be created for the import of equipment, materials or commodities having strategic importance. So much as possible, the Territory's precious capital should not be squandered on the import of luxury goods affordable only by a wealthy few. Until the people as a whole enjoy prosperity, imports should be limited to useful productive equipment, and to essential and semi-essential consumer commodities. Substantial import taxes should therefore be placed on luxury goods. Trade for strategic commodities can be promoted through favorable tax policies and through government assistance with purchasing and marketing.

4.9.5 Trade protection. In many instances, locally produced products should be protected from competition with imported products. This is necessary to develop greater regional self-sufficiency in the production of basic necessities and to insure the development of a strong and balanced local economy. At the same time, steps should be taken to improve the quality, increase the quantity, and decrease the price of locally produced goods so that it will eventually become unnecessary to protect them from foreign competition.

4.9.6 Control of smuggling. The smuggling of luxury goods and of goods that compete with protected local industry goes against the collective good. So smuggling should be regarded as an anti-social activity. Customs officials must remain diligent and honest in their duty, and the criminal justice system must be prepared to punish big time smugglers.

4.9.7 Free trade. Except for the protection of newly developing local industry, international commerce should be conducted on a free trade basis. The freeing of trade from export taxes and import tariffs promotes commerce and makes a wider range of goods available and affordable to consumers.

4.10 Joint Ventures

Joint ventures present a dilemma for the healthy economic development of Khabarovsk. On the one hand, joint ventures offer a ready source of investment capital and of new technology. On the other hand, they typically lead to a drainage of capital from the region, and they can limit possibilities for regionally appropriate development. Given Khabarovsk's critical need for development capital and technological renovation, it is not advisable to prevent the formation of joint ventures. However, every care must be taken to insure that the benefits of joint ventures are optimized and their drawbacks minimized. The following proposed policies are designed to have this effect.

4.10.1 Long-range objective. Khabarovsk's eventual goal should be to establish full local control over its resources and productive capacities. Joint ventures should be regarded as being temporarily acceptable. The role of joint ventures is to stimulate economic renewal at a time of extreme need; they should have no legitimacy as a permanent feature of Khabarovsk's economy.

4.10.2 Preferred forms. Joint ventures can take a variety of forms, some more desirable than others. Joint venture arrangements that are preferable include:

1. BOT. The "Build-Operate-Transfer" (BOT) approach is an arrangement in which a foreign firm builds a production facility, trains local people in its operation, and then transfers ownership after earning a prearranged profit on its investment.

2. Time-limited capital investments. Foreign investors invest capital only, leaving operating control of the joint venture in local hands. Only a set amount of profit could be realized on the investment, then the investor's involvement in the venture would terminate.

3. Barter for services. A foreign firm provides technology or expertise in barter exchange for local materials or products.

4.10.3 Protection from market fluctuation. Many joint ventures produce goods for export. Global markets for these commodities can be very volatile. A decline in demand for a product in foreign markets can adversely affect the fortunes of an export-oriented enterprise, and this in turn can devastate the local economy in which it is situated. To protect against this eventuality, licensing preference should be given to those joint ventures which either produce goods or services for local markets, or for highly stable global markets.

4.10.4 Strategic recruitment. Khabarovsk should not have a policy of indiscriminate openness to foreign investment. Rather, it should discriminately accept, or actively recruit, joint ventures on the basis of the Territory's strategic needs for capital investment or for new technologies. That is, only where the assistance of outside capital or expertise is genuinely needed should joint ventures be accepted or encouraged.

4.10.5 Background investigation. The history of operation of prospective joint ventures should be investigated. Many foreign corporations have a record of environmental damage, labor exploitation, and dishonest dealings. Such corporations should not be allowed to do business in Khabarovsk.

4.10.6 Employee involvement and profit-sharing. Joint venture enterprises should agree to establish policies whereby workers can purchase shareholdings and participate in decision making. Both these factors contribute to worker motivation, reduce worker alienation, and promote economic democracy.

4.10.7 Trade unions. Joint venture should not be permitted which do not support the right of trade unions to organize workers.

4.10.8 Worker buyouts. When a joint venture terminates its operation, its employees should have the first right to purchase the company's assets. From the beginning of a joint venture's operation, some means of building up an employee capital fund should be established so that workers will have the resources to finance a buyout.

4.10.9 Management and technology transfer. Joint ventures should agree to transfer managerial and technological knowledge so that the enterprise can eventually be fully operated by local people.

4.10.10 Severance taxes. Joint ventures involved in the extraction and international marketing of raw materials should pay a severance tax. Revenues from such a tax should be used for infrastructure development or for strategic investment in new industry.

4.11 Agricultural Policies

Development of the agricultural sector should get special importance for the following reasons:

First, the agricultural sector is currently underdeveloped. (On the Chinese side of the Amur Valley, nearly 90 percent of the population lives in agriculturally based villages. On the Far East side, only a very small portion of the population are involved with farming.) While Khabarovsk's farm workers are few, there is great local demand for more abundance of agricultural products.

Second, the Far East suffers from a lack of self-sufficiency in the production of basic food commodities. This dependency is especially troublesome due to the present breakdown of distribution systems in Russia and the resulting undependability of food supplies reaching the Far East.

Third, an increase in agricultural employment has the potential to absorb displaced workers from inefficient enterprises which are closed, or which are restructured with smaller work forces.

Fourth, in economies where the agricultural sector is weak, robust economic development is usually difficult. This was a chronic problem of the Soviet economy, and remains an unsolved problem for the Russian economy. If there is inadequate food production, food imports are required, and this results in drainage of capital. In the case of the Far East region, expenditures for imported foods results in drainage of capital to other parts of the Former Soviet Union.

Finally, development of the agricultural sector can rapidly stimulate economic development. There is always an existing and stable local demand for food products. As a general rule, comparatively little initial capital is required to grow crops or start agro-industries. The growth of agriculturally based industry, in turn, helps stimulate wider industrial development and commerce. If proper policies are adopted, more new capital per unit investment is likely to be generated by agriculture and agro-industries than by any other sector of the economy.

While development of Khabarovsk's agricultural sector holds promise, the difficulties of development are great. Khabarovsk is predominantly mountainous and so has a very small amount of arable lands. Valley soils are poorly drained and have high clay content, requiring special cultivation techniques. Summer rains cause extensive crop loss. Life in agricultural communities is unattractive. The system of farming developed under the command economy is inefficient and unproductive. And development of agriculture has long been neglected.

4.11.1 Restructuring agricultural production. The present system of state and collective farms is being abandoned. But without proper policies, this transition can create an even greater loss of agricultural production efficiency.

The basic approach to agricultural restructuring should be to privatize, then cooperatize. This process, to be successful, must be based on well thought-out policies that can be pragmatically adapted to local circumstances. Policies that may promote successful restructuring of agriculture are given below.

1. Equitable division. So far as possible, the division of existing state and collective farm lands and assets should be made on an equitable basis, taking into consideration

factors such as family size, rational division of equipment, differing productivity of farm land, occupation of state/collective farm members, etc. The creation of uneconomic land holdings should be avoided.

2. Support services. Support services for agricultural communities should be provided to aid in: (a) establishing economically productive private and cooperative farms, (b) marketing farm products, and (c) developing the social infrastructure of rural areas. These support services can be provided by both state agencies and by farmers' associations. The less the involvement of government agencies and the more the involvement of independent farmers' associations, the better.

3. Productivity. Agricultural cooperatives should be created according to carefully formulated policies designed to assure high productivity. Cooperative farms should be of a smaller size than the collective and state farms, yet they should be large enough to ensure high quality and quantity of production and make efficient use of farm machinery.

4. Private land holdings. While the members of agricultural cooperatives should work their land and market their crops collectively, they should retain private ownership of their land holdings. As a general principle, they should have the right to sell their land, or purchase new lands.

5. Model projects. The initial phase of forming cooperative farms should be through voluntary association. To demonstrate the many advantages of the cooperative farming system, model cooperative farms should be established. This will promote voluntary participation in the cooperatization of agriculture.

6. Profit distribution. When the crops of agricultural cooperatives are sold, one-half of the profits will be distributed to members of the cooperative on the basis of their land holdings and one-half on the basis of their labor contribution.

4.11.2 Rural development. Concerted efforts should be made by district planning bodies and local farmers' unions to promote social and economic development in agricultural areas. Special areas of assistance include:

1. Capitalization. Cooperative banks and development grant funds should be created to build the pool of investment capital for use in rural areas.

2. Agro-industry. Cottage industries and cooperative industries that make use of agricultural products should be promoted in farming districts. This will improve the economic standards of rural communities.

3. Research and training centers. A network of agricultural research and training centers should be established to develop and propagate new agricultural techniques.

4. Cultural facilities. Cultural facilities and programs should be established in farming areas to make farm life more attractive and to stop the flow of the rural population to the cities.

5. Self-sufficiency. Means should be found to make rural communities increasingly self-sufficient in basic building materials, medical care, energy, and clothing production.

4.11.3 Agro-industries. It is preferable for agro-industries to be located in agricultural communities. A diversity of agro-industries should be established which make use of agricultural crops. For example, many products can be made from soybeans. Agro-industries can be associated with agricultural cooperatives, or they can be organized as independent producers cooperatives.

4.11.4 Pricing system. The price of agricultural products should not be subsidized by the state, nor should farms be subject to the price uncertainties that can occur when traders control food marketing. Food commodity prices should be based on actual costs of production, including the wages paid for farm labor. In this way farmers can be assured an adequate income. Any state subsidies on food items will have to be removed in a careful, step-by-step process.

4.12.5 Crop priorities. Khabarovsk's limited agricultural lands should be utilized in a manner that insures their maximum productivity. For example, approximately ten times greater food production can be attained when cropland is used to grow crops for human consumption than when growing crops for fodder for livestock. Thus, sources of protein such as fish and beans should be preferred to promote maximally productive use of farm land.

4.12.6 New technologies. Efficient farming practices and technology developed in Korea and Manchuria should be studied and adopted, especially the use of greenhouses. Permaculture, biodynamic, and organic methods of farming should also be investigated, as these improve soil quality and avoid ecological damage.

4.12 Energy Policies

Lack of energy supply limits development in Khabarovsk, and in the Far East in general. Energy supply lags behind the demands of the economy, hampering development of the region's industrial potential. Eliminating the shortage of electrical power, in particular, is one of Khabarovsk's most urgent economic challenges. The main factor which impedes development of the region's abundant energy resources is lack of capital. The recommendations that follow provide strategies for overcoming this obstacle.

4.12.1 Conservation. One of the main global trends in energy planning is to increase supply not by creating new power stations, but by making more efficient use of existing capacity. Increase of energy supply through conservation of already developed generating capacity typically requires far less capital investment per unit energy than does construction of new power plants. A comparison of the efficiency of energy usage in Khabarovsk with the efficiency of use in Japan or Scandinavia — societies which have stressed a strategy of conservation — would show that immense amounts of Khabarovsk's power supply is being wasted. A cost comparison study of developing new generating capacity versus conservation of existing resources would almost certainly show energy conservation to be more cost-effective.

4.12.2 Renewable energy sources. There is growing global recognition that humanity must shift away from use of nuclear and hydrocarbon fuels to a primary reliance on renewable sources of energy. This is the energy path of the future, and it is a path that has sound logic for Khabarovsk. Consider the problems encountered with traditional systems of energy generation: Nuclear power is costly and unsafe, and effective means of nuclear waste disposal have not been developed. Large hydroelectric power stations have detrimental environmental impact, including destruction of migrating fish runs. And coal power stations belch immense amounts of pollution into the atmosphere, damaging forests and adding to greenhouse gases. The main sources of renewable energy which Khabarovsk has good potential to develop are micro-hydro, wind, and solar.

4.12.3 Appropriate technology. There are many new energy efficient machines and technologies which could be profitably introduced, or produced, in Khabarovsk. These are often simpler technologies, requiring less capital investment to manufacture.

4.12.4 Conversion. One of the major challenges facing Khabarovsk is that of converting military industries into industries producing goods for the civilian economy. A conversion strategy that has promise is that of creating a major center for the production of appropriate technologies and renewable energy generation equipment, such as solar energy technology. This would be particularly appropriate for Komsomolsk, which has a concentration of military industry. Conversion to production of new technologies would make efficient use of Komsomolsk's highly trained work force. There is a rapidly growing global market for solar electric generating equipment, solar powered appliances, and other renewable energy products.

4.13 Environmental Policies

The United Nations Report on Development and the Environment concluded that where there is environmental degradation, economic potential declines. Destruction of the environment leads to a diminished economy. This is as true in Khabarovsk as it is in other regions of the world. Pollution in the Amur has caused a decline in fish stocks. Bad forestry practices have destroyed vast areas of timber reserves. And industrial pollution has impacted the health and vitality of industrial workers. Protection of the environment is also important for less economically tangible reasons. The Far East has a unique level of biological diversity for a temperate region, and its sea coasts, rivers, and taigas give sustenance to the inner life of its human inhabitants. Therefore, environmental protection and restoration should not be regarded as luxury expenditures to make at some future date when they are more affordable. The longer such investment is delayed, the more burdensome will be the future costs. Environmental problems need to be solved through evolution of new cultural values, transformation of the economic system, and adoption of new policies.

4.13.1 Systemic policies. Changes in the economic system that would foster environmental protection are as follows:

1. Decentralized planning. Under centralized planning, the people who control economic planning live in a distant place, far from the environmentally destructive effects of the economic activity they control. Under decentralized planning, planners are likely to personally experience environmental degradation, and they are accessible to members of their community who are affected by pollution. So economic planning should take place primarily at the local level.

2. Consumption-based economy. The free market system has as its primary objective maximizing short-term profits. Therefore, profit motivated enterprises do not give proper consideration to the long-term environmental costs of production. A consumption-based economy, in contrast, seeks to create a steady increase in the quality of people's lives. This requires long term planning to maintain environmental balance and economic sustainability.

3. Proper pricing system. The system for pricing commodities must include environmental costs in the calculation of the unit cost of production. The less the environmental costs, the lower will be the price of the product. If environmental protection expenditures need

to be made by producers, their cost will be distributed among consumers, so this method of pricing will tend to favor products and production systems having low environmental impact.

4. Maximum utilization. There should be maximally efficient use of all resources, energy supplies, and manufactured products. Wasteful use of materials should be avoided, reuse should be encouraged, and greater efficiency of use should be strived for.

5. Front-end environmental costs. Control of pollution and the prevention of environmental destruction should be incorporated into the initial design of industrial plants or processes, and strategies for reducing waste and pollution should focus on eliminating problems at their source. In the long run, this approach to dealing with environmental problems at the beginning, or at their source, would require far less financial expense than if they must be confronted later.

4.13.2 Policy recommendations. Some specific policies that should be adopted to solve Khabarovsk's environmental problems are as follows:

1. Forestry. Management of forest resources should be based on: (a) insuring maximum utilization of all harvested timber; (b) restricting the export of unmilled logs; (c) managing forests for their multiple economic benefits – i.e., fish, berries, recreation, ferns, mushrooms, flowers, honey, botanical medicines, fowl, etc. – not exploiting forests only for their high grade timber; and (d) protecting bio-diversity and insuring the maintenance of healthy, complex forest ecosystems.

2. Energy. Any capital investment in new energy development should go for developing environmentally clean, renewable energy sources, such as wind, solar, and micro-hydro. And more efficient use of existing energy supplies should be regarded as a cost effective alternative to investment in new energy sources.

3. Environmental assessment. At the time of sale of any state owned industrial enterprise, an assessment of the enterprise's environmental impacts should be made a part of the sales negotiations process.

4. Agriculture. Use of toxic chemicals in agriculture should be avoided to protect public health and prevent toxifying water systems. Integrated pest management and organic agriculture techniques can effectively replace pesticides and harmful chemical fertilizers.

5. Nuclear waste depository. A study should be made of the health risks of Khabarovsk's nuclear waste depository by an independent commission that enjoys full public trust. If warranted, this commission should issue recommendations of steps to take to protect public and environmental health from any dangers that the depository might present.

6. Environmental costs. Industrial enterprises must assume the costs of installing pollution control equipment. These costs should be considered a part of production expenditures and be included in the pricing of their products.

7. Planning boards. All planning bodies should have an ecologist on their staff, or reviewing their work. It will be the ecologists' responsibility to help the planning bodies design environmentally safe approaches to development.

8. Wilderness areas. Khabarovsk's Krai's system of wilderness reserves should be enlarged to protect significant, intact large ecosystems and preserve biological diversity.

9. Conservation. Individuals should bear the costs of their personal energy and water usage, rather than having utility costs born by the state. This will motivate citizens to conserve water, heat and electricity. At the same time, there should be a state initiated educational program to teach people conservation practices.

4.14 Social Development

Social development is integrally connected with economic development. For example, if the educational standards of the work force decline, then its productive capacity will decrease. Or, if workers have poor health or are alcoholic, then their job performance will suffer. Following are recommendations for promoting education, health care, and cultural development – these being the social factors which have most direct relationship to economic vitality.

4.14.1 Education. No economy can create prosperity if its labor force is not properly educated. Education is one of the most strategic forms of economic investment. The best education is one which develops the full human personality, cultivates a healthy social and ecological outlook, and imparts the practical skills necessary to competently engage in productive activity.

1. Curriculum reform. To prepare Khabarovsk's youth for citizenship in the new Russian society, the post-modern world, and a Far East regional commonwealth, development of the following awareness, skills and values should be stressed in the educational curriculum: (a) personal initiative, enterprise and creativity; (b) knowledge of the culture, history, environment and economy of the Far East region; (c) ecological awareness and ecological values; (c) cooperative values and team problem-solving skills; and (d) non-dogmatic awareness of the detrimental effects of crudifying culture and habits.

2. Investment in education. There should be increased expenditures for teachers' salaries and educational facilities and materials. Financial support for education should come from state, business, and community sources.

3. Worker retraining. Programs should be established to retrain workers whose job skills have become obsolete. The business community should be directly involved with worker retraining programs.

4. Business training. Programs should be established to give training in business skills to people wanting to start new enterprises, or more efficiently manage existing ones.

4.14.2 Health Care. Health care effects economic development in two important ways. First, productivity is much greater among workers who are physically fit and psychologically balanced. Second, the less health care expenditures society has to bear, the greater will be the financial resources available for economic investment. The following recommendations are intended to either improve personal health, or reduce medical expenditures.

1. Preventative medicine. The medical system should give priority to teaching preventative medicine and encouraging healthy living. As a result of this policy, society's burden of expenditures for medical care can be greatly reduced.

2. Healthy environment. Industrial production, agricultural production, and waste disposal should be undertaken in ways that prevent pollution. This policy would protect citizens from debilitating diseases caused by environmental toxicity, resulting in further financial savings for the society.

3. Self-sufficiency. The Far East should increase its self-reliance in the production of basic medicines and medical equipment. The development of botanical medicines from locally grown plants should be encouraged.

4. Medical cooperatives. Health workers should organize themselves into medical cooperatives. Payment for medical services can be handled through socialized medicine supported by district health funds, or through community based health insurance cooperatives.

5. Health worker wages. To encourage qualified people to become professional health workers, the wages of doctors and other medical workers should be increased. At the same time, the universal availability of health care must be assured.

6. Alternative modalities. The availability of holistic and non-allopathic medical services should be increased. These healing systems are typically less expensive and are more effective for treating many illnesses.

4.14.3 Culture. A vital culture is essential for a vital human psyche. Where there is degradation of culture, people lose their psychic stamina. This impairs expression of their creativity and dampens their capacity to actualize their visions. Worse yet, a people without vitality of culture may become victims of cultural and economic imperialism. Some approaches to invigorating cultural development in Khabarovsk include:

1. Local culture. Without a strong, authentic culture people become prey to exploitation by external commercial forces. The introduction of commercial pseudo-culture saps the vitality of their psyche and diminishes their capacity to contribute to the collective welfare. The development of an indigenous Far East culture should therefore be encouraged.

2. Cultural imperialism. The commercially based pseudo-culture originating in Hollywood, Tokyo, and New York is devastating traditional values and customs, alienating people from their environment and cultural legacy, and damaging the subtler sensitivities of the human psyche. The acceptance of the global pseudo-culture creates excessive demand for superfluous imported commodities, which drains currency reserves and stifles consumption of locally produced products. Constructive cultural experiences that appeal to the modern mind should therefore be developed and encouraged as a positive alternative.

3. Youth culture. Many of Khabarovsk's youth are experiencing a loss of ideals, a lack of trust in leadership, and no sustaining vision for their lives. They also suffer from a lack of wholesome social activities. At this time of economic crisis, Khabarovsk needs the vitality of its youth if there is to be economic renewal. The special problems of youth can be addressed through making social expenditures for youth cultural facilities, providing youth increased economic opportunities, and, most importantly, giving youth a new ideological vision based on a deep appreciation for holistic human potential and ecological harmony.

4. Ecological culture. Environmental devastation adversely affects Khabarovsk's economic potentiality. The root cause of environmental destruction is defective cultural values. To solve the ecological crisis and insure economic abundance, a new value outlook is required – one which recognizes humanity's interconnectedness with all life.



Ronald Logan, Director of the PROUT Institute, and Yevgeny Galichanan, President of the Public Academy of Sciences, signing joint venture agreement to create Lotus, a planned fifteen year venture to work in collaboration to establish a regional economy in Far East Russia on the basis of PROUT.

5 — MAKING THE TRANSITION

While the need for economic decentralization has become increasingly well established and recognized, its implementation requires a major shift from the thinking which guides the economic system in current use. Because of this, adoption of the PROUT economic model should be made in a well thought out manner. Systems of production, distribution and finance in

Khabarovsk are already severely disrupted. An abrupt, poorly planned change to a new economic system would only bring further disruption. Given below are several general policies intended to provide for a well-ordered transition to a PROUT economy. There is sound rationale for these policies, as each is well supported by economic research and practical experience.

Political authority at the Krai level or Far East region level does not yet exist to fully implement some of these transitional policies. However, they are presented as if authority does exist for reasons that follow. First, the Central government may decide to extend greater authority to the territorial or regional government. Second, local economists and political officials may be able to conceptualize ways in which these policies could be partially implemented under existing circumstances. And, third, local planners should possess a vision of what could be possible if the Russian Far East were to enjoy a greater measure of economic self-determination.

5.1 Internal Capitalization

Reliance on internally generated sources of capital should be maximized, and dependence on external sources of capital minimized. Such a policy of self-reliant capitalization will do much to prevent Khabarovsk from developing the problems of debt and dependency which are presently crippling the economies of Third World nations.

5.2 Development Banks

A system of development banks that can provide long term, low interest loans should be established to help capitalize economic development. Much of the initial assets for these banks can come from profits made on the sale of surplus raw materials or commodities sold in international or inter-regional markets.

Note: Trade in raw materials is generally inadvisable, as the added value that results from using them in manufacturing is lost. But given Khabarovsk's immediate need for substantial amounts of locally controlled investment capital, a short-term policy of sale of raw materials should be accepted. However, profits from the sale of these resources should benefit the society as a whole, and not go disproportionately to private interests.

5.3 International Trade

International and inter-regional trade should be conducted on a barter basis, where appropriate. This will diminish drainage of capital from the region, as can result when trade is conducted in the currency-based system of purchase and sale. Incentive should be created for the import of strategically needed technology and for essential consumer goods that cannot be produced locally. The import of luxury items should be discouraged until such time as Khabarovsk establishes a more vigorous economy.

5.4 Joint Ventures

The negative impacts of joint ventures – whether economic, social, cultural or ecological – should be carefully minimized. Joint ventures which contribute to increased economic self-determination and regional self-sufficiency can be encouraged as an interim policy, but not as a long term objective. The long-term objective should be one of local control of local enterprise.

5.5 Cooperative Enterprises

Sources of capital, legal frameworks, and support programs should be established to assist the formation and successful operation of cooperative enterprises (i.e., worker or consumer owned and managed businesses). The types of cooperatives for which this should be done include: producer cooperatives, consumer cooperatives, agricultural cooperatives, housing cooperatives, and cooperative banks.

5.6 Key Industries

Important energy, transport, communications, and refining industries should be designated as key industries. These enterprises should not be controlled by private interests, but should come under the control of the Krai government or the Far East Economic Region. Key industries should operate on a no profit, no loss basis unless there is emergency need to provide short-term governmental subsidies. An effective incentive system must be adopted so that workers perform with a high degree of efficiency and motivation.

5.7 Private Enterprises

Economic policies and programs of assistance should be established to promote and support small-scale enterprises. In general, greater help should be given to enterprises involved with production, rather than those involved with trading.

5.8 Investment Priorities

Stimulus of economic growth can be maximized if investment capital is allocated for strategic infrastructure projects, strategic key industries, agriculture, and enterprises that produce essential commodities and require little capitalization. Until economic vitality is established, minimal amounts of capital should be allocated for export oriented production, for non-essential government services, or for enterprises which produce or market luxury commodities or services.

5.9 Agricultural Sector

The agricultural sector should be expanded and made strong. There is immediate need for greater regional self-sufficiency in the production of staple foods and for improving food distribution. Numerous agro-industries should get established which make use of locally grown crops, require little capitalization, and produce foods for which there is existing local demand.

5.10 Information Flow

To assist economic enterprise, a variety of means should be developed to make commerce-related information readily available. Directories of suppliers, distributors and retailers should be published. Trade organizations should be established to provide useful information for each industry. Government or non-government services should be created to advise entrepreneurs. Forums for international and inter-regional exchanges of information should be encouraged. And product information should be made available to consumers.

5.11 Entrepreneurial Culture

Policies and programs are needed to build a culture that promotes enterprise, productive labor, skill development, and teamwork. These are fundamental factors for the development of a productive economy.

5.12 Worker Motivation

Workers should be provided full motivation and opportunity to be productive and creative. This best occurs when workers own assets in their workplace and have scope to participate in decision-making. Bonus pay can also encourage productivity. And special incentives must be given to highly qualified people whose work has social merit.

5.13 Environmental Protection

Policies of ecological protection should be expanded and properly enforced. No economy that damages the environment can remain vigorous and fully productive. Natural resources should be used wisely and without waste.

5.14 Popular Participation

Citizens should share responsibility for determining Khabarovsk's economic future. When people are given meaningful opportunity to initiate and participate in economic development, they become more committed and productive, and are less likely to be alienated from political leaders. The new Russian citizens of Khabarovsk must face their future with full confidence in their power to create an economy of abundance.