PROUTIST ECONOMY AND INDIA'S BRILLIANT FUTURE

DR. RAVI BATRA

author of
International Bestseller
The Great Depression of 1990

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Dr. Ravi Batra

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To My Father
Shri Harish Chander Batra
Who Led Me To Economics

From Confusion Comes Clarity
From Failures Comes Victory
From Struggle Comes Progress

Other Books by Ravi Batra

1. *Studies in the Pure Theory of International Trade*

2. *The Pure Theory of International Trade Under Uncertainty*

3. *The Downfall of Capitalism and Communism: A New Study of History*

4. *The Great Depression of 1990*

5. *Surviving the Great Depression of 1990*

PREFACE

Ever since Independence, India has been engaged in an experiment, unprecedented in its history, of consciously bringing about rapid economic development. It has followed the path of large-scale industrial growth and mechanization through a mixture of central economic planning and private enterprise. In the course of four decades of planning, the Indian economic structure has been radically altered, its industry radically transformed, its agriculture somewhat mechanized, its skilled labour considerably magnified. The fruits of almost forty years of planned economic transformation are in evidence almost everywhere. Steel plants, heavy industrial complexes, machine tools industries, and nuclear enterprises among countless other ventures now bedeck the once largely agrarian map of India. In short, economists would say that the Indian economy has made great progress since Independence.

Yet poverty stalks the land as much as ever before. Unemployment is reaching new heights, with no let up in sight. True, there are more millionaires than ever before; yet the labour unrest, and a general sense of frustration have seldom been higher. While the rich

have gotten richer, the poor continue to struggle for survival.

Something has gone awry; something has occured to create a chasm between promises and performance. There is a need for new ideas; fresh thought is urgently needed to counter the menace of impending economic and social breakdown. That is where this book comes in. Its purpose is to examine what is basically India's contribution to modern socio-economic thought, but one which has been largely ignored in the country of its origin.

The book analyzes the Progressive Utilization Theory, or what its controversial author, P. R. Sarkar, calls Prout. In the pages that follow, I show that Prout deserves a serious study and discussion, that, when interpreted objectively, it provides answers to all the Indian economic and social dilemmas; that in it and it alone, the groping Indian society will find a path leading not only to true economic development, but also to social harmony and international recognition. For Prout's message is universal, and if India becomes the first to benefit from socio-economic reforms that flow from Sarkar's ideas, then other developing countries facing similar troubles will follow suit.

The book first builds upon the fundamental principles given by Sarkar, and then prepares an agenda for socio-economic reform. The recommendations call for radical changes in economic thinking and social structure. But then nothing short of a drastic surgery will solve the gigantic problems facing the Indian people.

As usual, I owe my greatest intellectual debt to P. R. Sarkar

whose monumental work lies at the heart of my investigation. I am also grateful to my research assistant, Sanjay Unn, and to Susan Andrews for collecting much needed material. The chapter on Ananda Nagar is based verbatim on a pamphlet written by Susan. Others who have contributed to my work either through discussions or through their reading of the first draft include Josef Hadar, Dada Abhaya, Prasanta Pattanaik, Thomas Fomby, Arvind Chaudhary, Amar Parai and Matiur Rahman. Needless to say, I alone am responsible for any errors.

In writing this book, I have made use of some material from my earlier book, *The Downfall of Capitalism and Communism: A New Study of History* and from my articles in *The Illustrated Weekly of India, and Sunday*. I am thankful to these magazines for helping me express my views.

Last but not least, I am grateful to my loving wife Sunita for carefully editing this book.

Dallas, Texas
August, 1988.

Ravi Batra

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Chapter 1

BLACK MONEY: A CURSE OF THE THIRD WORLD

Ever since the Second World War, a perceptible decline in ethical and moral values has occurred all over our planet, which is increasingly interlinked by modern communications. The results are soaring crime, dishonesty, drug addiction and corruption. While these ills afflict the entire globe, they are particularly virulent in the Third World; their economic consequences are also particularly destructive in a developing country, which, because of extreme poverty, can least afford them.

The developed world indeed suffers from some corruption, but in the underdeveloped world the degradation is beyond description. One measure of this corruption is popularly known as black money, which is a misnomer because money earned is neither black nor white. It is either earned honestly or dishonestly. Dishonest income or wealth is what is popularly called black money; in reality it is corrupt money.

The phenomenon of corrupt money is a curse on the Third World. It effectively chokes all efforts and planning designed to eradicate poverty. A simple example will tell you how.

Since the 1950s, the Third World has received billions of dollars of loans and aid from the developed world. If this money had been properly utilized, much of the global poverty would have vanished by now. Instead, so much of this money went into pockets of the Third World officials, who became rich enough to open Swiss bank accounts, that the underdeveloped world is now stuck with a trillion dollar debt, and its citizens with hopelessness and an ugly future. Such are the depredations of the corrupt money syndrome.

Indian economists have regularly condemned the corrupt money phenomenon, perhaps because the problem is among the worst in India and is growing fast; but it should be remembered that black money plagues the entire Third World and, to some extent, the developed world.

The Shadow Economy

The bulk of corrupt money is generated in the so-called shadow economy or parallel economy, which may be defined in terms of all transactions intentionally left undocumented. Intentional undocumentation is important here, because thousands of transactions go unreported in the normal course of business. But only those willfully unreported, either to avoid taxes or to hide the source of income and wealth, constitute the shadow economy.

The term "shadow" does not imply that this alternative economy operates independently of its regular counterpart. On the contrary, the two are closely meshed, with money flowing freely across their boundaries. Whenever the paying party uses legally earned, properly documented money and the receiving party fails to record its receipt in any transaction, the shadow economy swells by that amount. Of

course, the reverse scenario results in a corresponding shrinkage of the shadow economy. Incidentally, this suggests that the growth of the parallel economy can be estimated simply from the discrepancy between expenditure and income figures in national accounts. We shall explore this possibility in some detail later, when we discuss estimation techniques.

The distinction between wealth and income is pertinent in the context of the shadow, as well as the regular, economy. Quite simply, any income generated through transactions that are completely unrecorded is deemed 'corrupt'. Thus, for instance, when a physician fails to record the full amount of the fees he has received from a patient, his income is black to the extent of the concealment. Similarly, the concept of black wealth is exactly analogous to that of regular wealth, the difference being in the revelation of transactions.

Estimates of The Corrupt Economy

Since our concern is primarily with the size of the black economy, we would ideally like to have an estimate of the amount of corrupt wealth outstanding at a point in time. However, as economists know only too well by now, the concept of wealth, although easily defined, is notoriously hard to measure. Therefore, almost all estimates of the shadow economy focus on black incomes instead, and to this extent, they are measures of the growth of the shadow economy rather than of its absolute size at any time.

Even this modest endeavour seems condemned from the start. The shadow economy, by its very definition, is a hidden arena whose operation is completely undocumented. A direct and accurate measurement of this problem is clearly impossible. Undaunted,

economists have resorted to approximations. A common feature in all cases is that at some stage of the computation, the missing data is replaced by conjecture. Clearly, the quality of these estimates rests on the validity of these conjectures.

The first estimate of the shadow economy in independent India was obtained in 1954 by Nicholas Kaldor in his report on Indian Tax Reform. Kaldor based his estimate on the perception that transactions are suppressed primarily for the purpose of tax evasion. From this, it followed that most of the earnings converted into corrupt money must have been earned as non-salary incomes – profit, interest, rent, and the income of the self-employed – because salaried income would have already been taxed at source. This is the point at which Kaldor inserted his conjectures into the computation process. For each sector of the economy, he made assumptions about the proportion of non-salaried income that was above the tax-exemption limit. Using these assumptions, he estimated what the taxable non-salary income should have been. He then compared this estimate with the non-salary income actually assessed to tax. The difference was his measure of corrupt income for that year. For 1953-1954, Kaldor's corrupt money estimate was Rs.600 crores.

The Kaldor method apparently left its imprint on others, for when the Direct Taxes Enquiry Committee (also known as the Wanchoo Committee) was entrusted the task of updating the estimate of the parallel economy, it simply adapted Kaldor's method to reflect some of the structural changes that had occurred in the country since 1954. Although the Wanchoo Committee computed shadow incomes only for the years 1961-62, 1965-66 and 1968-69, O.P. Chopra has recently used the Wanchoo method to create a complete series of

annual black incomes between 1961-62 and 1977-78, giving us the first comprehensive picture of the problem. The results are unexpectedly pleasant. As a fraction of GNP at current prices, black incomes grew by only 4.4% over the 18 year period, from 6.1% in '61-'62 to 10.5% in '77-'78. Recall that the annual black income is a measure of the amount by which the black economy has grown in that particular year. The percentage figures quoted above are also the percentage rates of growth of the black economy over these years.

The estimates discussed above lack general support. In fact, the first public disagreement with the Committee's methodology came from within the Committee itself. In his Minute of Dissent, D.K. Rangnekar argued that the structural adjustments made by the Committee had led to an underestimation of black incomes, and offered alternative estimates that were on the average about 3% higher than those of the Committee.

Kaldor's method, upon which all these estimates rest, is itself far from perfect. It essentially involves making a conjecture about what the taxable non-salary income should be in each sector, given such information as is available on productive capacity. The conjecture clearly requires a large leap of imagination from the analyst, explaining the significant differences in estimates generated by this method.

In 1979, Feige proposed an alternative estimation technique that is not only theoretically much sounder than Kaldor's but also less demanding on the analyst's imagination. The technique is based on two relationships, the first an identity and the second a behavioral specification that has long been accepted by monetary theorists.

Consider first the identity attributed to Irving Fisher. If all transactions paid for by cash or check (collectively called M1) are

added up, their sum should equal the nominal value of total economic activity, both legal and illegal. If we hypothesize that the turnover rate of money remains roughly unchanged over time (a common assumption in monetary theory), the ratio of total transactions to actual gross national product (GNP) must remain more or less constant. Therefore, if the ratio of M1 to reported GNP were to increase significantly over time, it must mean that the reported GNP is falling below actual GNP, i.e. the black economy is expanding.

For this technique to become operational, two informational requirements have to be met. First, it is essential to have data on the total volume of transactions for the years under study. These data can be obtained from the Reserve Bank of India's (RBI) statistics on the currency outstanding in different denominations, and their turnover rate. Second, one needs an estimate of the true ratio of money supply to actual GNP (or more precisely, the ratio of M1 to GNP), and this is where the analyst's conjecture comes in. He or she must find a year for which there is reason to believe that black activity was low, i.e. the reported GNP reflected the true GNP. The ratio for this year would then serve as a bench mark against which to measure future ratios.

This technique was first applied to Indian data in the now-famous 1982 study by Poonam and Sanjeev Gupta. They selected the years 1949-50, 1950-51 and 1951-52 to provide them with a reference ratio because of their conjecture that in these years, following the black market era of WW II and preceding the planning era starting in 1952, the black economy was at its weakest. Using the average ratio for these three years they proceeded to compute black incomes for the period 1967-68 to 1978-79. The results were frightening. By their computations, black incomes had grown over this period from a mere

9.5% of GNP to an astonishing 48.8% of GNP. Over a corresponding period, Chopra's estimates using the modified Wanchoo Committee method showed an increase from 5.7% to only 10.5%.

The most recent study of the black economy in India is provided by the National Institute of Public Finance and Policy (NIPFP). Recognizing the inadequacy of data, the study abandoned any attempt at providing exact estimates of black income, focusing instead on the more modest objective of estimating the lower bound of such incomes. In particular, it completely ignored incomes generated in illegal activities like smuggling and bribery despite their obvious significance, because of the difficulties in measuring them. The study considered six well known and easily quantified sources of black incomes, such as the production of goods and services, gains from the sale of assets, export-import activity, and fixed capital formation in the public sector. The study concluded that black income in India was at least 15 to 18 per cent of GNP in 1975-76, and 18 to 21 per cent in 1980-81 as well as in 1983-84. It is interesting to note that even this "at least" estimate for 1975-76 is greater than the corresponding estimate based on the Wanchoo Committee methodology (10% of GNP).

The Broad Picture Of Black Money

The estimates presented here can lead us to complacence or paranoia. Confronted with such a diversity of measures, it is only natural to wonder where the truth lies.

None of these estimates is above reproach. The estimates on the lower end of the scale – the Wanchoo Committee figures and Chopra's figures – are, like any estimate grounded on GNP, doomed

to a downward bias. At the same time, there are reasons to believe that the largest of these estimates, that of the Guptas, is biased upwards. The only safe conjecture, therefore, seems to be that the size of black incomes as a fraction of GNP currently lies somewhere between the 20% minimum suggested by the NIPFP study and the 50% indicated by the Guptas' analysis. These bounds are apart enough to allow considerable leeway in speculation. While Dr. Malcolm Adiseshaiah prefers the upper ranges (40%), most others venturing conjectures have stayed close to the 25%-30% range.

Although the estimates disagree about the absolute size of black incomes, all agree on the disturbing fact that these incomes have been growing. The Guptas once again provide the most dramatic figures, an almost 400% growth in black incomes between 1967-68 and 1976-77, while Chopra's calculations indicate a more modest 184% growth over the same period. Although the quantitative aspects of this growth are unclear, its qualitative implications are not; the mere fact that the parallel economy is swelling is an unpleasant revelation.

Causes Behind the Existence of the Parallel Economy

Ironically, the genesis of today's parallel economy can be traced to the economic and social problems with which India entered its era of independence. Although a few industries like iron and steel, and textiles had grown significantly during the British rule, the extensive network of small-scale rural industries, which provide breadth and stability to an economy, had been systematically destroyed – a victim of Britain's policy of colonial exploitation. At the same time, Indian society was deeply riven by severe disparities in wealth and opportunity. The Nehru government faced the dual challenge of

generating a diversified industry, and to ensure that all citizens obtained the essentials of life.

Unconvinced by the ability of the market mechanism to realize these objectives in time, Nehru turned to a socialist agenda which called for benevolent government intervention in the functioning of the economy. A significantly progressive tax structure was put in place to reduce income inequalities. To ensure that the poor masses could immediately afford basic necessities, a system of price controls and rationing was introduced. The buffer stocks required to support the controlled prices were usually maintained through the internal procurement of controlled commodities and, if necessary, through imports. Finally, to ensure that productive resources were channelled into priority industries, elaborate policies were adopted, including restrictions on the magnitude of investment in various sectors. These policies did enjoy some success, but they also spawned a new and more pervasive menace: the parallel economy.

1. Price and Quantity Controls

Price (and to a lesser extent quantity) controls are easily the most widely known sources of illegal activity. In fact, the term "black" first arose in the context of unsanctioned activity in controlled markets (black markets). The link between controls and concealed transactions is really too well known for us to dwell upon. Quite simply, when the controlled price is below the market determined price, the seller has an incentive to create artificial shortages of the product in order to exploit the consumer's willingness to pay a higher price. If consumers are desperate for the product, they will waive their legal right to get it at the controlled price and agree to a back-door deal at the market price.

The nation-wide system of rations for essential goods currently operational in India provides a classic demonstration of the manner in which price and quantity controls can generate black transactions. Under this programme, each family is entitled to a predetermined bundle of commodities at prices significantly below the market. The government procures these goods and disburses them through licensed tradesmen who usually also operate independent businesses dealing in the same commodities at market mediated prices. At the beginning of each month these traders receive government supplies of controlled commodities, which they are then supposed to distribute to ration card holders at the controlled price. What actually happens is often quite different. The sellers suppress the government supplies, turning away some card holders with the explanation that the supplies have not yet arrived. Since these commodities are usually essentials like rice, wheat and sugar, the forbearance of consumers is fairly low, and those who can afford to do so buy them at the market rate, often from the same tradesmen, without of course any sales vouchers. The urbanites understand only too well by now that the surest way to provoke the wrath of a trader is to demand a receipt. The trader then rigs his sales registers to record the transaction at the controlled price; the difference between this and the market price thus becomes his black income. What about the consumer who cannot afford to pay market rates? As far as he is concerned, the rationing system might as well have not existed.

Even when the distribution outlet is exclusively a government operation, local traders tempt the outlet managers to create artificial scarcities in return for handsome rewards. Frequently the managers succumb. This moral frailty is merely a part of the broader problem of

bureaucratic corruption that usually accompanies controls.

The rationing system is just one example of extensive market controls present in India. The National Council of Applied Economic Research recently estimated that price controls in just six commodities – urea, cement, paper, steel, automobile tires, and vegetable oil – generated almost Rs.840 crores of black money between 1965 and 1976. The history of cement control in recent years offers yet another illustration of the operation of the parallel economy, and at the same time, a suggestion as to how this economy can be curbed. Until 1982, the market price of cement was controlled at Rs.28 a bag, although the corresponding free market rate was over four times that amount. However, to obtain cement at the controlled price builders would typically have to wait several months. They would insist that a portion of the advance payment on residences be in black money. This money would then be used to purchase the required cement in the black market, which, of course, offered instant delivery of the material. Thus, buildings had become major conduits in the flow of black money in the country. In 1982, recognizing the absurdity of the controlled price, the government switched to a system of dual pricing, and although there are no formal estimates to this effect, it is widely believed that black transactions in cement have plunged.

2. Taxes

Another factor that is widely cited as responsible for the growth of the parallel economy is the sharply progressive tax structure in which, until 1972, the marginal tax rate was as high as 97.75% and is still about 65%. Some analysts place so much importance on this factor as a source of black money that they actually define the parallel economy

in terms of tax evasion. The link between tax evasion and the parallel economy is quite clear. Consider persons in the upper bracket. At a 65% marginal tax rate, the concealed income is nearly three times the honestly recorded after-tax income. At the 97.75% tax rate that prevailed before 1972 the difference is forty times! The incentive for concealment is very powerful, and to the extent that the income is paid out of white money, each concealed receipt adds to the size of the parallel economy.

Except for salaried positions in government and business, where incomes are taxed at source, almost all income generating activities offer some scope for tax evasion. The agricultural sector, for instance, has gone virtually untaxed over the last forty years because of numerous difficulties in assessing the output of farms. Similarly, professionals, like lawyers and medical practitioners, can easily conceal their incomes by insisting on cash payment for their services. A careful audit of their spending may bring out inconsistencies between their expenditures and their claimed income, but it is clearly infeasible for authorities to undertake such audits regularly for all professionals.

The situation is not particularly different in the case of trading establishments and smaller businesses. Most shop keepers and traders in India still practice single-entry bookkeeping, a system whose intricacies they understand much better than most low level tax inspectors who have been trained in the double entry system. This enhances their ability to conceal receipts without detection. More importantly, if both parties suppress their transaction from their records, it becomes virtually impossible for tax authorities to detect its existence.

Although our discussion has been in terms of income taxes, the argument extends easily to wealth and excise taxes as well. Import duties and tariffs, however, are different from these, because besides concealing incomes they also generate an activity that is inherently illegal: smuggling. With duties sometimes as high as 320% of the imported price, tariffs actually hurt the protected sectors. Instead of strengthening domestic industry, they merely promoted laxity. Free from pressures of rigorous international competition, domestic manufacturers settled into comfortable mediocrity. Consumers, on the other hand, frustrated in their search for high quality local goods, began looking towards foreign products. The growing strength of this latent demand for foreign goods, in conjunction with exorbitant prices they command in the legal market, emboldened smugglers to circumvent the customs process and illegally bring these commodities into the country. As with income-tax evasion, there is considerable scope for customs evasion because India, being surrounded by water on three sides, has an extensive shoreline, and it is simply not feasible to effectively patrol all the landing sites for smugglers. Despite increased attempts at border patrol, smuggling activity is greater today than ever before.

To summarize, the government's tax and excise policies over the last forty years have created a situation in which incentive combines with opportunity to drive a number of transactions out of the legal sector into the parallel economy.

3. Corruption and the Deterioration of Moral Values

The tendency to place personal gain above honesty and civic responsibility is perhaps a universal human weakness and by no

means a handiwork of India's policy makers. The latter, however, are responsible for creating a climate in which this tendency flourished and grew to the point where it now permeates every echelon of Indian society. Official power is now seen not as a sacred trust, but rather as a marketable commodity. To understand why this transition occurred, we have to know what sustains the market for this "commodity".

The demand for this commodity stems from the extraordinary degree to which the government controls and regulates economic activity. We have already discussed the pervasiveness of price and quantity controls. In addition, the government tightly regulates the allocation of investible resources. Myriad regulations also necessitate a bureaucratic mechanism required to implement and, if necessary, police them. Sellers in controlled markets, potential investors in low-priority sectors, and in general all agents affected by these regulations, have a great deal to gain by circumventing them. In the case of industrial licenses, for instance, the investor has a good reason to offer the bureaucrat an under-the-table incentive to award the license to him, and not a competitor. A black market trader has an obvious incentive to bribe enforcement officers to turn a blind eye to his profiteering. In fact, without the mutually profitable connivance of these inspectors the black market could not survive long.

The supply of illegal bureaucratic favors is not so easily explained. Graft and petty bribery at the clerical level have always existed and always will, but why do senior government officials, often the pillars of their community, participate in the betrayal of public trust?

The gradual erosion in public values is a complex amalgam of economic, spiritual and moral processes. At the lower and middle levels of bureaucracy, corruption often becomes a matter of economic

necessity. Government officials are salaried workers, and their purchasing power erodes through taxes and rising prices. Not surprisingly, with the knowledge that they possess a potentially valuable "asset", their official power, they profit by surreptitiously selling this asset. For bureaucrats in the upper levels of government, corruption is more often a social than an economic necessity. Senior government officers, by virtue of their official power, are courted by the very professionals and entrepreneurs they are supposed to monitor. Thus, a senior official in the income tax department finds himself moving in the same social circles as prominent businessmen and tax lawyers. As he is drawn deeper into this society, he and his family find it necessary to keep up with their peers, a task that is well beyond their legitimate means. The end result is a resort to graft and deception.

Economics alone, however, does not explain the growing acceptance of corruption amongst the bureaucracy. Moral decay has also played a significant role. Religion has always provided Indian society with the notions of what is right and wrong. As successive generations drift away from their spiritual heritage, they lack ethical standards with which to judge their own deeds and those of their peers. In this state of moral flux,corruption has found a degree of social acceptability that borders on approval.

Thus, the subversion of market incentives generates a demand for bureaucratic favours, while shrinking real incomes in conjunction with growing moral laxity ensure a supply of such favours. The result is a flourishing market in these services. Needless to say, all these transactions are unrecorded, and therefore fall within the parallel economy.

Political corruption is another source of black money in society. The widespread abuse of political power at every level of government is perhaps an even more serious example of India's moral laxity, for the electorate that votes these profiteers into power implicitly condones the official graft by ignoring it. To a certain extent this tolerance for shabby politics manifests the country's traditional fatalism: the cynical belief that the public choice is not between a crooked politician and an honest one, but between one crook and another. Recent discussions of the parallel economy have emphasized the role that black money plays in financing the political activities of major parties. Election campaigning, in particular, is predominantly funded through illicit money. It is widely recognized that a candidate making a serious bid for a parliamentary seat must spend at least one rupee per voter, implying that for an average Lok Sabha constituency of 500,000 voters, the minimum reasonable campaign expenditure is about Rs. 5 lakhs. Clearly, such a huge sum has to be financed from black income.

The urgent need for black money coffers has given rise to a new power structure within political parties; political eminence is now determined not by statesmanship, but by the ability to generate black receipts. Ministers and others in office vie with each other for the distinction of being the party's premier fund raiser, and in their anxiety to perform well they cast scruples aside, blatantly trading favours for money. The fact that a fresh revelation of political corruption fails to draw so much as a murmur from the public is an indication of the extent of social decadence today.

Although a great deal of political corruption is directed at fund raising for parties, purely personal motives behind such activities

should not be underestimated. Mere Ministers of State in the Central cabinet have been known to acquire several apartment complexes during a single tenure. Many suspect that party-directed black transactions actually finance the enrichment of Ministers.

Attempted Remedies

We have already seen that the main factors responsible for the black money syndrome in India are the so-called socialist policies of market control, directed planning and harshly redistributive taxes. An important question arises at this point. Does the illicit money menace stem from a faulty implementation of an otherwise sound agenda, or from inherent defects in the agenda itself? Is the concept of socialism itself flawed, or are the official policies adopted to achieve it faulty? I believe socialism has noble goals, but the concept has been used as a mere slogan all over the Third World. Proper policies to attain socialism have never been followed. Market control will never attain the coveted socialistic pattern of society. Instead, it will generate black money, monopolies and corruption.

The government's efforts at eradicating the parallel economy have so far been two-pronged. The first prong consists of measures aimed at detecting the black money transactions; the second consists of a series of schemes to lure back the black money that has already been created.

(a) Attempts To Check Tax Evasion

The government's efforts to stem the rising tide of evasion have focussed primarily on improvements in policing the current tax code rather than on modifying those features of the code that strengthen the

incentive to evade. The income tax departments in most major cities, for instance, have special cells whose sole function is to identify potential tax evaders, and to conduct unannounced raids on their premises. The number of these raids has been steadily increasing over the last 15 years,and they have enjoyed a modicum of success in unearthing concealed tax revenues for the state.

The effectiveness of these measures, however, should not be judged merely from the undisclosed taxes they detect, for revenue generation is not their only purpose. A more important objective is to deter evasive activity in the future by raising the perceived risk of detection. The degree to which these raids are successful in this endeavour is, of course, impossible to quantify precisely, but paltry growth in income tax revenues seems to suggest that the success, if any, has been modest. This outcome should not surprise us. After all, incentives for evasion created by the present tax structure are so strong that a moderate detection drive is not going to offset them.

(b) Attempts to Check Smuggling

The government's anti-smuggling drive has been more vigorous than its tax raids. In 1974, the Department Of Customs initiated a cohesive nation-wide anti-smuggling drive, supported by a significant increase in its manpower resources, investigation machinery and equipment. Over the next two years, the number of raids on suspected premises almost quadrupled. The additional effort paid excellent dividends. More than three thousand detention orders were issued, leading to the recovery of more than one crore of rupees.

Once again, however, we must recognize that the efficacy of such measures is limited. Increased patrolling and raiding cannot, by

themselves, eradicate or even reasonably contain smuggling activity as long as market incentives for this activity are high. Moreover, as long as administrators of these programmes are corruptible, smugglers and profiteers can always buy themselves additional security and thus undermine the programmes forever.

(c) Demonetization Schemes

Demonetization refers to the replacement of high denomination notes with equivalent notes of lower denomination. Typically, the government announces its decision to phase out notes of a certain face value and higher. Holders of these notes can exchange their holdings for a corresponding value in lower notes. The idea behind such a scheme is that it will flush out the black money that is held in these notes, since holders will either be forced to convert these holdings – and thus document their existence – or to sacrifice them altogether.

The latest experiment with demonetization was in 1978, when the government decided to phase out currency notes denominated at Rs.1000. Of the approximately Rs.145 crores outstanding in these notes, Rs. 116 crores were actually turned in and converted. This seems to suggest that the holders of black money, aware of the threat of demonetization, tend to maintain these holdings in smaller currencies. Moreover, the scope for future demonetizations is limited.

(d) Voluntary Disclosure Schemes

A voluntary disclosure scheme is quite simply an invitation to people to reveal their black income and convert it into white money, incurring minor financial penalties in the process. Such schemes have been tried thrice in the past, in 1951, 1965, and 1975, and none made a

significant dent on the problem despite an increasing liberalization of the terms of exchange. Their biggest drawback, in the eyes of the black money holder, is that they may result in the exposure of his identity. Clearly, if he intends to continue in his ways in the future, this is an outcome to be avoided at all costs. Even if the person would be relieved to get rid of his holdings, the thought of being revealed to his friends and relatives as an owner of illegal wealth is a severe deterrent.

(e) The Special Bearer Bond Scheme

In its search for innovative methods of forcing voluntary disclosure, the government has also tried to borrow funds from black money holders at competitive rates, without asking any questions about the source of these funds. Thus, in January 1981 the government issued special bearer bonds for this purpose.

From the viewpoint of the black money holder, the bearer bond scheme was clearly the most attractive voluntary disclosure programme ever offered. Despite being plagued in its early days by questions regarding its legality, and by confusion over its clauses, the bond issue raised Rs.875 crores for the government. Although such schemes managed to bring out a fair amount of black money, there were widespread misgivings about their morality and the kind of signals they sent to black money holders. The bonds seemed to be pampering racketeers rather than penalizing them.

Future Course of Action

It should be clear by now that the government's efforts to root out the black money syndrome have been mostly abortive. The problem is not

with intentions but with their implementation. While the socialistic pattern of society is a worthy goal, it can never be achieved with the help of myriad controls and regulations. They simply heap a bloated bureaucracy atop parasitic monopolies. They increase poverty and corruption rather than alleviate them. In other words, the numerous rules and regulations that now stifle the Indian economy have to go. The centralized system of planning that the country has adopted through the five year plans also has to go. New economic policies with new priorities and investment pattern must replace the existing system that so far has been a miserable failure. The abject poverty of Indian masses should not be blamed on growing population, because countries with equally dense populations, such as England, Germany, France, Holland, Japan, South Korea, Taiwan and Hong Kong, are far richer than India. Most of these affluent nations were ravaged by the Second World War, which hardly touched India. Yet their citizens today enjoy a luxurious life, while hunger haunts millions of Indians. India has to be freed from the curse of black money.

Finally, there is an element that is not entirely within government control: the revival of moral strength and values. Intangible as it is, the importance of this factor cannot be overstated. Unless people turn to loftier aspirations of the spirit, and recognize the baseness of a cultural ethos that condones the marketing of integrity and trust, the allure of illicit wealth will continue to play upon their minds. The government can, however, play a significant role in this moral transformation. Since much of the fatalism and disillusionment regarding morality is inspired by the blatant greed of those in political and bureaucratic power, a new standard of official honesty should set the tone for the new morality. This transformation must spring not

from fewer opportunities to be dishonest, but from a genuine desire to be honest. In other words, the transformation must be spiritual.

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Chapter 2

INDIA'S VAST SPIRITUAL HERITAGE

There was a time when India held great fascination for the world. The country was known as a golden sparrow – a land of milk, honey, peace and spirituality. When Columbus sailed out in uncharted waters, his mission was to find an alternative sea route to India. He would not have risked his life for just any country – such was the awe India inspired at that time in the hearts of people abroad. West Indies is the name Columbus gave to the land he discovered, calling its inhabitants Indians. The discovery was the culmination of Columbus' mission. Even today in the Americas, the natives are known as Indians.

A thousand years of foreign rule – by the Arabs, the Mughals, the British – has been unable to destroy the Indian religion and culture. Many ancient civilizations – the Egyptian, the Mesopotamian, the

Greek and the Persian – have died under the onslaught of alien invasions, but not India. Credit for this survival goes to India's vast spiritual heritage, a legacy so rich in broad-minded ideas and selfless spirit that it has kept India's flame flickering to this day.

If India's past is so glorious, why is its present so decadent? Why do pollution, filth, corruption, selfishness, poverty and misery spew out of every corner of the country? The reason, my dear brothers and sisters, is that you have forgotten what made India so great in the past. You have forgotten that the nation has always solved its problems with the help of practical spirituality. Just four decades ago in 1947, India won its independence from the British noose with spiritual weaponry rather than guns and swords. Gandhiji's satyagraha or non-violent cooperation was a brilliant answer to the sordid foreign rule; it forced the British to leave India with a minimum of bloodshed and violence. It was once again a victory of selflessness over self-conceit. The British vanquished the mighty Hitler, but faced with Gandhiji's cosmopolitan message, they had to surrender.

There are three types of forces in the world – physical, intellectual and spiritual – and the spiritual force is the strongest of the three. Civilizations based on physical and intellectual achievements may be trampled by external foes, but not those nourished by spirituality. That is why India's ancient culture is still vibrant, while countless other societies of yore have succumbed to the onslaught of time.

India's vast problems of today will be solved only by the might of practical spirituality, which is totally different from religion as well as theoretical spirituality. Religion is a compilation of dogmas, rituals and narrow ideas, whereas practical spirituality embodies universalitic philosophy, selflessness and a dynamic way of life. With theoretical

spirituality, a person, while essentially moral, gentle and good-natured, sits at home or in a cave, meditating and working for his own salvation. He does not care about social ills and is engrossed in personal well-being. He is harmless to people, but is not very helpful to them, either. Practical spirituality, by contrast, aims at personal good as well as social good. It is what Lord Krishna calls devotional Karma Yoga. Practical spirituality is based on five fundamental principles, in which one says:

1. I would rather die than compromise my selfless principles;
2. I will, overtly or covertly, fight against social injustices;
3. I will treat others in the way I expect them to treat me;
4. I will not rest, regardless of obstacles and failures, until social ills are cured;
5. I will regularly meditate on my Creator and think of Him as my own FATHER, not as a being sitting in the clouds. Nor will I pray to Him for any personal gain, knowing that He understands my needs better than I do.

These are the fundamental principles of practical spirituality. There is no scope for any dogma in it, nor for any ritual, lethargy or weakness. This is the way of life for the brave, the strong. You may think that in today's materialistic and decadent world, spirituality is outmoded; that the spiritualist is bound to be overcome by those with physical and intellectual power. Well, think again. I can tell you from personal experience that practical spirituality has unlimited force. With its help you can surmount all hurdles.

I was born in Punjab, India in 1943 and grew up in a lower-

middleclass family. Right from childhood my parents taught me virtues of the scriptures, especially the *Bhagavad Gita.* In fact, under my father's command I memorized, ever so reluctantly, many of the Gita's verses. That was my first contact with spirituality, but it was a casual contact, as my heart did not accept it.

In 1964, I became seriously interested in divinity and went to Shrii Prabhat Ranjan Sarkar, the founder of Ananda Marga, to learn the science of spirituality. Sarkar, also known as Baba, taught me how to meditate on the Creator as my own FATHER. I learned how to meditate in solitude and when engaged in action. That's when I took an oath that I would die rather than compromise with sin. Later, the circumstances in my life tested my resolve thousands of times; hundreds of temptations came my way, but with the help of my Divine FATHER, I was able to resist each and every one of them. I became scrupulously honest and non-violent. I even took care to treat ants and mosquitoes gently. If I found them in my dwelling, I would pick them up softly and place them outside. In 1965 I finished my M.A. at the Delhi School of Economics, taught at Hindu College, received a scholarship a year later and then left for America to do a Ph.D at Southern Illinois University (SIU). All this time I had been meditating about three hours every day.

As soon as I reached the shores of New York, I was hit with a tremendous cultural shock. I had been raised in a society that frowned upon excessive mixing of boys and girls, where sexual restraint was considered a virtue and essential for fast progress in meditation. In America, however, things were totally opposite. The country was then beginning to pass through the so-called sexual revolution, wherein youngsters were determined to shake off the taboos of the

past.

Right or wrong, the changing sexual mores in America sent shock waves through my mind. Despite my upbringing in a relatively closed society, I was tempted by the openness in which I suddenly found myself. Girls were easily available for dating and picnicking, and there were no parents and relatives to watch over me. Still I felt that dating was just a waste of time, especially when I was not yet ready for marriage.

Surrounded by a sea of glamour and glitter, I decided to lead the same type of disciplined life that I had begun in India in 1964. But in order to resist the temptations I sharply increased the time spent in meditation. Instead of the usual three hours, I would now meditate eight hours every day. Every free moment would now go into my contemplation of the Divine. At times I would be so absorbed in the deep recesses of my mind that I would miss classes and lectures. Focusing on studies became increasingly difficult. After all it was not philosophy I studied, but economics – a materialistic science that, among other things, teaches you how to make or manage money.

Those days my mind was aloft in the spiritual world. I wanted to run away from the gross surroundings of matter and sit self-absorbed in solitude at some place in the wilderness, remote from civilization and the hustle and bustle of normal life. But I had come to America on a scholarship to earn a Ph.D in economics. There were all those burdensome papers to write, questions to answer, seminars to attend, and, above all, lengthy exams to pass. It was very painful. My life was an exercise in sheer agony.

The thing I coveted most was a sweet vision of my Divine FATHER. I wanted to be face to face with Him and ask His help in

eclipsing poverty from earth. I felt my life would be worthless if I could not create a world free from hunger and exploitation, but the vision of my FATHER was nowhere within my reach. I meditated and meditated, did all sorts of yogic practices, but my FATHER was as remote as ever. My heart was filled with double anguish–one from the burden of unavoidable study of economics, and another from separation pangs from the Divine. Everyday I would burst into tears and cry profusely for hours, wondering in agony where my FATHER was and why I had not been blessed with His vision.

My FATHER was there with me, only I did not have the eyes to see Him at the time. I would barely put two or three hours in my studies per day, but somehow managed to get top grades in my exams. My teachers were surprised to see me getting A's even after missing so many lectures. They thought I must be a genius, but I knew that help was coming from the unseen source.

My first year in America, August 1966 to August 1967, went in redoing my Masters in economics. By then I was fed up with my studies. I wanted free time to do meditation – and to do nothing else. In early September 1967, I told my adviser, Professor Albert Badre, that I wanted to take all seven comprehensive exams that month. He looked at me in amazement, because I had yet to complete two more years of course work that was required to prepare for the comprehensive testing. "You must be insane or kidding with me," said Dr. Badre. "If you fail, you will lose your scholarship and will have to go back to India."

I was aware of the hazards of taking an early test. However, I was so fed up with economics that I just did not care about any material loss at the time. I insisted on taking the comprehensives, as

they were called, and requested a month's time for preparation.

I cut meditation to just two hours per day and furiously began studying the subject I hated. There were seven different areas to assimilate–microeconomics, macroeconomics, international economics, economic development, mathematical economics, American economic history, and American labour history. Of these, the first four were somewhat familiar to me, but the last three were unknown. With so little time left, I focused on survey articles that presented condensed accounts of the subjects.

My favourite field of study was international economics which I had studied while at the Delhi School under Professor Jagdish Bhagwati, a world renowned authority on the subject. In the course of my furious preparations for the comprehensives, it occurred to me that the best way to study my favourite discipline would be to write something original in the area. I spent the next fifteen days writing a hundred page thesis on "International Trade, Economic Growth and the Terms of Trade," which was one of the hottest topics in those days. This way my dissertation was ready. I took it to my adviser, who was simply speechless at my audacity.

Nobody in his right mind would write his thesis before passing the comprehensives. Even after crossing that stage, the normal procedure for a student was and is to write a dissertation prospectus and have it approved by a committee consisting of members of the economics faculty. Following the prospectus stage, the student typically would take a year or two to conduct research and complete his dissertation. I had not only bypassed all these stages, but also had the gall to tell Dr. Badre that I had written my thesis without ever informing him or any other faculty member. My advisor saw the

thesis and said to me, "Mr. Batra, if anyone else had brought his dissertation to me at such an early state of his degree, I would think he was pulling my leg, but you, I take seriously".

With my dissertation done, I was ready for the comprehensives. I felt nervous and shaky, especially in the area of American economic and labour history, which I had never studied before. But I did well enough in five out of seven exams that I passed my comprehensives with top grades. My professors were confounded once again, but my adviser had just taken it for granted. Few things I did out of impatience or impetuosity surprised him anymore.

I, myself, was dumbfounded at the sudden turn of events. I had taken an incredible risk because of my blind faith in my FATHER. Never did I think that I would actually cross scholastic hurdles with such ease and speed. Three years of laborious, painstaking work had been accomplished in under two months.

My classmates, some of whom had also come from India, were awe-struck. Maddhappa Maddhaya, who is now head of the economics department at Mysore University, was another Indian doing his Ph.D in economics. Dilip and Pratima Desai, Bipin Desai, Stayendra Vermani, Onkar Devgan were other friends studying with me at Southern Illinois University (SIU), but in other disciplines.

They were all shocked. They knew of my obsession with meditation and how little time I spent in my studies.. Yet I was about to graduate and receive my degree within two months after getting my Masters at SIU. Here they were wrong.

I was not ready to actually take my degree yet. I still had almost two years left in my scholarship and was in no hurry to take physical possession of my degree. This was my chance to do meditation, and

nothing but meditation. I felt my FATHER had answered my ardent prayers. Dr. Badre was surprised again when I told him he could take his time reading my thesis. I was in no hurry. He wondered aloud why I had been in such a rush in the first place. He suggested that I take the degree and then a teaching job, which would pay me four times the amount of my scholarship. I told him I had no interest in money. "You oriental philosopher," he muttered. "I can never understand you." Nor could anyone else, including my parents, who wanted me to get the degree and immediately return to India.

I had other plans. With scholastic hurdles out of the way, I meditated like never before–day and night. I lived in the neighbourhood of Dilip Desai, a scrupulously honest and principled man, who believed in Shrii Ram Krishna Paramhansa. He now lives somewhere in Baroda, where his wife, Pratima, is a registrar at M.S. University.

Dilip and I had much in common. He would periodically visit my place and find me lost in myself. I had no other friend who could really understand my anguish and pangs of separation from my FATHER. I would confide in him how restless I was for my FATHER's vision, how miserable I was without the divine contact. Sometimes I would cry aloud in Dilip's presence. As tears rolled down my swollen eyes, he would try his best to console me.

In June 1968, I got a message from my yoga teacher, Prabhat Sarkar, to come to India and see him. A few days later I found myself on an Air India jet, en route to Bombay, from where I went to Ranchi to meet Baba.

Baba was very happy to see me, but not as happy as I was to see him. He said that my face shone with the innocence of a devotee, and

the fire of a principled man. I started crying in his presence, because in spite of my relentless meditation, I had not yet been blessed with my FATHER's vision.

Baba asked me to meditate in front of him and raise my mind to the top of my head; so I did. He then asked me to look inward toward the right side of my heart. So I did with my eyes closed. Presto! Vibrations of bliss shot up inside my heart. I sat there, motionless, lost in the deepest chambers of my mind. About an hour later, I opened my eyes. Baba said to me, "My child, you have just enjoyed supreme divine bliss. A deep need inside you has been satisfied partially." He advised me to go back to America, establish myself as an economist and then work to eradicate the world's poverty. "Your FATHER is constantly with you. He will guide you in your vast endeavour," he said.

As I came back to America, I wondered how I should establish myself in the economics profession. I was studying at a relatively unknown university. It was not Harvard, Stanford or MIT – far from it. It was not even among the top fifty universities in the United States. How was I to establish myself?

After coming to America in 1966, I could have gone to a better-known university, but I had decided to stay at SIU out of gratitude and loyalty to my professors. Besides, I did not care much about my career anyway.

Baba's advice, though practical, was contrary to my thinking. He wanted me to be serious about my career, to devote more hours to a subject in which I had minimal interest. In my heart I knew Baba was right. Meditation alone was not going to help the world's poor. I needed credentials before anybody would heed my views.

The only way to establish oneself as an economist is to publish articles in top economic journals or to write an original book that grabs everyone's attention. Both seemed well beyond my reach. I was, after all, merely a student at an unknown university. Even students at top universities were not so foolhardy as to harbour such an ambition.

Still, graduating from a top university does not hurt. One gets a headstart; some professors from famous schools are editors of renowned journals; universities such as Harvard and Chicago have highly ranked journals that give preferential treatment to their own students. When graduating from the top ten universities in America–Harvard, Yale, MIT, Princeton, Brown, Columbia, Chicago, Stanford, Wharton School and Berkeley – one has an inside edge over others. One is an insider to the economics profession. Otherwise one is an outsider. And I was way outside the system.

All I had was an unyielding spirit unafraid of failure, an undying love for my FATHER, and a knowledge of the Gita, which advises you to work constantly without worrying about rewards. This is Karma Yoga: be relentlessly engaged in action without attachment to its fruit, offering it with love and devotion to your FATHER, who will then reward you with inner happiness. I would need the solace and assurance of this philosophy umpteen times in my life.

My odyssey to be published in top journals began in earnest after I returned to America. I had no name to defend, so the embarrassment of rejection from editors did not matter much to me.

Without consulting anyone, I started writing. International economics had been my area of specialization and that is what I pursued. I worked very hard, reading new material, researching for long hours, strenuously trying to provide new theories, criticizing

existing works or extending them in new directions. Daily meditation was now down to four or five hours.

I wrote one article in August 1968 and sent it to *American Economic Review*, regarded as the best economics magazine in the world. Rejection quickly followed. So I wrote another, on a different topic, and sent it to the *Journal of Political Economy*, published at the University of Chicago. Another rejection came. Each rejection would bring enormous frustration despite my best efforts to remain detached from the rewards of action. I would be disheartened for hours, even days. Mental depressions inevitably followed each rejection. Meditation, however, would renew my resolve, even strengthen it.

I decided to keep writing, this time without waiting for rejection letters. There were, after all, four top journals in America at the time and another four in England. I had to try them all – at least once. I wrote three more articles, submitted one to *Quarterly Journal of Economics*, a Harvard University publication, one to *Econometrica*, edited at the time at MIT, and one to *Oxford Economic Papers*, published at Oxford University in England.

Rejections came quickly from Harvard and MIT, breaking my heart–once again. By now, my frustration had peaked. Again and again I would console myself. "You have done your work, offered it to your FATHER; when HE is pleased, what else do you need?" It would take an enormous effort to steady my mind.

Finally, a breakthrough came. *Oxford Economic Papers* accepted my article for its November 1968 issue. This was a giant step forward in my budding career. Now I was euphoric. Detachment demanded that I control my euphoria; but I could not.

My friends were again amazed at my audacity and

accomplishment. This was a coup, from a student yet, at SIU. Equally wonderstruck were the faculty members at my economics department. The unthinkable had happened. This was news in that tiny town where I lived, worthy of a write-up in the campus newspaper. But what puzzled everyone and earned me the reputation of a "crazy nut" was my insistence that I had nothing to do with the accomplishment. I said repeatedly to my friends, "I am nothing, but my FATHER is everything. It is He who dwells in my heart. He is the writer; I am just a spectator."

The first hurdle is the hardest to cross; the next is manageable. I graduated from SIU in June 1969, but by then I had three articles accepted by major journals, including one by *Journal of Political Economy* and another by *Econometrica*. My perseverance had finally paid off.

I was obviously one of the top graduates in America in 1969. Few students had even tried to get published, let alone have there articles accepted by renowned journals. Yet no reputable university offered me a teaching position. Hundreds of new Ph.D's received lucrative offers from top-rated American universities, but not I. I was not an insider, but an outsider to a buddy-buddy system that religiously guards its turf. Two colleges did make me offers, but I felt I needed to start at a university with some reputation. I ended up teaching for a year as an assistant professor at SIU itself.

More publications were coming. In 1970 I had two more, and that brought me an offer from a reputable university in Canada, the University of Western Ontario. In 1971, I had five more articles accepted – again in top journals worldwide – and that secured me a promotion to Associate Professorship. I was happy in Canada, my

career leaping so fast. But the climate there was too cold for my warm body raised in the heartland of India with boiling summers and mild winters. I wanted out.

In January 1972, I visited Southern Methodist University (SMU) in Dallas. I had left snow-storms behind, but landed in the midst of cozy 64° Fahrenheit (or some 18°C), in January yet. This was like New Delhi. Without thinking twice, I accepted an offer from SMU. By 1973 I had twenty articles published in top-ranked journals, and SMU offered me tenure and full professorship that year. SMU is where I still teach.

With the publication of my first article at the end of 1968, my confidence as an economist had begun to rise. As more acceptances came, I started thinking in terms of writing an advanced level book on the theory of international trade. I prepared a proposal and sent it to five publishers. Macmillan Company, based in London, England, was quick to offer me a publishing contract that I was glad to accept. The book came out in 1973. Two years later, I wrote another advanced, technical book on trade theory and Macmillan was again the publisher. Both works won rave reviews from established trade theorists.

In 1977 I became the head of SMU's economics department. This turned out to be another turning point in my career, not because of my new position, but because of the new directions that my research took that year.

SMU had promoted me to full professorship at the young age of 30. In return, the university, benefiting from my growing reputation, expected me to keep publishing in renowned journals. And I more than met their expectations. But all this technical writing and

mathematical economic models gradually diminished my interest in conventional economics. I had penetrated the cozy world of economic publications through hard work and perseverance. Even though I was still an outsider to the system, reputed journals were glad to print my articles after my initial chancy success. But I had come to realize that this type of publishing was actually a game. It had certain rules within which a writer had to operate. If he did not, his work had little chance of acceptance.

The first and the foremost rule was that one had to present ideas in a mathematical model that mattered more than the merit of the idea itself. Second, the ideas could not deviate too far from conventional theories; otherwise the author risked being branded a radical, with his or her work going nowhere. Third, if the theory praised models of other economists, no matter how trivial the idea, an article had a better chance of acceptance.

These, among some others, were the rules of the game. Criticism was and is permitted, but heresy was and is not. You could even get away with attacking capitalism, but only if you offered suggestions to preserve the system. You could not, for instance, say that a greed-based economy is inherently bad and ultimately self-destructive. It would bring you nothing but ridicule.

I had learned the rules of this game while still a student, and, after some initial reverses, I had joined the closed club of conventional economists. But in my heart I knew that my work, as that of others, was worthless to society. Most journal articles would have fifteen pages of equations and half a page of naive conclusions. This format was admired as research and scholarship for which the U.S. government would fork out hundreds of millions of dollars every year.

For many economists received government grants to write papers that were basically useless to the social purpose.

While worthless to others, my work had been good to me. It had earned me speedy promotions and a reputation among economists teaching outside the top ten universities. This club of ten was still beyond my reach. I did not have the time to socialize with its members, nor did I have any such inclination. With four to five hours gone into daily meditation and the rest spent in teaching, writing and playing tennis, I had little time to go to parties and mingle with anyone.

In 1977 when I became the head of my department, there was a great change in my thinking. No longer did I have the pressure to publish. I was an administrator now and writing could wait.

There were many critics of conventional economics, which constantly yielded inaccurate forecasts, but its proponents, with the aid of their powerful positions and sheer numbers, always found some justification for their yawning failures. Critics were there, but their voices were regularly muffled. An economist named Schumacher, out of frustration, even titled his book as *"Small Is Beautiful : Economics As If People Mattered."* That was the heart of the problem. People no longer mattered to conventional economic theory.

I have said earlier that 1977 was another turning point in my career, because that year I broke away from conventional economics and completed a book on world history. Fed up with traditional ideas, I had been looking for new ideas. I had turned to history, which I felt must have lessons for current economic events. I also stumbled upon the economic and historical theories of my yoga teacher, Baba.

In 1964 when Baba first initiated me into yoga, I had heard about

his writings on economics and history. I had even bought those books to satisfy my curiosity, but then put them back on the shelf after a cursory look because I did not believe that a yoga master could offer original ideas on social and economic philosophy.

In 1976 I read Baba's books again – to my astonishment. These books were published by the Ananda Marga press. The books were not an easy reading. The printing was shabby, the binding poor, but the wisdom they contained was awesome. Belatedly, I discovered that this yoga master also had mastery of world history and economics.

I was so charmed by Sarkarian historical philosophy, which to me appeared to be more general than the philosophies of Marx, Toynbee and Spengler combined, that I wrote a book about it in 1977. A year later, Macmillan also published this one under the title, *The Downfall of Capitalism and Communism: A New Study of History.*

In spite of a catchy but fitting title, the book hardly created a ripple. It received critical reviews in the British and Indian press, but nothing more than that. I was just glad that the first printing barely sold out. The book earned me no friends, but many critics. It was the beginning of my ostracism from the economics profession. At first, I did not notice it. In fact, I expected the contrary, a boost in my reputation. Few economists venture outside their narrow specialization, and here I was branching out and had written, what to me, was a thought-provoking treatise on history.

In October 1978, a journal called *Economic Inquiry* published an article that, among other things, ranked economists at American and Canadian universities on the basis of their publications in top journals. It selected forty-six persons and called them economist "superstars". I

was ranked third among the forty-six, the first two being at Harvard and Stanford Universities.

The *Economic Inquiry* article electrified me. Now I really felt like an established economist capable of moulding scholarly opinion, moulding it toward realism to benefit society. I received congratulations from many friends and others I hardly knew, commending me for penetrating what, until then, was the sole preserve of the elite club of ten. They were inspired that an "outsider" could match wits with those at Harvard and Stanford, which had their own in-house journals that gave preference to their own faculty.

My triumph was momentary. I had begun to challenge the very foundation of economic theory, centuries-old beliefs with deep roots in the profession. And the result was unspoken ostracism.

My history book had an epochal message, namely by the end of this century, extreme concentration of wealth in democratic and other countries would trigger violent social upheavals, beginning with Iran. Later at a lecture, I predicted a world wide great depression by the end of the 1980s.

Through these predictions I hoped to wake up the public and arouse its conscience against extremes of wealth inequality that afflicted our planet. No one paid attention. My life's mission was to eradicate global poverty – instead, I foresaw a global depression.

What a heartbreaker. To me, all the symptoms of a planet-wide depression were beginning to emerge. I had seen the cycle occurring in history again and again. Five thousand years of human chronicle had revealed the recurrence of economic disasters caused by high inequality and the resulting poverty and exploitation.

I was certain that our planet was inching toward another economic

devastation. My heart would sink at the thought of increased poverty and starvation in an already hungry world. I pleaded with friends and colleagues to point the attention of the leaders to the coming catastrophe, but to no avail. Whoever I talked to laughed at me.

I must write a book, I said to myself, explaining why another depression is inevitable. I must also make accurate forecasts to gain credibility and the public trust.

Economics is a science and, properly understood, it must lead to accurate forecasts, especially of long-term trends, the direction of which can be inferred from past events. But if, in one's own monetary interest, theories are championed justifying economic dominance of the rich and powerful, jaundiced policies will be offered and the benefits promised to the public will never materialize. Forecasts would be constantly wrong. The public can be fooled some of the time, but not all of the time.

That is where the American economics profession was in the early 1980s. The public was disenchanted with the profession's predictions, but economists still clung to their self-serving theories. One school of thought, associated with the Keynesians, predicted rising inflation, rising unemployment, rising interest rates and rising oil prices for the 1980s. Another school, calling itself supply-siders, predicted a balanced government budget in America by 1984.

I wrote two articles in 1982, predicting just the opposite. I foresaw falling inflation, falling interest rates, falling oil prices, but soaring budget deficits, wealth disparity, business mergers and stock prices, leading to a stock market bubble, which would burst in the end to start a depression in 1990. I sent the articles to two journals which

rejected them after six months. I then sent the articles to two lesser journals, and fortunately, they took less time in rejecting them.

In 1983, I wrote the book *The Great Depression of 1990*. My profession had been ostracizing me since the end of 1978, when my book *The Downfall of Capitalism and Communism* was first published. After I wrote *The Great Depression of 1990*, the ostracism went into full swing. Journals now rejected all my articles, including those dealing with technical models of international trade. Earlier in 1980, I had vacated the Chairman's position of the economics department after two donors to SMU complained of my heretical views about the stability of capitalism. Now a mere professor, I was back to the world of "publish or perish". And the economic journals were happy to see me perish. Not only the top journals, but also mediocre ones shunned my articles.

The economics establishment now hounded me at every step. Between 1980 and 1983 I wrote twenty articles; nineteen were rejected, mostly on grounds that my work was trivial. Later, basically the same type of ideas would appear in different journals, but not under my name.

I sent the manuscript proposal for my book on the coming depression to reputed publishers, who all turned me down. Some of them received highly negative reviews from my peers, and the publishers felt they had no choice except to reject my proposal. I then sent the proposal to ten more presses – the result was the same. Next, I tried thirty smaller publishers, of whom one was ready to publish my manuscript, provided I removed my critique of established economists. This to me amounted to censorship in a free society and was unacceptable in principle, especially when all my forecasts were

coming true, one by one.

I could not believe that all this was happening to someone who only five years ago was ranked third in the list of forty-six economist "superstars". Publishers were turning my proposal down as though I had written nothing before, as if I were a fool. Maybe I was. Otherwise I would have given up a long time ago.

Giving up. No way. I had been meditating on my infinite FATHER for twenty years, and he had given me infinite patience and drive. Besides, how could I give up? A depression is no joke. The future of the entire humanity was at stake. But I was repeatedly hitting my head against a stone wall that would not budge. No matter how hard I tried, obstacles haunted me. In every direction, I met failure. In frustration beyond belief, I resorted to fasting. I could not just sit and do nothing.

In the Gita I had read that hurdles are cleared through sacrifice which, however, was left undefined. What more could I do? Donation of money to the needy? That I had done regularly. Donation of time and physical labour to feed the hungry or serve the victims of natural disasters? That also I had done periodically. What else? Fasting was one sacrifice I had not tried – for good reason. Who wants to starve?

In 1983, during the summer vacation, I started fasting. I fasted for a week, the first three days without food and water and the last four days with salted lemon water. I almost died. My frail, overworked body rebelled and rebelled. But obstacles had driven me to insanity. I just hung in there with parched throat, pulsating headache and stomach pain.

Nothing changed. Two weeks later I fasted again for a week, and

repeated the process yet again after another two weeks. I spent the entire summer vacation of 1983 in intermittent fasting, as I did the summer vacation of 1984. This way I fasted six weeks, but with no apparent result.

Was this all futile? That is the way it appeared at the time. But it was all building up to a climax. Little by little, brick by brick, layer by layer, a strong foundation was being laid for a massive explosion of success yet to come.

There was only one resort left, a disgusting last resort – self-publication. In May 1985, two years after the futile search for a publisher, I published the book myself under the imprint of Venus Books, a company name that I chose so that no one could connect it to me. Self-publication is a real embarrassment, and admitting it predisposes the reader to reject the author's submission.

I printed 3,000 copies and stored them in a warehouse outside Dallas. Publishing your own book is one thing, marketing it is another. Soon I discovered the back-breaking nature of this work. I sent copies of the book to twenty wholesalers, requesting them to distribute the book to bookstores in Dallas and other major cities. Sensing that this was a vanity publication, they, too, turned me down. So I was stuck with 3000 copies of my work, with no customer in sight. There were no takers.

I began the distribution process on my own, going from bookstore to bookstore in Dallas, requesting the owners to buy some books from me or just accept them on consignment. A dozen stores complied with my request.

I also gave lectures to the public or to whoever would listen, in clubs, in parties, in class rooms. In my first lecture, only six people

were present; and they had come at my invitation. They were very skeptical, but after the lecture each bought a book from me.

At my request, Mr. Alex Burton of KRLD radio in Dallas invited me for a radio interview. I had a flu that day, but I went to his place running. Burton aired my interview over three consecutive days, and all the area bookstores were sold out of my book the same week.

I became a salesman now. I would regularly call on bookstores and resupply them whenever they were sold out. The book was selling slowly but steadily. The message was getting out, starting at the grassroots, by word of mouth. The first printing was gone in three months. I approached some publishers again, locally and nationally. As before, they were not interested.

The second printing came out in October 1985. That month, Scott Burns, a financial analyst, wrote a flattering article about my book in *The Dallas Morning News*, giving further boost to my fledgling enterprise, and the second printing of 5,000 copies was gone by December. Even now no publisher that could spread the message all over the world was forthcoming.

I ordered a third printing in February 1986. By now the Dallas market had been exhausted. I could not possibly travel around the country and distribute my book from store to store. I had come to another dead end. Besides, my health was beginning to falter. How long can you put in 16 hours of work every day, seven days a week? I had sold 8,000 copies of my book in a matter of months, yet could not find a publisher for it.

I tried fasting again. As soon as my classes were over in May 1986, I resolved to fast for a week, with the same old routine of dry fasting over three days and water fasting the last four days. This was

my seventh long fast. However, by now my body had become very fragile. My struggles had finally taken their toll. I could not go past the sixth day; I suffered from nausea, vomited profusely and broke my fast prematurely.

That was one of the most miserable times in my life. My faith in my FATHER was shaken. I had done everything humanly possible to warn the world of the coming catastrophe that threatened to multiply hunger across the globe. Enough is enough. No more self denial, no more personal suffering, screamed my anguished heart. No more self-inflicted pain.

I stopped all work regarding my book. The third printing could rot as far as I was concerned. I would now sit in blissful meditation for long hours, day and night. I could not forget my FATHER.

Something big was happening without my knowledge. The seventh fast, though incomplete, had actually broken the back of the obstacles constantly haunting me. Toward the end of June, 1986, I received a phone call from one Wendy Biggs from New York. She was in the process of writing a long review article on my book which she had received from a friend in Dallas. She interviewed me on the phone and asked me to give her more predictions, which I did. Little did I know that her father was Barton Biggs, Managing Director of Morgan Stanley & Company, one of the most influential financial firms in the world. Wendy and Barton each reviewed my book, paying me glowing compliments for my scholarship and accurate forecasts.

Now my phone would not stop ringing. I got calls from all over the world. Some investors in stock markets frantically searched for my book in bookstores, but were amazed to find it unavailable. One

caller said to me, "Your book has shaken up the New York Stock Exchange and you tell me no bookstore carries it?" He asked me to send him a copy by overnight mail. What an irony I thought. Here I still could not find a publisher, and there were so many people who clamoured for my book and were ready to go to any length to get hold of a copy.

Two weeks after the Morgan Stanley review, my book received a favourable mention in *The New York Times*. I began to sell hundreds of copies by mail, mostly one to each customer, creating an avalanche of work. Things were moving very fast now. Five major publishers from New York wanted my book, and on August 9, 1986, I accepted a bid from Simon & Schuster. The publisher asked me to expand the chapter on advice to the public. The expanded version was published in June 1987.

My book had already caused a sensation in some circles. Now that it was available in bookstores nationwide, it went on the Dallas bestseller list in the very first week of its re-publication, and in the second week it became a national bestseller at number thirteen on the *New York Times* list. In two more weeks, it jumped to the number three position. Everyone, except me, was shocked. Simon & Schuster had expected the book to do well, but not this well, not with such speed any way. No economics book, in the two hundred year history of economics, had ever been in the top ten bestseller list in America or in any other part of the world. Glowing reviews of my book became common.

Whoever read the book praised it, except for my fellow economists and their rich patrons who felt threatened by my argument that extreme concentration of wealth is the main, if not the sole, cause

of depressions and poverty. The book sent shock waves through the economics profession, which had argued over the past two centuries that depressions are logically impossible under capitalism. Until the 1920s the argument was that depressions could not occur as long as the government abstained from intervention in the economy, whereas since the 1930s the consensus has been that the government can and will prevent any depression.

The economics establishment had tried to repress my message for many years. Now that the word was out and spreading, my peers denounced it with unusual vehemence. Some called my book mumbo-jumbo, others called it a hodge-podge of quacky ideas, still others pronounced it fiction. Dr. Lester Thurow of MIT, a celebrity economist, who had earlier written a foreword for my book out of sympathy for a struggling writer at SMU, also chose to denounce it in newspapers. He admitted that he was shocked by the success of my work and that he had written the foreword because he thought few would read my book. When confronted with the uncanny accuracy of my forecasts, he pronounced me to be "lucky" and other economists to be unlucky.

Denunciation came from many quarters – self-styled experts, government advisers, Nobel laureates, right-wing magazines and newspapers, multi-millionaires and billionaires, politicians. But the book would not budge from the bestseller list. It stayed there for weeks. Not surprisingly, the condemnation grew nastier. Rather than denounce the logic of my argument, the critics began to take cheap shots at me personally and at Shrii Sarkar. My whole argument, they said, was based on superstition and the caste system. In any case, what would Indian yogis know about economics anyway?

The dirt that my critics now hurled at me stank with jealousy, racism and bigotry. I remained calm and unruffled, knowing that the truth always hurts. But the denunciations grew louder and louder – until October 19, 1987.

In my book I had warned the public of a possible stock market correction toward the end of 1987. Lo and behold, on October 19th of that year, the New York Stock Exchange crashed and suffered its largest drop in history. Suddenly, the shrill chorus of criticism was silenced. The unthinkable had happened. No longer was the depression scenario so far-fetched. Yes, it could happen – again.

The October 19th carnage of the stock market is now known as Black Monday or the October Massacre. True to their form, the economists changed their tune. They were already used to changing their forecasts every six months, and changes were now due again. Some said a depression or at least a recession was now imminent, definitely by 1988, and they criticized me for missing it by two years. I had anticipated the crash in my book and I stuck to my forecast of a depression starting in 1990.

Following the October Massacre, my book jumped to the top of the *New York Times* bestseller list. Until then the public was confused about my work. My logic made sense to them, and they said so in hundreds of letters I received every month. But the denunciation of my book by my peers created doubt in the public mind. Following Black Monday, however, that doubt diminished significantly. People bought my book in increasing numbers. In all, the book remained on the bestseller list for more than a year.

In February 1988, I went on a tour of five countries – Canada, Japan, New Zealand, Australia and finally my birthplace, India.

Wherever I went, I was mobbed by the public and the media. Some began to call me a prophet. In America many had called me Dr. Doom; in India, people called me Dr. Hope. But I am still the same old Ravi Batra. I used to pray to my FATHER to make me "nothing". That is what I now am at heart–nothing – but my FATHER is everything.

This, my dear brothers and sisters, is my story in brief. It should show you how much power there is in spirituality. Despite the repressive efforts of the entire economics establishment in the United States, despite shrill denunciations from Nobel laureates, high-powered government advisers and countless others who tried to muzzle my voice, my message exploded all over the world. All this from a native of India, a country which has been slighted in this century by Westerners and some Indians as the land of superstitions, snake charmers, illiteracy, fanaticism and so on.

Compared to most other nations, including those described as less developed countries, India is extremely poor. The challenge is indeed vast, but nothing is insurmountable. Napoleon used to say that the word "impossible" exists in the dictionary of fools. This is the right spirit to face the gauntlet.

Many Indian economists have shown that the number of the poor has risen sharply since Independence. Between 1960 to 1970 alone, the number of destitute rural households went up by 6.4 million to 27.1 million, or by a staggering 32 percent in just ten years. Similarly, the number of poor farmers increased by 2.2 million to 10.3 million, and the number of rural households owning nothing whatsoever rose from 750,000 to 2.1 million, or by an eye-popping 280 percent.

Thus, India has massive problems, but India also has a vast spiritual resource which can quickly cure its ills. In the pages that follow, I will show you what these ills are and how they can be cured speedily. In the meanwhile, you should be proud of India's unique spiritual bequest to the world. I am.

Chapter 3

THE FUNDAMENTALS OF PROUT

Prabhat Ranjan Sarkar or Baba is not only a great yogi, he is also a great philosopher, historian and economist. Whatever he writes is new and original; it is designed to bring happiness to humanity and an order to world society, which is increasingly afflicted by greed, crime and terrorism. I say this after a careful evaluation of his multifarious writings. If you read them with an open mind, you will discover a diamond mine of precious ideas.

Prout is an acronym that Sarkar gives to his economic, social, and political philosophy. It derives from what he calls "Progressive Utilization Theory," that is "pro" taken from progressive, "u" from utilization, and "t" from theory, together make up Prout. Prout is a socio-economic theory, but it blends spirituality with productive efficiency and distributive justice. The Marxian egalitarianism and Rawls' sense of justice emerge in it as tenets of morality, something that benefits the individual and society spiritually. Sarkar's views on economics, industry and government are scattered as bits and pieces through his writings. In this and other chapters, I have collected all those bits and pieces into one coherent theme and then appraised them

in the light of modern economic theories. The contribution of some of his close students have also been useful in this regard.

Strictly speaking, Prout is not an esoteric theory, but a set of principles guiding the administration of society in various spheres. One might call it a practical theory, because its emphasis is not on elegant and abstract concepts, but on that which in reality should work and generate the maximum benefit for people. It is an idea that rivals with ideological bases of capitalism and communism. However, Sarkar does not regard it as a reaction to the intellectual bankruptcy of modern-day socio-economic systems, but something which is universal and will be valid for a long time to come. For he views capitalism and communism as passing phases of social cycles in different civilizations. But the Proutist system is not ephemeral and, having been based on human psychology, spirit and evolution, it applies to all nations.

The Concept Of Progress

To understand Prout, it is necessary to begin with its concept of progress. In common parlance, the term "progress" is associated with technical and scientific advancement, or anything which enhances the comforts of life. Humanity is said to have made tremendous progress today because life seems so much more comfortable these days than it was a few centuries ago. People today can travel fast by automobiles and aeroplanes, whereas only in the last century they were travelling by horse-drawn buggies and bullock-carts. If we go back to ancient times, people had to travel on foot. Thus progress is commonly understood as an increase in living comforts through scientific inventions, which have eased our lives not only physically but also

intellectually. The invention of paper has helped spread the ideas of scholars. People can now engage their minds reading novels and other literature. Thus, scientific discoveries may be credited with tremendous advance that humanity has made in the physical and intellectual realm.

All this, to Sarkar, is not progress. To be sure, it has resulted in a great change in the mode of living, but he denies this to be progress because most scientific discoveries have created problems which were non-existent before. Faster travel today has increased the risk of accident; industrialization has resulted in environmental pollution and cancer and other diseases unheard of in the past; modern medicine quickly cures the malady but generates side-effects requiring further treatment. Even in the intellectual sphere, there is much available to keep the mind occupied, but people today suffer from emotional problems and neuroses that did not afflict them before. Increased comforts in physical and intellectual spheres have been accompanied by deleterious side-effects, and who is to say that progress has really occurred in these realms. Indeed, Sarkar goes as far as saying that progress in the intellectual and physical sense is impossible unless there occurs a spiritual advance at the same time. In other words, the term "progress" in the intellectual and physical spheres is a misnomer [4, pp.254-62].

Why can progress not occur in the physical and intellectual arenas? Why must any positive development there be associated with a negative movement? The reason lies in the very nature of the universe which exists in a vibrational flow balanced by positive and negative forces.

Our earth and the atmosphere surrounding it are finite. Any

positive wave in this finite realm will have to be counterbalanced by a negative wave. Therefore, any invention creating a positive wave of physical comfort is matched by a corresponding negative wave leading to discomfort. In view of the interdependent nature of the physical world, it is not surprising that the results of new technology will be exactly counterbalanced by a side-effect. Therefore, if life becomes easier in some respects, it will become harder in others. No one can laud science and technology as an unmixed blessing.

Sarkar's claim that progress is impossible in the physical realm is very strong indeed. It seems to be incredible, but it has an internal logic of its own. And today, with constructive and destructive fruits of science visible in all directions, this logic has become manifestly clear. Can you think of any invention which while reducing life's boredom has not added to life's danger at the same time? Repetitive work is drudgery; when machines do that work, life seems to be more pleasant than before. If dishwashers wash our dishes, air-conditioners cool our rooms, laundry machines clean our clothes, automobiles do our walking and so on, life certainly appears blissful relative to what our fore-fathers had to endure in a scienceless world. But then they did not have to contend with electric shocks, fatal accidents, air, water, land and noise pollution, noxious automobile fumes, urban congestion, super-selfishness, crime and so on.

Indeed the harm done by an invention varies directly with its promise of comfort. Coal results in smoke pollution; so does oil. Nuclear power has none of this; besides it is one vast reservoir of power. But then it is many times deadlier than traditional sources of energy. You can move away from the pollution of oil and coal, but from nuclear radiation there is no escape. It follows you wherever you

go.

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

Does it mean that science should be discarded? Not at all. With our overwhelming problems concerning energy, population, and pollution, our relapse to pre-science days is unthinkable. All it means is that we have to be more cautious about inventions. Before translating any new invention into industrial technology, its side-effects should be thoroughly studied, and investments should be simultaneously made in controlling its emissions. More will be said about it in the next chapter.

While the concept of progress in the material sphere is at best dubious, things are no better in the intellectual sphere. The world seems to have greatly advanced in the realm of intellect. There are more scholars today than ever before. People with M.As and Ph.Ds abound in many nations, and many more are habituated to regular reading and writing. But has all this occurred without a cost?

People in ancient times were intellectually backward, but they did not suffer from emotional stress and neuroses. One who is less scholarly is also less prone to mental disturbances, whereas an intellectual is highly vulnerable in this regard. He creates unnecessary

problems in his own web of imagination, and experiences sleepless nights. Hence in the intellectual sphere also progress is unlikely, if not impossible, because the feeling of increased pleasure is likely to be balanced by one of increasing pain.

The barometer of progress in the ultimate analysis must be mental pleasure which is really nothing but a mental vibration expressed through the relaxation of the nerves; that is, pleasure is nothing but a mental vibration emitted by relaxed nerves. On the other hand, pain is just an opposite experience. When the nerves are under tension, the vibration generated in the mind is called pain. In evaluating the impact of science, people usually focus on the conveniences it has provided, while ignoring the nervous tension it has created in our lives. The fact that progress is not possible in the material sphere only means that scientific change only increases both pleasure and pain in the same proportion.

The same holds true with intellectual activity as well. In most states, mind experiences either pleasure or pain. There may be cases of mental repression or mental denial of discomforting things, but such mental states do not last long. Generally, mind is either happy or unhappy. The intellectual activity undoubtedly increases the feeling of pleasure. A person who has won an argument over another is usually very happy and sometimes delirious with joy. But after a while, he will experience a corresponding amount of pain in some other aspect of his mind. The reason is that the human mind has a certain mass and volume. Purely intellectual study and analysis fail to enhance this mass; all they do is to increase the activity and play of ideas within a given intellectual arena. With a greater number of thoughts criss-crossing a given mental area, the result inevitably is an increased clash

in the mind. Hence occur the mental breakdowns; hence the neuroses; hence the growing need for psychiatrists in intellectually developed societies.

Is then progress possible at all? The answer is yes. Human existence has three aspects – physical, mental and spiritual. While the first two aspects are not amenable to progress, the third is. Increased happiness in that sphere is not neutralized by increased misery.

What is spiritual activity? The action which enables the mind to move closer to its own witnessing entity constitutes spiritual activity. The witnessing entity is that faculty in the human being which supports the mental action by its witness-ship of that action. For instance, when a person is engaged in a dream during sleep, some other entity must be watching the fact that the person is dreaming. It is because of this witness-ship that the person next day remembers the dream. Hence the mind and its witnessing entity are two different things. This witnessing counterpart of the mind is variously called spirit, soul, or atman. The sum total of all these souls is God, or Paramatman. Defined in this way, God must exist, because the witnessing entity must exist for each and every mind. God is, therefore, the ultimate witnessing entity, or the cosmic being.

Note that there is nothing mysterious about God when defined this way. The fact that there exists a witnessing entity providing support to the mental action is only logical. When we are conscious of the action, the witnessing entity does not seem to be present. But when we are not conscious of the action, as in a dream, the memory of the next day proves the existence of an entity coexisting with each mind. The sum total of such entities is what we call God. You can give it any other name, but the point is that it is there.

God is an infinite entity, for it cannot be measured by the human mind. The mind cannot even measure its own soul, as the latter supports each mental action by its witnessing presence. How could then the mind provide any conceivable measuring-rod for God? The effort of the mind to come in contact with God is what we call spiritual activity. Hence the goal in the spiritual arena is not finite but infinite. Therefore, the resulting feeling of pleasure is not accompanied by pain, or happiness by misery. This then is true progress. In the spiritual experience there is no negative movement; every effort there is a forward march unaccompanied by any deleterious side-effect.

Spiritual activities include meditation and selfless living. Without providing help to the needy, the forward movement towards God is impossible. And since mind's goal is the infinite entity, the spiritual life results in an expansion in the volume as well as the mass of mind. As a result, the mental conflict declines and the nerves get relaxation. The person becomes broad-minded. He or she seeks to serve others, to share in their pains. A community which respects the selfless beings and attempts to emulate them also then experiences increased happiness without corresponding pain. That is when true progress occurs in the entire society. The degree of selflessness, therefore, is the true gauge of society's progress, not its material development, nor its intellectual attainments.

While real progress is unlikely in the material and mental sphere, Sarkar does not advocate that scientific and intellectual pursuits be abandoned. Quite the contrary, he is a champion of science, art and literature. But he insists that scientific advances should be "spiritualized"; that is to say, they should be accompanied by spiritual practices at the same time. For such practices enable us to gain

increasing mastery over our body and minds. All detrimental effects of scientific and intellectual developments on the human organism can thus be brought under control.

The introduction of new technology increases the pace of life. More decisions than before have to be made in a relatively short span of time; one has to move fast from place to place in order to cope with the speed of machines. All this adversely affects the nerves, and in turn puts stress on the brain and the heart. Heart failures and mental agonies are the inevitable byproducts of science and technology. Spiritual practices, which calm the nerves, are therefore indispensable if we intend to master science and not to be mastered by it.

Sarkar's concept of progress has profound implications for humanity. It suggests that scientific change and intellectual transformation, unaccompanied by spiritual advance, would lead not only to degradation in the physical arena such as our environment but also to racism, bigotry, and social conflicts. Spirituality is the foundation of all progress. During the 20th century, thousands of remarkable inventions and new theories have almost totally transformed our way of life. But spiritually, we have stagnated and even moved backwards. Consequently, battles and wars have been deadlier in the current century than ever before. Rising greed, crime, drugs, and environmental pollution threaten to overwhelm the delicate thread of life on our finite planet. The moral is that change in the physical and mental sphere, without spiritual advance, is ultimately self-destructive.

The Concept of Resources

Another concept introduced by Sarkar deals with the notion of

resources. Ordinarily, resources are defined to include a society's stock of capital, labour, and land, its mineral wealth, its level of education, knowledge, and technology. Sarkar's concept of resources includes these and much more. Here, as with everything else, Sarkar begins with the fundamentals. He distinguishes between resources available to an individual and those available to society. Although such distinction gets blurred at times, it is useful to keep it in mind. Not all individual resources may be available for collective utilization by society.

Let us begin with individual resources, which may be categorized as physical, mental, and spiritual. The meaning of physical resource is obvious; it derives from the human body, its health, strength and stamina. The healthier a person is, the greater his capacity for work as well as enjoyment. The mental resource includes the human mind and intellect. This is what we need to acquire education, skills or what economists call human capital. Mental resources are subtler than physical resources. Anything conceivable only as an idea is subtle and that which is conceivable as an idea as well as a physical reality may be defined to be crude. It is in this sense that human capital is subtler than physical resources. Our capacity for work and enjoyment also depends on our mental strength, stamina and intelligence. More specifically, mental resources signify ideas, concepts, languages, literature, art, scientific and technical inventions, and so on.

The third resource possessed by a person is his or her spiritual resource, one which is slighted by intellectuals today, although this is the most important for individual as well as social welfare. Spiritual resources refer to knowledge and techniques resulting in the broadening and the expansion of mind. They refer to honesty,

integrity, and self-sacrifice of which every person is capable. Spiritual resources are the subtlest of the three individual resources, and for this reason are the hardest to acquire. One has to strive to develop them. But the point is that they cannot be excluded from any serious discussion of social welfare, something the modern-day economists and social scientists fail to recognize.

Let us now explore the resources available to society. The universe is composed of five rudimental factors, namely the ethereal, aerial, luminous, liquid and solid factors. The aerial factor consists of all gases, the luminous factor of light and fire, the liquid factor of water, oils, etc., and the solid factor of dust, rocks etc.. To Sarkar, all these five rudimental factors constitute crude resources available to society for utilization.

Modern physics traces the birth of the universe to the aerial factor. Some ten billion years ago, there was a big bang in a giant mass of gases, and light, liquids and solids later resulted from that massive explosion. But what provided support to the huge mass of gases? None other than the ethereal factor.

Sarkar uses his own terms to describe society's resources, which he calls "mundane" and "supramundane". Both convey a broader meaning than corresponding terms used conventionally. Mundane resources include not only an individual's physical endowments and capital but also the five fundamental factors available to society for utilization. Supramundane resources, by contrast, include society's subtle endowments such as human or intellectual capital, inventions, technology, history, literature, poetry, and so on. Thus, Sarkar's concept of social wealth is much broader than any conceived by scholars to this day.

The Progressive Utilization Theory

The concepts of progress and resources introduced by Sarkar are central to Prout. Sarkar argues that society's utilization of all its resources at any moment of time should be such as to result in progress. Hence the caption "Progressive Utilization Theory" or Prout. But progress to Sarkar occurs only in the spiritual arena. Science and technology are important, but they are to be utilized in such a way that their harmful emissions are kept under control. Therefore, Sarkar's progress calls for harnessing not only traditional resources such as land, labour, machinery, minerals, and human capital, but all the rudimental factors along with the artistic and spiritual endowments of individuals and society.

How is this progress to be achieved? Here, Sarkar presents five guidelines called the fundamental principles of Prout. Some of them pertain to static aspects of society, and some to its dynamic adjustment.

It was during a discourse in 1958 that Sarkar first outlined these principles [1]. Later, he expanded them in the form of Sanskrit aphorisms or sutras, and now they have been presented in part 4 of a series of short treatises called *Prout in a Nutshell*, parts I-XIII [2,3].

1. "No individual should be allowed to accumulate any physical wealth without the clear permission or approval of the collective body."

In the first principle, Prout gets involved with the concept of private property, which, according to Sarkar, is a misnomer. No one brings

any property with him at the time of birth and no one takes anything with him at the time of death. The world is the joint property of all. Everyone has a right to its enjoyment, but no one is authorized to abuse it. Air and light are regarded as free and hence jointly owned by society. Why should the solids, which essentially are transformed versions of air and light, then not be regarded as jointly owned?

There cannot thus be any natural or fundamental human right to private property, nor to private inheritance. However, society or a collective body may find it expedient to allow some private accumulation of physical wealth. Hence no individual should be permitted the hoarding of wealth unless society so approves.

Many inequities and injustices in the world result from the social sanction of private property. This is true today and was so in the past. It is because of the institution of private property that there is considerable poverty among opulence in rich capitalist countries. The same holds with poor underdeveloped nations, and nations basking in their oil and mineral wealth. The very same idea of property sanctifies national restrictions over the transmission of capital and technology to hunger-stricken nations. Thus, the concept of private property has been for ages at the root of many brutalities that enable some persons and nations to be extravagant while a vast ocean of humanity goes under-nourished and even starves to death year after year.

Competing concurrently with the notion of private ownership is the notion of ownership by the state. The latter is supported most vehemently in communist and some democratic countries. If private property is a misnomer, so is state property. If individuals should not be allowed to hoard unlimited physical wealth, so be it with the government.

In communist countries, the state, or supposedly the society, owns everything. There is no proprietor, and everyone is a wage-earner. This is another extreme, and as dangerous to human progress as the idea of unrestricted private property. For state ownership destroys all incentives to work hard, or to introduce new ideas to cope with a constantly changing world. It may even destroy many other individual liberties. Actually, the urge to accumulate is natural in human beings. The future is uncertain and most people like to save for the rainy day. The suppression of this urge is neither desirable nor possible. The past experience of all communist countries tells us how difficult it is to deprive everyone of all his property. The great upheavals that the state in the past unleashed on its property holders could have been avoided, if this natural urge to accumulate had been permitted at least limited expression.

Prout strikes a compromise between these two extremes. In the interest of incentive and initiative, society may allow persons to accumulate some wealth, but this accumulation cannot be unlimited. Otherwise there will be great income disparities resulting in corruption, poverty, personal envy, crime, and excessive materialism attended by all the concomitant problems. For the wealthy tend to have social influence that hinders the distribution of maximum benefit to the maximum number of people.

2. "There should be maximum utilization and rational distribution of all mundane, supramundane and spiritual potentialities of the universe."

This principle has two aspects – maximum utilization and rational

distribution. Maximum utilization signifies the use of all material and non-material resources available to society at any moment in a way that yields maximum satisfaction to the maximum number of people over the maximum period of time. This implies that all those able to work should be provided with employment opportunities, and that techniques of production should be the most modern or as efficient as possible. There might be a conflict between these two goals. If the most efficient production methods are highly capital intensive, their use could collide against the objective of providing suitable jobs to all able-bodied persons. In such cases, the objective of employment will have to take precedence over that of choosing the most efficient technique, or else, while using the most capital intensive technology, the workers in an industry will be provided more leisure time so that all could find employment.

To a materialist, the extra leisure may amount to wasting time, but to someone who seeks to maximize mental satisfaction, leisure is most welcome. For then he can allocate some time to spiritual practices which in turn increase his happiness. Hence there may not be any conflict between the twin goals of maximum employment and efficient but capital intensive production methods. Still society will have to weigh among various alternatives available for maximum utilization, a question taken up later in the fourth principle of Prout.

While goods are to be produced from most efficient technology, the distribution of income among members of society should be rational. Prout, as stated in the first principle, does not advocate the abolition of private property; nor does it advocate completely equal distribution of income. Instead it calls for rational distribution , one which furthers, and does not conflict with, the idea of maximum

utilization. Only this kind of distribution can be compatible with the system of material incentives without which people will not give their best in the productive process.

Sarkar argues that "diversity is the law of nature, equality will never be". Equality is possible only when the entire matter has been converted to the mass of energy; so complete equality amounts to cessation of all activity – the death of the universe. Hence, society should not try for complete equality, because such attempts are doomed to failure. What it can do is to ensure equality of opportunity to all so that no one unjustly gets an advantage over anyone else. In addition, it should provide minimum necessities to all its members, and then try to raise the minimum living standard over time. Rational distribution of income is therefore one where (i) the real wage rate is so determined by society that everyone can afford the necessities like food, clothing, housing, education and medical care, and (ii) an individual's surplus income equals a share of what remains after the minimum standard of living has been satisfied. Finally, those unable to work – the handicapped – are also to be provided at least their minimum physical requirements, whereas people with special skills and merits should be allowed to share the surplus income.

3. "There should be maximum utilization of the physical, metaphysical and spiritual potentialities of unit and collective bodies of human society."

In the previous principle, Sarkar uses the terms "mundane" and "supramundane" to describe the physical and intellectual resources, whereas in the third principle he uses the terms physical and

metaphysical to describe essentially the same concepts. Why, what is the difference?

The reason for the use of different terms in the two principles lies in the scope of application. The third principle applies to micro entities such as individuals and their associations, or "unit and collective bodies" as Sarkar calls them. The second principle, on the other hand, refers to macro concepts including all sorts of resources available in the entire universe.

In all his writings, Sarkar is very particular about the proper use of words, and that tendency also shows up in the careful wording of Prout's principles, so that there is no room for misinterpretation. Thus, while crude and subtle resources are described by the terms physical and metaphysical at the micro level, they are described by the terms mundane and supramundane at the macro level.

In the third principle a link is established between the individual good and the collective good, between individual interests and the collective interests. Social welfare depends on individual welfare and individual welfare on social welfare. Both have to be stressed at the same time; one can be neglected only at the peril of the other. While all persons should be provided with guidance and opportunities to maximize their physical, mental and spiritual potentialities, society should also be governed and administered on the basis of morality and honesty. "One must not forget," says Sarkar, "that collective good lies in individualities and individual good in collectivity." [2; p.54]. Social welfare cannot be maximized if individual interests are neglected. For this reason, evervone should have the freedom of thought and expression; everyone should be provided the minimum physical requirements including leisure, so that he can devote some

time to intellectual and spiritual pursuits. But individual welfare also depends on the nature of the government or the collective body. If the government is corrupt and dishonest, individuals are also usually corrupt and dishonest. Hence the individual good lies in the collective good and conversely.

What is the collective body? Prout suggests that in order to keep the government honest, there should be another institution to serve the role of a watchdog over the administration. This ombudsman type of institution is Sarkar's collective body which should be composed only of morally and spiritually developed members of society. Only those who are selfless and brave, only those detached enough to see through the ruse of self-serving politicians can keep a watch on potential mischief by the government. Hence if the government is to be kept honest, there should be an incorruptible body of staunch moralists overlooking its actions.

4. "There should be a proper adjustment amongst these physical, metaphysical, mundane, supramundane and spiritual utilizations."

The second principle calls for maximum utilization of all the resources in the universe, whereas the third principle recommends maximum utilization of the physical, mental, and spiritual potentialities of each individual and society. The fourth principle advocates a proper adjustment in all these utilizations, so that individual and social welfare are maximized not only at any moment of time, but also over time. Humanity needs not only a static balance in the use of these resources and its faculties, but also a dynamic balance.

The requirement of balance in the use of natural resources suggests that society has to maintain a healthy environment or what economists call *ecosphere* or the biologists call *biosphere*. A healthy environment in turn calls for a proper use of all the five fundamental factors. For instance, if the use of technology results in atmospheric pollution or the poisoning of lakes and seas, it only means that an excessive use has been made of resources deriving from the liquid and aerial factors. It may also mean a faulty use of human intellect which led to the use of faulty technologies. Hence society has to maintain a balance in the use of all types of resources, if social welfare is to be maximized.

Similarly, each individual is to be encouraged to maintain a balance among physical, mental, and spiritual activities. Neglect or excess of any of them leads to unhappiness. To get the best out of life, all three have to be pursued simultaneously. Each individual should be encouraged to attend to his body through a program of physical exercises; second, he should be provided a proper education incorporating not only the essential skills of time, but also the ideas of honesty, personal integrity, and the spirit of helping others. Third, the individual should be encouraged to undertake spiritual practices involving meditation and actually going out of his way to help the needy without compensation. Spirituality is essentially practicing what is taught by broad-minded philosophy and education. It never contradicts logic, although some of its aspects may be beyond logic.

Spirituality is not religion, because religion mostly contradicts logic. Spirituality leads to broad-mindedness and universalism, religion to fanaticism and bigotry. Spirituality leads to happiness, religion to superstition and misery. Hence each individual is to be encouraged to undertake spiritual practices, although these practices do

not interfere with religious beliefs.

Maximum individual welfare calls for a balance among the physical, mental and spiritual aspects of life. Similarly, maximum social welfare, as suggested before, calls for a dynamic balance in the utilization of all resources. Society can neglect one at the expense of the others only at its own peril. Take, for instance, the objective of maximizing the individual standard of living, or the economy's rate of growth. This goal deals purely with the utilization of crude resources with the help of the best possible technology. But it could run into conflict with the proper use of natural resources, if it resulted in smog, or excessive carbon monoxide, which among many other pollutants has contaminated the biosphere in many industrialized countries, because it could lead to grave health and psychic problems. It might also require the maximum allocation of people's time to producing goods and services, so that little time would be left for spiritual and intellectual pursuits. In such conflicts, which are inevitably there, society or the governing body will have to strike a compromise among various uses of natural resources or people's time.

The principle of adjustment also requires that as far as possible employment opportunities suit the employee's temperament. As a rule, persons with many-fold assets should be employed in subtler vocations. An intellectual, for instance, should be employed in an intellectual service even if he possesses enough physical prowess of a warrior. Similarly, a person endowed with spiritual knowledge should be given the duty of instructing others in spirituality, or a warrior should be entrusted with defense or police activities and so on.

Spiritual knowledge is rare. That is why spiritualists are the most useful members of society. They are the ones in whom all three

qualities – physical, mental and spiritual – are well developed. They may not be muscular; but they are intelligent, brave, and selfless. Hence society should be governed and administered by spiritually awakened persons.

5. "The method of utilizations should vary in accordance with changes in time, space and person, and the utilizations should be of a progressive nature."

The proper use of resources must vary with time, space and person. Every atom and molecule of this world is different from another. Not only that, everything is undergoing transformations at all time. If there is one constant other than the cosmic entity, it is change. Ideas of yesterday are obsolete today, and today's ideas will be obsolete tomorrow. Something worked in the past, but it may not tomorrow. Therefore, the methods of resource utilization, the productive techniques, the ideas and theories, the spiritual practices all have to be adjusted and readjusted over time. They may have to be different from person to person, nation to nation, and, in the future, from planet to planet. Not only should resource utilization vary with the environment, it should also be progressive in nature; that is to say it should also result in a continuous spiritual advance of the individual and society. All new inventions, discoveries and techniques should be utilized with this notion of progress in mind.

The fifth and final principle of Prout furnishes it the quality of adaptability lacking in other systems. This is what imparts it a universal character and validity. This is what should make it appealing to all peoples on earth, to all societies, to all nations.

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Chapter 4

PROUT'S ECONOMIC SYSTEM

The set of principles described in the previous chapter provides guidelines to maximize individual and social welfare not only at any point of time but also over time. Maximization of individual and social productivity of all material and non-material resources at any moment ensures static efficiency in all three aspects of human existence – physical, mental and spiritual – whereas the principle of constant and progressive adjustment in the use of resources aims at dynamic efficiency. However, the current world economic systems are incapable of translating these principles into reality. They lack a proper moral and intellectual atmosphere in which individual and social welfare can be maximized. Prout, therefore, proposes its own economic system which will give effect to its fundamental principles.

The purpose of all wealth, according to Prout, is to satisfy human wants and needs. Wealth is needed for consumption, both current and future, but not for excessive private hoarding or profiteering. Thus private accumulation or the profit motive should not be the sole basis of producing goods and services. The sole basis should be

consumption. Hence Prout's is a consumption based economy. Note that while excessive private hoarding is undesirable because of its social evils, the social accumulation of wealth is to be encouraged for further investment as well as for research in all aspects of human development.

The emphasis on consumption or the satisfaction of human needs is worth noting. Many developed countries are currently enjoying prosperity unprecedented in their history. Their economies adequately satisfy the physical needs of their citizens. But they also suffer from unprecedented inequities in the distribution of their income and wealth, and as a result they have some minorities which are extremely poor.

However, a need-based economy would give priority to fulfilling the needs of the poor. But the sole motive of production in developed countries is profit, something which is admitted in private but not in public. Investment in goods needed by the poor is risky, for the poor lack adequate purchasing power. As a result, their needs are not adequately satisfied. People with money keep making new investments in industries catering to tastes of the middle class or the wealthy, because that is where the profit is. New and new gadgets are produced to satisfy the already satisfied wants, and so poverty coexists with plenty. And if the new gadgetry cannot be easily sold, because the wants of the middleclass have already been met from the purchase of durable goods in the past, the manufacturer wastes millions on advertisements urging the public to scrap the old and buy new, sub-quality but high-fashioned goods. All this is a serious misallocation of mundane and supramundane resources.

Are the rich at fault? Not really, because no one likes to lose money, although, but for their greed, the opulent could give away part

of their wealth to feed the poor. The real fault is with the system, which allows some persons to be filthy rich while the minimum needs of others go begging.

The same is true of underdeveloped countries including India, where pockets of opulence mock the penury of the masses. Hence, it has to be granted that in the interest of maximum social welfare, the allocation of resources ought to be based on human need rather than human greed. How Prout ensures this, I will discuss later.

Distribution of Income

In the first principle, Prout advocates that the minimum physical requirements, such as food, clothing, housing, education, medicare, should be guaranteed to all. But minimum requirements are not given; they vary with time and place. As human beings evolve, as their anatomy changes, as more and more scientific advances occur, the notion of what is minimum will also change. Hence the concept of minimum necessities will have to be revised over time. Not only that, with general economic advance, the minimum standard of living should also be raised periodically. This will ensure the spread of economic prosperity to all workers and not just a few privileged sections.

Minimum necessities will be guaranteed to all by providing them suitable jobs at money wage rates that can afford the necessities at market prices. Actually among necessities, Prout advocates that education, and health care should be provided free to everyone, so that food, housing and clothing are the only major needs to be met from one's wages.

All through history, the class of physical workers has been the one

exploited the most. This was true in all civilizations in the past and is true in every country today. The reason is, and was, that of all the workers physical labourers have the least marketable skills. Yet their toil is indispensable to the survival of society. They perform jobs considered menial and insulting by others. They truly need and deserve a helping hand from the state. The government should fix a minimum wage rate high enough to enable the relatively unskilled workers to satisfy their minimum requirements. There are minimum wage laws in all democratic countries. But such minimums are too low to make much dent in the poverty of physical workers. Prout's minimum wage, however would be high enough to ensure that everyone meets his basic needs.

The critics of the minimum wage concept contend that it causes unemployment and inflation. I will argue later that such will not be the case in a Proutist economy.

After the minimum requirements of all have been satisfied, the surplus national income, if any, should be distributed among people in proportion to their contribution to society. The rational distribution of Prout actually furnishes a humanitarian and just way of distributing national income or net national product (NNP) which equals gross national product (GNP) minus depreciation of capital. Let S stand for the surplus, L for labour force and W for the real wage rate corresponding to the minimum standard of living. Then

$$S = NNP - wL$$

Let TPj be the total product of the jth individual who contributes to the economy more than the minimum real wage rate. Then Prout's

guideline for rational distribution suggests that incentive (I) income of the jth individual should be given by

$$I_j = (NNP - wL)\frac{TP_j}{\sum_{j=1}^{n} TP_j} = S\frac{TP_j}{\sum_{j=1}^{n} TP_j}$$

where n is the number of individuals producing more than w.

A simple example will illustrate this principle of distribution. Consider an economy where labour is the only factor of production. Suppose there are five individuals in the labour force, so that L = 5. Their monthly income measured in current rupees equals 100, 200, 300, 1000, 1500. Then monthly NNP = 3100. Suppose that the minimum necessities require a wage rate of 500. Then three persons are subsisting on income below the minimum living standard, while two are enjoying exuberant living standards – a situation not far removed from the present-day reality in most countries where a small minority consumes a disproportionately large proportion of income. If the economic system is left to itself then most likely the majority of these five persons will be doomed to their sub-standard living forever. But Prout would ensure each person at least an income of 500 rupees per month, and the surplus would be distributed between the top two wage earners in accordance with their productivity. Assuming that incomes of the two rich persons reflect their contribution to society – an assumption not always valid – the surplus income can be determined in this way.

$$\text{Here } n = 2, \sum_j TP_j = 1000 + 1500 = 2500$$

and

$$S = 3100 - 2500 = 600$$

The incentive income of the person earning 1000 rupees would be given by 600 x (1000/2500) = 240, wheras the incentive of the other rich person would be 600 x (1500/2500) = 360. Hence prior to social intervention, the income distribution looks like

(100, 200, 300, 1000, 1500),

but from Prout's formula, it becomes

(500, 500, 500, 740, 860)

This is an illustration of Prout's distributive justice. As can be clearly seen, this distribution of income is not completely equal; nor is it extremely skewed, as the case would be if the collective body did not intervene in the economy. Hence, Prout's system reduces inequality, but does not destroy the incentive to work hard.

What if the NNP does not meet even the minimum requirements of all individuals. Many underdeveloped countries including India are not fully utilizing their resources. There the NNP may not be enough to satisfy everyone's minimum necessities as defined by Prout. In this case, of course, nothing will be left for incentive. Two objections may then be raised to the principle of rational distribution. First, if all the surplus income of those producing above the minimum requirements is taken away and redistributed among the extremely poor and currently

unemployed, then the highly productive persons will be discouraged and reduce their own production. This will then result in a national income loss. Second, the rational distribution of income will increase current consumption and reduce savings, thereby adversely affecting the rate of growth. This, one may argue, would have many serious consequences especially in view of the rising population. It could, in the long run, increase the poverty of everyone including the currently impoverished people.

Prout certainly does not disregard these arguments. But it argues that currently resources in India and elsewhere are not being efficiently utilized. Not only are intellectual potentialities being wasted, but material resources are also being misallocated. In a country where the rational distribution of income fails to provide minimum requirements to all, any production of luxury goods and services is a misallocation of resources. In such a case, Prout would completely ban the production of luxury items and utilize their plant and equipment to produce goods needed for current and future necessities. In other words, Prout will first correct the misallocation of resources, increase the production of necessities and introduce its system of rational distribution when it becomes feasible.

Minimum and Maximum Wage

In examining any system of income distribution, one has to tackle a thorny question. What is the optimum level of inequality in society? The question takes it for granted that complete equality of incomes is neither fair nor possible. It also presumes that in the absence of state intervention, the distribution of income is, and has been throughout history, extremely inequitous and exploitative of at least the physical

worker.

The question of creative or optimum inequality has been raised and discussed by scholars before but no practical guideline as yet has been devised. There have been theoretical solutions, but no workable devices. My main concern here is not with theoretically sound judgements, but with matters of practical policy.

Some scholars have suggested that national income should be so distributed that marginal utility of income is equal for all individuals. Given that individual tastes are different, this rule leads to maximum social welfare without producing complete equality. It is this argument that provides a philosophic basis for the concept of progressive income taxation adopted by most countries. This tax takes away proportionately more money from the richer than it does from the poorer. Presumably, the tax revenue is meant to be spent for those with abysmally low levels of income.

The problem with equalizing individual marginal utilities is that they cannot be computed. Nor can we have any approximate idea about their magnitude. For practical policy, the marginal utility rule is imperfect, if not useless. Similarly, the efficiency of progressive taxation of income depends on the honesty of the rich. The success of the policy, therefore, is at the mercy of the taxpayer. What are the chances of this success? Practically zero! There is a well known saying that nobody becomes rich through honest living. We may not be able to prove its validity in a tax court, but most people know that this is the way of life. The system of progressive taxation, therefore, rests on the honesty of dishonest people. How many people pay their full share of tax in India or in any other country? Their number could be counted on fingers. Even political leaders in so many countries are

known to have illegally evaded their taxes. Hence, merely the progressive taxation of income would not do. We have to have a system free of loopholes.

Even if the government can collect enough revenue from the rich, the problem of its distribution among the poor remains. For this distribution also depends on political leaders and bureaucrats, who are corrupt to the core. To them their own pockets come first, then their own relatives, then their own friends, and finally, if at all, the needy. This is the root cause of the failure of many welfare schemes in the United States, India and many other countries. Even if the bureaucrats are not corrupt, their mismanagement has often resulted in colossal waste of funds and fraud on the part of beneficiaries. No! Egalitarianism should not rest on governmental dole, nor on the honesty of the taxpayer and the beneficiary. It should be built into the economic system itself. It should function with minimum of governmental intervention. I will presently argue that Prout's economy will generate such an egalitarian system.

What should be done about income disparities in the short run? Prout's system will one day become a reality, but it is not in existence now. No progressive idea can be kept on the leash forever, but it takes time, social conflict and sacrifice before it materializes. What should be done to reduce the yawning income gaps in the meanwhile?

At the outset, we should recognize that no amount or variety of taxation short of confiscation will mitigate income inequalities. Since confiscation of income is neither possible nor desirable today, what else should be done? Why not impose a ceiling on the high wage rates? There are two sides to the problem of inequality, namely the extremely low incomes of physical workers, and the exploitative

incomes of those possessing high degree of economic power.

The topmost executive of General Motors earned more than a million dollars in 1978. He, along with some economists, would argue that that was his contribution to American society. And they would persist if reminded that the United States President only makes two hundred thousand dollars. Presumably, the job of the United States President is not as important as the job of the chairman of General Motors. Such are the ironies of capitalism.

At the rate of full time work of 40 hours a week or 2080 hours per year, the General Motors chairman earned more than 4,890 dollars per hour. The minimum wage in 1978 was $2.65 dollars per hour. Thus, the maximum wage in the United States was more than 1800 times its minimum wage in 1978. How in the name of humanity can such monstrous inequities be justified? And in arriving at this comparison, we are not counting other millions which the General Motors chairman earned from his ownership of property – stocks, bonds, land, buildings. His was not an isolated example either. The Chairmen of Ford Motors, IBM, among others, were in the same boat. By 1988, these inequalities had risen even more.

The situation is not much different in India and the Third World. The top executive in the private sector earned a total of 223,350 rupees, or more than 1000 rupees per hour in 1978. While the maximum wage is clear in India, the minimum wage is not, for there is so much unemployment; and then, so many farm workers earn no more than a kilogram of coarse grain after toiling for 10 to 12 hours a day. If generously calculated, this wage comes to no more than 1/2 rupee per hour. Hence, the maximum wage in India was, and is, at least 2000 times its sub-subsistence wage. How in the heavens can

we justify such brutal inequities, which have actually soared in the 1980s?

In the world economies today, there is a clear-cut need for concepts of minimum wage and maximum wage. The two should be inter-related to preserve a semblance of social justice. This way income inequities can never exceed the bounds of fairness. Under this policy, if the maximum wage rises, so will the minimum wage, and inequities will never grow out of sight.

How should the minimum and the maximum wage be related? Stated otherwise, how much inequality should the society permit? It is easier to raise this question than answer it. Some scholars today believe in the concept of optimum or creative inequality. But devising a mathematical formula for it is extremely difficult, if not impossible. For consider the formidability of this task. An economist would say that optimum inequality is one that fosters productive efficiency and growth. A sociologist would say that it should be just and moral. A libertarian would say that it should not involve excessive governmental intervention in economic and social affairs. Others would say that it should not impede risk-taking, saving and incentives. There are just too many considerations here to produce a rigorous optimizing model that generates a formula for optimum inequality. It is just not possible to follow the usual method in economics of maximizing social welfare subject to the constraint of resources, simply because the social welfare function contains countless variables not subject to measurement.

Indeed, an argument such as this plays into the hands of libertarians. Since the concept of complete income equality is an easy target of attack, and since a formula for creative inequality has not so

far been devised, the apologists of unlimited private property insist that the economic system should be left to itself.

But the question is: do we need a rigorous formula with universal appeal? Or can we afford to wait for the day until such a formula arrives? In view of the horrendous income inequities pervading all nations today, the answer is no. All we need is a practical guideline to make a start. And for a practical guideline, let us look not towards economists or sociologists, but to the age-old science of numbers. Let us look towards that primeval idea which is the very essence of Nature's diversity and hence of inequality.

When the human mind first moulded itself out of animality, it must have been confronted with the thought of one and the many. When it saw a plant and its many flowers, or a tree and its fruit, it must have felt the need for counting – for numbers in order to make comparisons. There would have been no need for numbers, if everything were one and the same. Hence, the numerical idea is the very essence of inequality, and conversely.

What did the human mind devise as early as the prehistoric time? The concepts of one and two! Then three and four, and so on until ten. To be sure, it must have taken early humans thousands of years before getting to ten. Nevertheless, the practice of counting based on the system of one to ten can be traced to antiquity. At ten, humans took a pause as the higher numbers could be made of combinations of the first ten numbers. Such was the case in all civilizations. This system of counting is called the decimal or denary scale, and as is now obvious, this decimal scale has survived the onslaught of time.

The ten-based system of counting has been able to measure all of Nature's limitless diversity or inequality. Is it not suggestive of

practical guidelines for social inequality? It is indeed, for social inequality derives from Nature's diversity. The decimal scale suggests that the maximum wage should be no more than ten times and no less than twice the minimum wage. Here is then a practical rule for income inequality. Here is then a rule for the Proutist system of rational distribution.

Complete equality of wages for all occupations is desirable only when no surplus is left after meeting everyone's minimum requirements. The ideal income inequality on ethical grounds is one where the maximum wage is no more than twice the level of the minimum wage. Anything less than this disparity would infringe on our sense of fairness and incentives. However, the ideal may not be achieved for a long time to come. The second best solution may then be that the highest and lowest wage differ by a multiplicative factor lying between 2 and 10.

Will the system of income inequality based on the decimal scale maximize social welfare? I am not sure; but it will certainly raise social welfare. For the current economic systems where the maximum wage is more than 2000 times the minimum wage is simply brutal, and cannot be defended on any conceivable grounds.

What is so sacred about the decimal scale? Is it scientific or natural? It must be, for nothing illogical or unnatural could have survived from such ancient times. The Egyptians, the Greeks, the Romans, the Chinese, the Hindus have all used it for as long as can be remembered. The modern-day system of numbers is called the place-value method, which incidentally is an eternal contribution of India to humanity. In this system, the unit is the base and ten is the top of the scale. The same idea is embodied in the ten-based system of income

distribution. Here minimum wage, satisfying everyone's minimum requirements, is the base, and the maximum wage is to be paid to that person or group of persons endowed with exceptional ability and skills. To Pythagoras, the father of arithmetic, ten was the most celebrated number. In the same way, the maximum wage should be reserved for those making maximum contribution to society.

As a practical guideline, the decimal scale for income distribution is unimpeachable. It is simple, and not riddled with loopholes. Given the will of the people and governments, it should not be difficult to enforce it. Let us not waste any more time and proceed to implement it. Inequality is perhaps as old as humanity itself. The debate over inequality also has ancient antecedents. The constant intellectual bickering in this regard simply clouds the issue and furnishes the wealthy with subtle arguments to justify the status quo. It is high time that intellectuals demanded action from their governments to make economic disparities less inhuman than before. It is high time that they asked for ceilings on maximum wages, rather than price-controls or welfare schemes so open to fraud and mismanagement. Whenever feasible, and over time, the gap between the minimum and the maximum wage should be narrowed. This could be done by raising the minimum wage faster than the maximum wage. For instance, if the real per-capita income is expected to grow at the rate of 5% per year, then the minimum real wage could be raised at the rate of 10%. As a result, the maximum real wage will have to rise by less than 5%. But all should be permitted to partake of the rising prosperity, so that no one feels left out of the system.

In India, the minimum wage essential for minimum requirements at current prices is approximately 1,000 rupees per month. It means

that the maximum wage should be no more than 10,000 rupees per month. This will take care of (i) disparities in individual needs owing to dependents, eating habits, etc. and (ii) the cost of living differences. This concept of maximum wage should apply to all the top jobs in government as well as industry. Similarly, nobody should be paid a wage less than 1,000 rupees per month regardless of his vocation.

It may be pointed out here that in the Proutist system, income inequality is likely to follow the decimal scale without a mandate from the government.

Ceilings on Wealth

So far I have concentrated on labour income, and given perfunctory treatment to incomes from the ownership of property such as stocks, bonds, land, buildings, patents among others. To complete the discussion of an economy's distributive system, the property incomes should also be examined. Indeed, it is well known that in most countries the inequalities of property ownership dwarf the inequalities of income. Some argue that they are the chief source, if not the only source, of income disparities.

In computing the maximum wage, property incomes should also be included, unless of course, the property-owner is handicapped and is unable to make a living from his or her labour. But this introduces a serious practical difficulty. Property ownership differs from person to person. If the same maximum income is to apply to everyone, then the maximum wage will also have to differ from person to person. In view of this, we might as well forget about the concept of income ceiling.

For practical reasons, therefore, there should be one standard

maximum wage. At the same time efforts should be made to eliminate the inequities of wealth. Ceilings should be placed on property ownership as well. As a rule, except in the case of the handicapped, the income from property should not exceed the minimum wage. It is only fair that those property owners who are reluctant to work should be permitted to enjoy a living standard no better than the minimum. All resources are jointly owned by society and property ownership is neither a natural nor a human right. In most cases, wealth disparity derives from large inheritances. Our birth in a particular family is beyond our control, but individual and social destiny is indeed under our control. It is imperative that as important a social concept as individual wealth is not left to the chance occurrence of where one is born.

Yet everyone has the right to live. Hence the income from property ownership alone should be neither zero, nor above the minimum wage.

From practical experience we find that different types of wealth earn different rates of return. The rate of return from the leasing of land and buildings usually lies between 4% to 5% of their market value. In places where such property is very scarce, the return could be higher. For instance, suppose the value of a house in Delhi is 500,000 rupees. Then its rent normally varies between 20,000 to 25,000 rupees per year. On cash, stocks and bonds, the return varies from 8% to 15%. The formula for the ceiling on wealth can then be obtained by dividing the minimum wage by the prevailing rate of return. If P stands for property, w for wage, r for rate of return, max for maximum and min for minimum, then the wealth ceiling formula is given as follows:

$$P_{max} = \frac{W_{min}}{r}$$

Suppose

and W_{min} = 10,000 rupees a year

r = 4%

Then the ceiling on the value of a house, for instance, equals 10,000 x (100/4) or 250,000 rupees.

Suppose the long run rate of interest on cash is 10%. Here the maximum limit on cash holding equals 10,000 x 10 or 100,000 rupees. This way ceilings for the ownership of various types of wealth can be computed.

If a person owns both tangible property such as urban land and residence and intangible property such as cash and/or shares, he should be allowed to own the maximum allowable tangibles plus half the allowable intangibles. In the examples given above, the proper mix of both types of properties would be 250,000 rupees worth of residential property and 50,000 rupees in cash. The reason for this flexibility lies in the fact that the tangibles and intangibles have different degrees of liquidity. In times of emergency, meagre cash is much more valuable than an expensive residence, for the latter takes time to sell. This rule may allow the property owner a living equal to one-and-a-half times the minimum standard, but it accords with norms of fairness.

Of course, the wealth ceilings may differ from city to city, state to state and country to country. This is because differences in the cost-of-living, social norms, etc. may result in different values for Wmin and r. But the philosophy underlying the ceiling on tangible wealth

everywhere should be that its income does not exceed the annual minimum wage.

In Bombay, for instance, where the cost of living is very high, the minimum wage may be 25,000 rupees per year. If the return from residential property is 4%, then the property-ceiling equals 625,000 rupees. This way property ceilings can be computed for all areas in the world; and they will have to be administered by local governments.

On practical and humanitarian grounds, some exceptions from the wealth ceiling rule might be provided. The handicapped, the elderly, the widow, may be exempted from the ceiling on humanitarian grounds. The house that one owns and lives in may be exempted from the ceiling on practical grounds. Here the wealth ceiling would then be either the house or that given by my formula, whichever has higher value. Similarly, different ceilings will have to be devised in the case of farm land. But no one should be allowed to abuse such exemptions. My essential argument is that once we agree on the concept of the ceilings on wealth, it is not difficult to calculate them.

The administration of wealth ceilings should be afforded some degree of flexibility. Those who live purely on wealth should be provided suitable jobs before their excess wealth is taxed away and distributed among the poor. We may call it the socialization of property. However, any wealth in excess of the amount yielding the maximum wage should be immediately socialized, for no one has the right to enjoy a living standard exceeding the maximum wage while his fellow citizens are struggling below subsistence.

Many more questions raise themselves in connection with my proposals. But if we agree with them, the administrative details can be worked out later.

Given the constraint of crude resources in relation to population, the ideal economy for India would be one where every able-bodied person has a suitable employment and some property yielding at least the equivalent of minimum wage. The best of this equivalent would be a house owned by every family.

Industrial Policy

Once the question of the distribution of income has been settled, we have to focus on the production of that income. Quite often the two issues cannot be separated, for income distribution may affect national income and conversely. Many economists today argue that we should not tinker with distributive arteries of the economic system, for that would adversely affect its productivity and growth. Their main argument is that any egalitarian policy aimed at income redistribution would weaken the work-incentive of the rich as well as their willingness to take risks. Investment would suffer and so would the total NNP.

These arguments are purely specious. If a person is very rich, what incentive does he have to work hard? If he already has millions, a few thousand more rupees are not going to spark him into diligence. And consider this. The amount of money that he wastes on alcohol, prostitutes and gluttony alone could produce so many extra jobs for the unemployed. If he refuses to work under the program of the maximum wage, then so be it, for there are many more ready to do his job for a fraction of his salary.

As regards the willingness to undertake new ventures, I say that such willingness depends not on how rich a person is but on his temperament. If he is venturesome, then he is more likely to invest in

bold projects than if he is wealthy. The great entrepreneurs in American history had more guts than money. They were not born rich. An adventurous mind likes to take risk for its own sake, not just to make money.

In any case, Prout's industrial policy is designed to make egalitarianism an integral part of the economic system. The redistribution of income undertaken by the state will be minimum as it will have to be done only for the handicapped, the elderly or those unable to work for some reason. Everyone will be provided with a suitable job at wages affording at least the minimum physical requirements prevailing at the time. And if available resources were plentiful, then the minimum wage would be set high enough to leave only a small gap between the lowest and the highest incomes.

In most countries, whether capitalist, communist or socialist, economic power is concentrated either in the state or in the hands of a few rich persons. This is a well known fact and does not need substantiation. As a result of such massive concentration of economic power, most people in most countries are being exploited in many ways. In some there is ubiquitous poverty, in others all human rights are openly trampled, and in still others poverty afflicts the minorities. The root cause of all these evils is this concentration of economic power and the materialistic ideology that supports it. Prout favors an industrial system based on decentralization of economic power, one in which much of the decision-making is done either by local governments or by the workers themselves. It favours a system of cooperative or labour-managed firms supported by an industrial base provided by the state.

If everyone is to be provided with jobs, then industrialization of the whole world is essential. The populations of India, China and the rest of the world are so high that industrialization is indispensable. Agriculture cannot be slighted, but it alone cannot carry the whole burden. Hence arises the need for an industrial policy.

The Pyramidical System

Prout's economic system compares well with a pyramid. Prout divides the economy into five major sectors including public, cooperative, private, education and health, with agriculture treated on the same footing as industries. Education and health could be part of the first three sectors, but they have enough features of their own that they deserve separate treatment. So does agriculture, although it is treated in the same way as large-scale cooperatives or small private firms. The public sector is the base, producing public and intermediate goods, on which stands the rest of the economic system. Then comes the cooperative sector incorporating large-scale enterprises producing consumer (including agricultural) goods and services. This is followed by small-scale industries, based on individual proprietorship, partnership or small cooperatives, producing final consumer goods, agricultural products, and services. The final two steps of the pyramid are free education and medicare.

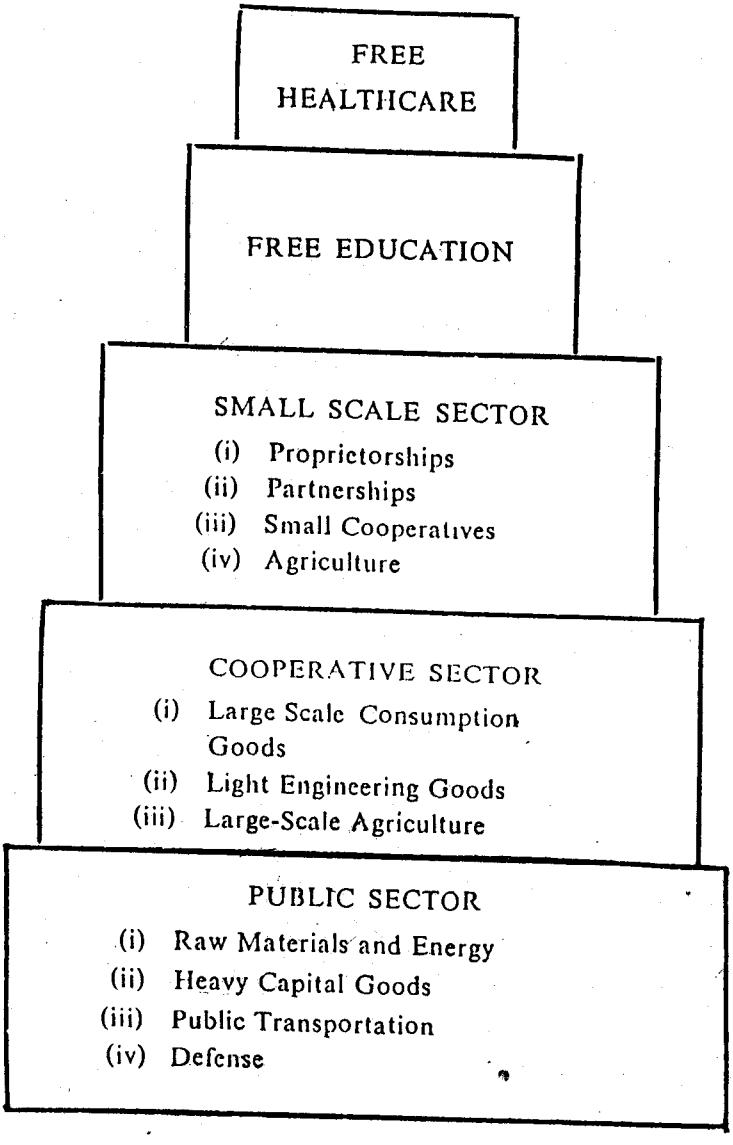
Note that the public sector is the base of the pyramid not because it will be necessarily the largest sector in the economy, but because it will be the basis of all other sectors. Similarly, the second step of the pyramid, the large-scale cooperative firms, will be the basis of the third step, as small-scale industries will be geared to large enterprises. Finally, the first three steps will support the final two. Let us now

examine these five sectors turn by turn.

The Public Sector

In Prout's economy the public sector plays a very significant role. It is involved in the production of intermediate goods such as raw materials and machinery. Whether such products are produced on large or small scale, they are reserved for the public sector. Such industries are the key industries, and they are too important to be left to the non-public sectors. The well-being of the whole society depends upon their adequate supply, and for this reason the state should be solely responsible for their production. Such products as steel, fertilizers, oil and gas, copper, aluminium, cement, coal, machine-tools, heavy engineering goods, petro-chemicals and the like are to be produced exclusively in the public sector. Private investment in such industries should not be allowed. Nor should they be run on the principles of cooperative firms.

They should be run by the immediate state governments. For instance, if a steel plant is located in Calcutta, then it should be run by the government of Bengal on the premise that the immediate government best understands the local economic conditions. The public industries are to be run on the basis of no profit, no loss, which means that the price of such goods is equated to the average cost of production. The average cost should be the minimum possible, so that public enterprises obey norms of efficiency. They should use the most efficient techniques, which may or may not be the most capital-intensive. At the same time they should make sure that they do not contaminate the environment. (I will have more to say on this matter in the section on environmental quality.)



PROUT'S ECONOMIC PYRAMID

Economists in both the developed and the underdeveloped world today believe that the most capital-intensive techniques are also the most efficient. This is not necessarily true. For one thing, the efficient technique, defined as one resulting in minimum average cost, is that which utilizes a technology commensurate with local rewards of labour, machinery and other factors. In a low-wage economy, the most efficient technique may be the labour-intensive one. Secondly, capital-intensive techniques generally inflict heavy social costs on the environment in terms of increased pollution. Unless the producer compensates the victims of pollution – which is rarely done – such social costs do not enter into the total-cost calculations. The true average cost, therefore, exceeds the apparent one. Consequently the capital-intensive techniques need not be the most efficient.

Prout calls for a balanced use of the five fundamental factors. No single resource should be abused. Hence, social costs of industrialization should be taken into account in industrial decisions.

The average cost calculations should include the cost of labour, a normal return on capital, depreciation of assets, cost of other raw materials, and any costs incurred in eliminating pollution. The price of public-sector goods should be such as to cover all these costs.

The public industries should be run on the same basis as private industries facing tough competition in a capitalistic economy. The public-goods sector should be efficient, unlike the case in all countries today. For this reason, the public sector should be operated by an autonomous body responsible to state governments. Officers of these bodies should be rewarded on the basis of their performance. Their salaries should depend upon whether or not they earn normal rates of return on investment. In industrial operations they should be given a

good deal of freedom of decision-making. They should be free to lay off the lazy and incompetent workers. Just because it is a public project does not mean that its workers should be permanently employed regardless of their perfonnance.

In the wage-structure also, hard work and competence should be rewarded, while niggardliness should be punished through demotions and, if necessary, through loss of job. In short, as far as efficiency is concerned, the public industries should be run on the same basis as private industries facing competition. This is the only way to eliminate waste and inefficiency that plagues India's public sector today.

In addition to the production of intermediate products, the public sector should also be responsible for industries with extremely heavy capital requirements. This is generally true with transportation including railways, airplanes, ships among others. The defense related industries, needless to say, should be in the domain of the public sector.

One can easily appreciate the significance of the role that Prout assigns to the public sector. Key industries, to Sarkar, act as a nucleus that nourishes the rest of the economy. It furnishes the state a powerful tool to direct the allocation of resources into socially desirable areas. For if the country is too poor to afford luxuries, all the government has to do is to deprive them of the necessary raw materials.

Note that Prout's public sector rejects the rigidity and corruption found in the public sectors of communist or socialist countries. Individual initiative within the management of key industries is to be encouraged. Such enterprises are not to be run in the interests of state leaders, as is the case in regimented socialist nations; rather they must

be operated in the best interests of all. But they cannot be entrusted to private producers who may take advantage of the rest of society. The oil industry in the U.S. and elsewhere is a pointed example of how private greed can blackmail the whole world.

A few countries during the 1970's monopolized the production of crude oil which is the life-blood of the world economy. The oil producing countries knew this and they kept raising prices. The multinational oil companies also knew this and they readily joined in this barbaric game, for their profits also rose to dizzying heights. Who suffered? Everyone else! The underdeveloped countries, the brethren of the oil producing nations, were the most wretched victims. Hence the industrial raw materials, which are the nerve centers of an economy, cannot be left to private companies.

The Cooperative Sector

While transportation, defense and goods used for further production are to remain in the public domain, all final products should be reserved for non-public sectors. Here Prout recommends a democratic system of free enterprise, one in which everyone involved has a stake.

Because of technology, there are some consumption-goods industries which are efficient only under large-scale production; they employ a huge army of workers. Such industries should be owned and operated by workers themselves. Prout, in other words, favours what are usually called cooperatives or labour-managed firms. Here the term "worker" covers all employees, including blue and white collar workers.

It is only under this cooperative system that free enterprise can truly result. When workers themselves, through their elected

representatives, are in charge of their destiny, then and then alone can there be real freedom of thought and speech. When a capitalist, or a majority shareholder, is the boss of a company, as is the case in democratic countries, no worker dares to speak out against the company's anti-social policies. Who is going to offend the boss for the sake of society? Who is going to bell the cat?

Many private companies in America, Japan, Europe and India have been found to be involved in bribery on international scale. But none of their workers could blow the whistle on them. The Lockheed scandal, the Boeing Company's bribes and countless other cases of corruption constantly point to the fact that capitalist enterprises have to be answerable to those who are the real producers. They must be answerable to their workers. And the best way is to enable the workers to be masters of their own destiny.

The system of monopoly capital prevalent in democratic countries is really a system of *corporate serfdom*. A serf is usually a farm-worker attached to a farm. He has no rights of his own; he must work on the farm and receive a subsistence wage. This kind of system prevailed in Russia and the West during 500 years of feudalism [2, chs. 5 and 6].

Whenever there is large-scale unemployment, the industrial worker's status is no different from that of a serf. In India, this has been true ever since the British took over, and Independence has made no difference. In the West, barring the short period of post-war years, there has been significant unemployment throughout the last three centuries during which industrialization occurred at a rapid pace. There were, of course, periods of boom when workers prospered, but a year or two of their prosperity would be invariably followed by a

recession and sometimes depression. With the threat of recessions constantly dangling over their heads, few workers would choose to move from one firm to another. Even though no worker was in theory bound to any single firm, the reality was something else. Hence for a long time in the industrial history of the West, the factory worker could act no differently from the feudal serf. He was no lackey attached to the firm, but his lack of economic power made him a defacto slave.

Today the Western world is facing enormous debts; so is the Third World. There is more economic uncertainty now than at anytime since the Second-World War. The workers again are afraid of losing their jobs. How can they move from one firm to another? Are they not attached to their companies? Are they treated any better than the feudal serf? Can they dare speak out against their boss if he has done anything wrong? True, they are unionized today, and are somewhat better off than the industrial worker of the 19th century. Well, the serfs had also prospered during the heyday of feudalism. A combination of improved technology and urbanization had greatly improved their lot. But they were still called serfs, because their landlords had flourished much more than they had. Today, while the worker is slightly better off than before, the producer simply basks in affluence. There are just too many similarities between farm workers of the feudal age and industrial workers of today. In both cases, property is owned or controlled by the few, and labour for them is performed by the masses. It cannot, therefore, be refuted that capitalism, especially monopoly capitalism, has been, for the most part, a system of corporate serfdom.

How can capitalism then be called free enterprise? A stark

minority of producers does indeed have all the freedom in the world, but the huge majority of the working class has little say in industries which flourish on its sweat and toil.

Let us look deep in today's factory system. The producer is free to hire and fire a worker. Society allows him to own huge property, which enables him to control the fate of many persons. When business is good, the producer hires more workers; he pays them a fraction of what he earns. The moment the business slackens, he lays them off. He cares nothing for the starvation of the unemployed. He quickly forgets that the same people had helped him make his millions just a little while ago. They helped him when he needed them the most; he shirks them when they need him the most. And all this, because their society has been misguided into believing that ownership of property is a fundamental human right.

The right to live, to speak and think freely, to settle anywhere in the world is our birth right. But the right to property – what ethical and moral sanction does it have? Who brings anything with him at birth other than his body and brains? The universe was here before the first human was born. He did not create it. How can then his progeny own anything?

No one becomes ultra rich through honest work. The huge estates that some people have inherited in our times could not have been built by their fathers through honest means. Had their fathers not indulged in illegal bootlegging and profiteering, had they not bilked the poor, had they not cheated on their taxes, they could not have assembled vast financial empires. They were able to escape the law through wheeling and dealing. But should we allow their children the fruits of their extortions?

Prout favors the ownership of property not because it is a birth right, but because it accords with human psychology. Everyone likes to save something for the future. If a person accumulates wealth through honest living and hard work, it is only fair that he should be allowed to keep what he has assembled; he should also be allowed to pass a part of it to his children. But not huge estates; because by definition they must have been acquired through shoddy means.

For the sake of productive efficiency, therefore, the right to property must be curbed, but not eliminated. The countries where this right has been abolished are fine examples of diabolical tyranny. Russia is the ringleader among such countries. Of course, there, what is not permitted to ordinary citizens is reserved for the party leaders.

It is becoming increasingly clear today that concentration of wealth in the hands of a few people, or even nations, is injurious to the health of society. Capitalism is an institution which fosters this concentration, because vast sums of money in terms of profits are distributed among a few shareholders. The cooperative management of industries by elected representatives of workers will do away with this evil. If factories are owned and managed by labourers, then profits will be distributed among the masses. There can be no grave income inequities in this system. Nor is there any need for the government to introduce welfare schemes to eliminate extreme inequities. Prout is not against profits, but against profiteering. Actually profits are essential if industries are to remain solvent over time, and if investment is to be increased for purposes of growth. But the same profits left in the coffers of monopolists become engines of social exploitation. The cooperative economic system, however, does not permit this. Egalitarianism then becomes part and parcel of the

system itself.

Employee-managed firms are not widespread, but they are being tried in some parts of the world. Yugoslavia is a prime example of their success. They can also be found in Britain, Germany, Australia and even the U.S.A. They are, however, exceptions rather than the rule.

It may be noted that the employee-managed firms are not the same as profit-sharing capitalist firms. With the latter, management and control of the firm still rests with major stockholders, whereas with the former, the workers' representatives make all decisions. A labour-managed firm may not be fully owned by the workers; but they do own the majority interest; the rest may be owned by outside shareholders.

The economic literature has lately paid attention to the working of labour-managed firms. Ward [13], Domer [6], Vanek [11] and myself [3] among others have analyzed the decision-making in cooperative enterprises. As usual, among economists, as among intellectuals in general, there is little agreement. The efficiency of labour-managed firms versus capitalistic firms is in dispute. But one thing is clear. The world does not have to change drastically for the labour-managed systems to emerge and operate successfully.

Some suggest that labour-managed enterprises will not be as efficient as their capitalistic counterparts, while others argue to the contrary. Still others argue that the cooperative economic system will be less prone to pressures of inflation and unemployment. While this debate still goes on, some advantages of cooperative enterprises over the capitalist ones are obvious.

First of all, the distribution of income will be more equitable than

it is now. Second, workers will work harder when they know that they will get a fair share of profits. This argument derives from ideas supplied by apologists of unlimited private property. They argue that property ownership contributes to our productivity. The same idea applies to the widespread ownership of firms. Third, with more equal distribution of income, crime and other social problems will recede. At times of recession, for example, workers will not be laid off; rather, they will accept lower working hours. The system, in short, will be humanized.

Few empirical studies are available to compare the efficiency of labour-managed economies with the capitalist or socialist economies. But the one done by Balassa and Bertrand [1] conclusively points towards the superiority of the self-managed system. This study found that between 1953 and 1965, the total factor productivity in Yugoslavia grew at a rate of at least 4.5% per year. Whereas the comparable figures for the socialist economies of Bulgaria, Hungary, Poland and Czechoslovakia were all 2.5%. Only Romania among socialist countries could match the Yugoslav performance. Among the capitalist countries of Greece, Ireland, Norway, the rate of productivity increase in the same period approximated 2.2%. Only Spain did as well as Yugoslavia. The study focussed on these countries because they were more or less at the same level of development. On average the labour-managed Yugoslav economy, with a relatively new and untried system, fared much better than the long established systems of capitalist and socialist countries.

Granted that the large-scale factories producing consumer goods should be run on a cooperative basis, there is a troublesome question that must now be tackled. How can we translate the cooperative

economic system into reality?

If some enterprising workers were to get together and with their meagre means establish some factories, they will be quickly submerged by the torrent of giant capitalist firms. Even if the state were to give generous loans to teams of workers willing to start their own firms, they will have little chance of competing against well-entrenched monopolies with their operations spread all over the world. Before such multinational giants, operating in India and other countries, even sovereign governments shudder.

The cooperative firms can become operational only if the state becomes committed to their emergence and success. The Indian government, at the local, state and federal levels, should adopt the following policies.

1. The government should target one consumer-goods industry at a time, buy 51% of its shares in the open market, and sell them at subsidized rates to the employees of various firms. Of course, the workers should not be permitted to resell subsidized shares in the stock market. This way, the controlling interest in any company will be in the hands of representatives of blue and white collar employees. If a firm's owner refuses to sell his shares, the government can impose a special tax on such owners, forcing them to sell the majority interest.

Consider, for instance, the automobile industry in India. The government could buy 51% stake in various auto firms and then sell it to the auto workers at discount prices. The workers' representatives in turn will manage the company with or without the help of former management teams. There will be no need for unions in such companies because workers will be the owners themselves. Each employee will be paid a need-based minimum wage, plus a share of

the profit in proportion to his or her productivity. Hard work, innovation and intelligence will be rewarded with extra bonuses, whereas laziness, dishonesty and inefficiency will be punished through the loss of bonus, and ultimately the loss of job. In the case of job loss, the company will, of course, buy back the worker's shares at the original exchange price.

2. In healthy consumption-goods industries, the government need only buy a majority stake. In unhealthy or sick units, such as textiles and jute, the government can purchase outright the entire factory at low cost from owners who will be only too glad to sell. In the sick units, the government need not subsidize the sale of shares, because their cost is low to begin with; but, the government may have to lend money to the sick industries at subsidized rates to help them modernize and purchase new machines, thereby enabling them to stand on their own feet.

3. If the workers are too poor to pay for the shares, the government could first lend them the shares, and then make monthly or yearly deduction from each worker's bonus until the shares are paid off.

This way, with the government's help and commitment, the cooperative enterprise system can be established among consumer goods industries. This system will be inherently productive, efficient and egalitarian, because profits will be distributed among the masses, workers will have the incentive to work hard or else be fired, and unions will not be needed to protect workers' rights and salaries.

The Small-Scale Sector

The third step of Prout's economic pyramid is the small-scale sector,

which is mainly the private sector, although in some cases goods and services may be produced by small-scale cooperatives. Private initiative fosters economic efficiency and productivity; it should be properly harnessed in the interest of social welfare. But it should not be permitted unbridled expansion, lest it becomes an instrument of exploitation. In recognition of these considerations, Prout encourages private investment and ingenuity, but only in small-scale concerns.

Firms which require small investment and hire very few workers should be left to the private entrepreneurs. Here the organization of the firm may be either individual proprietorship or partnership. And when there are many active partners, the firm is similar to a small cooperative. The definition of what is a small or a large firm should be left to a policy planning body.

The private sector will mainly be engaged in trade and service industries, for they do not require heavy start-up capital or complex technology. Restaurants, grocery stores, tailoring, barber shops, laundries, handicrafts, auto-repairing and the like will constitute this sector. Private practices of physicians and lawyers will also come under the small-scale category.

Because of the small size, the private sector will normally operate under conditions of perfect competition. But still the state must make sure that various groups do not combine to follow restrictive trade practices. In the United States and some other countries including West Germany and France among others, physicians have formed associations, and effectively controlled the supply of new physicians by limiting the number of medical graduates from universities. As a result, the medical profession enjoys one of the highest living standards in these countries. Lawyers have done the same thing. This

is nothing but profiteering. Clearly these practices violate our sense of decency and fairness. Therefore, the state must ensure competition in the private sector. Associations of various groups cannot be outlawed, but they should not be allowed to interfere with educational institutions.

Agriculture

Prout treats agriculture as one of the industries, and assigns it a very important role. Ordinarily, agriculture should have been included within the foregoing analysis of large-scale cooperatives and the small-scale sector; but it has enough features of its own, and deserves a separate treatment.

In most developed economies, agriculture is highly-mechanized and absorbs between 10% to 30% of the population. In India and the Third World this figure is as high as 80%, which is a mark of how far these economies have to go. It is not surprising, therefore, that the labour-productivity in India's agriculture is among the lowest in the world. Yet, because of favourable climate and bountiful water supplies, India's agricultural potential is next only to that of the United States. Agriculture is also backward in many other underdeveloped countries, and a great deal needs to be done. In its economic set-up, therefore, Prout assigns agriculture a vital role.

While reducing the proportion of population relying on agriculture, it is not necessary to move people from rural to urban areas. Such movement in the past has caused unprecedented, but avoidable, problems. Urban congestion and pollution, skyrocketing prices of houses, transportation bottlenecks, etc. in many underdeveloped countries could have all been avoided if small-scale,

agri-based industries had been established in villages. Such industries should be built around crops available in a specific area. For instance, sugar producing enterprises should be established in an area producing sugar cane, paper industry near a forested area, and so on.

For the efficient production of crops, ceilings on land holding should be fixed at both the minimum and maximum levels, taking into account the area's fertility, availability of water for irrigation and other aspects determining land's productivity. Such ceilings can be obtained from my general formula for wealth limits presented earlier. The maximum farm income, as with individual income in general, should not exceed the maximum wage. That is to say, in India, those who toil should be allowed to own farm land to the extent that they earn no more than 10,000 rupees per month at current prices. Those who do not toil and must lease their land to farm workers cannot be allowed to own more land than that yielding income in excess of the minimum wage. In other words, an absentee landlord in India should be allowed to own that much land as currently yields a monthly income not exceeding 1,000 rupees. This way minimum and maximum ceilings on farm land can be computed from my formula.

Those owning the maximum allowable amount of land should be given the option of private or cooperative farming: but those with smaller land holdings should be encouraged to form agricultural cooperatives so that mechanization and large-scale farming can be introduced. The farmers will then not only get a wage for their labour but also a share of profits.

Apart from private and cooperative farming, there should be producers' cooperatives which will be responsible for the sale of crops, procurement of developed seeds, fertilizers, farm machinery,

irrigation and other services vital for agricultural production. They would also provide loans at times of need, and purchase crop insurance, so that their members are not vulnerable to unforeseen crop failures caused by natural disasters.

Indian agriculture has been in the doldrums for a long time, in spite of many and varied attempts to revitalize it. The strategy of the Green Revolution was lauded as the solution to the nation's food problem, but this hope has evaporated as thoroughly as the few drops of rain on drought-stricken fields. After twenty years of high technology agricultural inputs, India has still failed to solve its number one problem: feeding its teeming millions.

In recent years, this problem has grown more acute with the tremendous growth of population, expected to swell to 2,000 million by the turn of the century. According to Professor V.K.R.V. Rao, India requires a minimum agricultural growth rate of 4 percent to meet its basic food requirements in the coming years; but the rate of agricultural growth between 1950 and 1985 has been only 2.5 percent. How can the country increase its agricultural production in the shortest possible time to keep pace with its rapidly growing population and the mounting demand for food? This is the burning question of the hour.

For the past twenty years the answer seemed to be the Green Revolution, a U.S.-sponsored technological package for agricultural development which was enthusiastically accepted by development planners and farmers alike as a lasting solution to the perennial problems of rural poverty and hunger. But the high-yielding varieties of seeds the Green Revolution promoted can do their job only when they receive massive doses of pesticides, fertilizer, irrigation water and advanced farming techniques – which call for capital investments

beyond the means of small farmers. Thus, far from alleviating poverty, the Green Revolution has actually increased it, and instead of bridging the gap between the rural rich and poor, it has widened it. At present, the average disparity in rural incomes between large and small farmers is 20 to 1.

All studies and statistics reveal the increasing pauperisation of the rural masses, as indebted small farmers sell out to large landowners, and swell the ranks of the landless labourers. In the past twenty years all Indian states, without exception, have experienced a massive increase in the percentage of rural people living below the poverty line, ranging anywhere from 50% to 85% . In the holy land of the Green Revolution, Punjab and Haryana, the percentage of rural poor has nearly quadrupled!

The Green Revolution has not only accentuated rural inequality but is steadily destroying soil and water as well. The Director General of the Indian Council of Agricultural Research has warned that the entire area of Punjab and Haryana will turn into desert if the underground water sources continue to be over-exploited by the highly intensive agriculture practiced there. Mysterious blights are spreading as crops are weakened by gigantic doses of chemical fertilizer, and indiscriminate use of chemical pesticides has caused new pests to breed out of control, as they did in Andhra Pradesh and destroyed almost the entire cotton crop.

No, the Green Revolution is obviously not the answer, and the early enthusiasm has been transformed to bitter disillusionment. A new strategy is necessary – one that does not depend on expensive and unecological inputs but rather maximally utilizes India's natural resources.

This strategy is part of the overall programme of Prout to ensure prosperity for all the people of India by the year 2000. Proper utilization of agricultural land is the key. A study done by the United Nations' Food and Agricultural Organization in 1983 revealed that by the year 2000, if India's lands are managed properly, they could feed a population of *2000 million – twice* the projected population for that year. Yet at present the utilization of land in India is miserably poor, and its labour productivity dismal compared to other countries, largely due to inefficient patterns of land use.

The increasing pressure of population in recent years has reduced the average size of land holding to less than two hectares – and these, too, are so fragmented that in certain parts of the country the plots are too small to use even an ordinary plough. Furthermore, the insecurity of the tenants and the absence of proper incentives for the poor farmers and landless labourers have resulted in abysmally low productivity.

These problems can be solved by establishing a comprehensive system of producers' and consumers' cooperatives that will unleash the full potential of the land and its people. Scattered, uneconomic holdings can then be consolidated under cooperative management, with collective investment on improved implements, seeds, and irrigation facilities. The producers' cooperatives, however, rather than imposed forcibly, should develop gradually out of the collective labour and wisdom of a community. In the first phase, only uneconomic landholdings should be taken over by cooperative management for the benefit of the owners. Over time, as the increased profit and productivity of the participants become obvious to all, and as, through proper education, people learn to think for collective welfare rather than for self interest, all farmers will be requested to join the

cooperative system. Consumers' cooperatives that eliminate the middlemen will remove the evils of speculation by commodity brokers, and distress sales of produce at low prices by desperate farmers.

India ranks first among the countries of the world in irrigation potential: what is needed now is full utilization of that potential – not through huge, high-technology projects that hardly benefit small farmers – but through small-scale irrigation works that involve the full participation of the farmers' cooperatives. Good water-management techniques must be adopted throughout the country, for currently 76 percent of India's irrigated lands are underutilized due to waterlogging and salinity. The farmer must employ water and soil conservation methods, such as trickle-drip irrigation, and the maximum use of ponds and tanks in the traditional Indian pattern, to avoid digging too many tube-wells which drain the water table and precipitate drought. Instead of the indiscriminate use of chemical pesticides, the farmer must use integrated pest control not by vainly trying to wipe out pests by drenching them with poison, but by keeping their number at tolerable levels through natural restraints such as mixed planting, and the introduction of predators.

There is no shortage of scientific and technological solutions to India's agricultural problems: mixed cropping and intercropping to increase yields, the use of organic manure instead of expensive chemical fertilizers that further degrade the soil, and the development of disease-resistant, drought-resistant plants through genetic engineering. The real challenge is to create a vibrant socio-economic environment that allows the farmers to pool their resources so that *all* can afford the methods of improving their yields – an economic

climate that releases not only the resource potential of soil, water and plants, but the human potential of the millions of farmers who are now stagnating in poverty and despair. If Israel can metamorphose dry deserts into blooming gardens through its cooperative system, why not India?

If India's people go hungry, it is not because of their numbers, but because of the mismanagement of the country's natural and human resources. The recent drought has exposed the limitations of India's two-decade old agricultural strategy, suggesting that a radical revamp of the entire system is needed. If agriculture is restructured in ways suggested by Prout it will lead to a revolutionary rise in productivity.

Health and Education

Education and health constitute the final two steps of Prout's economic pyramid. A sound economy rests on a system of sound education and health. That is why in Proutist set-up education and medicare will be provided to everyone free of charge. Private education and health care will be free to exist, but they will have to compete with their public counterparts.

Public education, at all levels, should be administered by autonomous bodies free of any political or other interference. The quality of education depends on the quality of teachers, on their scholarship, dedication, honesty and integrity. That is why society should respect its teachers and provide them an above-average wage. Teachers, on their part, must teach their students by setting an example; that is, they should practice what they preach. The students should be encouraged to attend annual camps in the rural areas. Students are by nature idealistic, and annual visits to poverty-stricken

villages will fire up their idealism. They might want to serve the villagers who desperately need help. It will do both villagers and students tremendous good. While the rural areas will prosper, the students will become humble and broad-minded.

Free education to all at all levels will open up equal opportunity for material and intellectual advancement to everybody. No one, because of his wealth, will get an advantage over others in this regard. Furthermore, educational opportunities to all will increase the pool of talented technicians, scientists, economists and scholars among others. There will be more scope for new research and inventions. And society will be able to achieve maximum utilization of its intellectual or supramundane resources.

With education, health care should also be free. The government should open free clinics and hospitals all over the country. One reason why people accumulate wealth is the uncertainty of future health, especially health in old age. In many democratic countries, medicare has become so expensive that one critical illness can wipe out a person's life-time savings. No one should be exposed to such risks and worries.

Physicians should be encouraged to work in state health-care institutions, but they should be free to run their own practices. However, medicare is one field where laws of supply and demand do not work properly, if at all. The patient has little bargaining power with his doctor as far as the latter's fees are concerned. Hence, the government should regulate these fees; and, of course, they should be so determined that the physician's income does not exceed the maximum wage. This applies to all specialities in medicine including general practitioners, surgeons, and so on.

Allocation of Resources

What determines the allocation of resources in the Proutist economy? This question, of intrinsic interest in itself, must be raised and answered, if only to see how Prout's economic system compares with modern capitalist and communist economies.

Let us consider capitalism first. Under capitalism, the consumer is supposed to be the sovereign, and the producer is supposed to utilize resources in such a way that the consumer needs are satisfied in the most efficient manner. All this, economists contend, happens through the media of market demand and supply. First consumer tastes are reflected in demands for various products. The producers meet these demands by hiring various resources at prices determined in factor markets. Naturally, it is in the interest of profit seeking producers to use technology and factors that minimize the average cost of production. The competition among producers ensures that the consumer needs are satisfied at the lowest possible price approximating the lowest average cost. Thus, the consumer is sovereign under capitalism. He determines what the capitalist will produce. All this occurs through the operation of markets where the consumer presents his demands to which the producer adjusts his supply. In other words, the consumer determines the allocation of resources under capitalism.

The story presented above is the best face of capitalism. Critics contend that such an idealized version of capitalism prevails only in the textbooks of the apologists of capitalism, but not in reality. The reality is not one of competition among many producers, but of market-sharing and collusion among a few oligopolistic producers enjoying

certain degree of monopoly power. In this set-up, a small number of producers is involved in supplying the needs of an industry. After determining their supplies, the producers act to influence consumer demand through extensive campaigns of advertisement. Therefore, instead of the supplies adjusting to consumer demands, as is supposed to occur in the ideal competitive setting, it is the consumer demand that has to adjust to supply. The consumer sovereignty is, therefore, a myth. It is the producer who under modern-day capitalism mostly determines consumer needs through the glitter of television advertising.

Resource allocation under capitalism is no longer, if ever, determined by the consumer's need, but by private greed. Resources move not towards products reflecting urgent wants but towards those with highest rates of return on investment. This invariably means that investments are attracted by industries with the highest degree of monopoly power. As a result, oligopolistic industries expand at the expense of other sectors. The productive inefficiency of oligopolies is already well-known. Hence, the most inefficient sectors of the economy expand at the expense of the competitive sectors which usually satisfy the most urgent needs. Thus, it is monopoly power or capitalistic greed that determines the allocation of resources under capitalism today. In a word, the system is inefficient, pure and simple.

When we come to the communist economies, the situation is even worse. Under capitalism, the consumer does not have much say in the allocation of resources, but he has some say. The producer does influence the consumer wants by means of advertisement, but at times, despite all his persuasion, he may not be able to sell all his output at

the desired price. In that case, he has to lower price to attract more buyers. Therefore, even today there is some degree of flexibility in capitalist economies. The famed law of supply and demand still works, although the consumer demands are no longer independent of the actions of suppliers.

Under communism, however, there is not even this bit of flexibility. The allocation of resources there is decided by a few political leaders who are interested more in aggrandizement of the state than in social welfare. As a result, the state devotes a considerable proportion of resources to military goods (and hence capital goods), so that consumer needs get slighted by economic planners. The supply of consumption goods remains limited, and consumer demands have to fully adjust to constrained supplies.

Moreover the communist states of Russia and China, among others, regulate their economies at all levels. All important economic decisions are made by a central planning body, which is far removed from local conditions so relevant to efficiency of plants and factories. All factories, except a few industrial cooperatives involving handicrafts, are owned by the state. Each factory is headed by a government-appointed manager who is judged by how well he meets the production target set by the planner. If, for instance, the manager faces the target of producing 10,000 shoes a year, then his promotion depends on whether he meets or exceeds this target, and not necessarily on the quality of production. And since the consumer has to make do with whatever is supplied by the state, the factory manager cares little for craftsmanship. It should not, therefore, come as a surprise to find the manager in the Soviet Union producing 20,000 shoes of the same foot. No wonder then, even Russia and China are

now beginning to abandon their economic systems.

When even the minor day-to-day economic decisions are made by a central body, then the efficiency of production must suffer, no matter how carefully the planning is done. Hence the command economies of communist countries are even more inefficient than private capitalist economies. With both, the economic power is centralized – under communism in a planning body, under capitalism in a few rich persons. And it is this centralization which ultimately neglects the fulfillment of urgent human needs.

The Proutist economy is, however, need-oriented. There the allocation of resources is determined neither by the profit motive, nor by state aggrandizement, but by the urgency of human requirements. Prout has opted for a decentralized economy in which economic power is concentrated neither in the state nor in a small aristocracy. The state is to intervene in only those markets which, when left to private producers, are subject to abuse. Thus, no raw materials vital to the functioning of society are to be produced in non-public sectors.

There are two types of factors needed in the process of production. Inputs such as land, labour and capital are called primary factors, whereas raw materials, which are inputs produced for further production, are usually classified as non-primary factors. It is the latter type of factors of which the production should be reserved for the public sector. The question of the extent to which the current stock of primary factors should be allocated to the production of non-primary factors will be determined by a policy planning body. This body will assess the needs of consumption goods in the economy, and draw upon available resources accordingly.

It is only logical that necessary goods should have the first claim

on society's scarce resources. Such consumption goods as are to be produced in the cooperative and private sector should be given priority in allocating the primary factors and the non-primary factors supplied by the state. The second priority should be given to capital goods, which are essential for an adequate rate of growth. In an extremely underdeveloped economy, all the remaining primary and non-primary inputs, after minimum necessities have been produced, ought to be allocated to the production of machines. Nothing should be invested in luxuries, which will be defined by the planning body. In a developed economy, of course, the remaining inputs should be devoted to the production of capital goods as well as luxuries.

Capital goods may be produced in the public or the cooperative sector, depending on the investment requirement and complexity of technology. Light engineering goods may be reserved for the cooperative sectors, but heavy machinery such as transformers, cranes, tractors, etc. may be produced in the public sector. Such division among capital goods will also depend upon the country's level of technology and development. But in no case should the public and the non-public sectors overlap.

The role of the private or the small-scale sector should be complementary to the public and the cooperative sectors. Wherever large-scale firms are established, the small-scale firms should also be encouraged to supply spare-parts and the repairs. Similarly productive operations within an industry should also be separated. This will ensure further decentralization of economy. Take, for instance, the textile industry where usually cloth and yarn are produced in the same factory. However, Prout would split the textile operations into two units. Yarn, the raw material for cloth, could be produced in a large-

scale firm, but cloth could be produced either by large-scale cooperatives or by smaller economic units. Each weaver could weave cloth with the help of a modern loom in his own home. This is how small-scale industry should complement the large-scale concerns, and conversely.

In addition to the management of factories by workers, Prout's policy of decentralization calls for establishing self-sufficient pockets of those industries which produce essential commodities such as food and clothing. The objective is to ensure a steady supply of necessities to all parts of a country and eventually to all parts of the world. With such a dispersal of industry, no area would be vulnerable to natural catastrophes.

Prout advocates minimum state intervention in the economy. Except for essential raw materials such as energy, etc., the government's main function should be to ensure competition within industries, so that the laws of demand and supply work freely. Wherever an economic unit has little bargaining power, the government should step in. Otherwise, it should keep its hands off the economy. Thus, for instance, patients are at the mercy of doctors; so the physician's fees should be tightly regulated. Similarly, the physical worker, though indispensable to society, always seems to be in abundant supply. He may, therefore, command wages below the society's minimum requirements of food, housing, clothing, education and health care. Here, again, the state should step in and decree a minimum wage. In most other markets, the government need not intervene, because the cooperative economic system is not subject to manipulation by private citizens. It is a democratic set-up, and the worker's democracy will ensure that no one becomes powerful enough

to exercise unusual economic power.

In Prout's decentralized economy, the consumer is sovereign. Economic planning is there, but its role is not to shape consumer preferences and tastes. It is only to see that no one places undue constraints on the supply side. Once the economy is developed, markets for consumption goods will freely function to meet at least the essential needs of all. As every worker is guaranteed a wage providing minimum purchasing power at current prices, the co-operative firms and private concerns will produce goods and services to meet the needs of all workers. The public sector will also be geared to these needs, for autonomous bodies accountable to the government will produce raw materials only to satisfy the requirements of the non-public sector for non-primary factors. Hence, once the government ensures competition among firms within an industry and fixes a proper minimum wage, the allocation of resources at any moment of time will be guided by human needs through the media of demand and supply. The allocation will be efficient in the sense that it will satisfy essential requirements of all, generate an equitable distribution of income wherein profits are distributed among workers; it will ensure consumer sovereignty. This is what socialism really is. Prout will, thus, abolish most of the economic evils of the present-day capitalist and communist economies.

The Quality of Environment

Since the 1960s, there has been a growing debate in economically developed countries about the quality of life, about the environment in which we live and breathe, about the erosion of subtle values caused by super-materialism. By itself, this is a remarkable development in a

world where the gross national product, the sum total of all economic activity, is considered the main index of social happiness, regardless of whether the goods produced cater to the urgent needs of each and every citizen. The view that money cannot solve all problems or bring happiness and contentment is slowly emerging in societies which are overwhelmingly materialistic.

What is the cause? The unprecedented environmental pollution and degradation so visible in all directions! The side-effects of science and technology, thus far hidden from the naked eye, have abruptly come to the surface, and with a ferocity that just cannot be ignored. No longer can we ignore automobile fumes, noxious doses of chemicals in urban air, congestion on the roads, rivers that spew fire or vomit dead fish, oil-slicks that destroy beaches, smog that suffocates our lungs and spirits, airplanes that deafen our ears, nuclear plants and wastes that yield deadly radiation. Nor can we ignore the growing health problems ranging from heart ailments, to respiratory diseases, to deformed babies, to cancer. These are the harmful emissions of our so called progress.

Pollution of the environment is not partial to any country or ideology. Communist nations are afflicted as much by it as the capitalist nations. Nor have the underdeveloped countries been spared, although there the pollution springs from poverty not affluence. Environmental degradation is not a capitalistic disease, but a disease of unbridled materialism.

While there is general agreement today about the gravity of our sickly environment, there is less agreement among scholars about its causes, and its cures. There is a widespread myth that industry is the main culprit; however, modern-day, mechanized agriculture is no less

culpable in this regard. Our first task, then, is to identify major sources of pollution.

First of all, there are the obvious contaminants – factories, which discharge poisonous chemicals in rivers and lakes, and pump millions of tons of pollutants into the air. Secondly, there are the consumers who use acidic detergents that eventually mix in water, and automobiles that poison the air. Finally, there are billions of tons of solid wastes, generated by businesses and consumers alike, for which dumping grounds must be found for storage. Many of these solids find their way into drinking water through the sewage system.

Given that life itself creates pollution, why does society not do anything about it? Various institutions and mores are responsible for it in various countries.

In a capitalist society, the main cause of pollution is the institution of private property and the attending profit motive. Here, the sole concern of businesses, large or small, is with maximum profits. Whether their discharge of chemicals into streams is going to contaminate drinking water or foul up the air or impair public health is none of their concern. It is not for me to document polluting actions by private industries all over the world. The evidence in this regard is just overwhelming. And the nuclear plant accident at the Three Mile Island in the United States is just the latest example of how far private greed will go to disregard public well-being. There is increasing evidence that the nuclear power plant in question was unsafe to begin with, but the electric utility responsible for it put it into operation to obtain some tax benefits. And this is not an isolated example, but a general pattern with capitalist firms.

In a competitive capitalist world the existence of pollution is an

anomaly hard to explain. The capitalist system is supposed to solve all its problems by itself through the working of Adam Smith's "invisible hand" of the market. Apologists of capitalism now admit that with pollution at least, the market mechanism does not seem to provide enough safeguards. Their explanation is this. The producer economizes in the use of all scarce resources, because he has to pay a price for them. But water and air are public property and hence free. Their use and exploitation cost nothing. Therefore, the producer uses these resources excessively and contaminates them in the process of production. Economists describe such social costs that do not enter into private calculations as externalities or external diseconomies. They maintain that such diseconomies are relatively unimportant and can be taken care of without much problem.

So obsessed are the proponents of capitalism with the concept of private property that, in order to solve the problem of pollution, they would divide air and water into private domains as well. Once air and water are converted into private property, people could buy them or sell them in the market. Then there will be competition between those who wish to use them for pollution and those who wish to use them for living and breathing. The producer will then have to pay for his right to pollute; it will enter into his cost calculations, and his very profit motive will induce him to economize on the use of air and water for pollution.

To defenders of capitalism, private property is so sacrosanct that they do not care how ridiculous their solutions look. Since the problem arises because some property is public and some private, their solution is to make all resources privately owned. It hardly matters if air and water cannot by nature be divided. What if the competitive

owner of air and water over a certain area become a monopolist one day? Breathing could then become very expensive. Our right to breathe and drink water will then depend on our income.

Another solution, not as ridiculous as the one presented above, is that the government should tax the polluter for pollution damage, or subsidize him for his non-polluting agreement.

In a profit-oriented system, none of these solutions will work. The reason is that non-pollution benefits the entire society; but it does not raise private profit. So why should a business bother about evading pollution? Moreover, under monopoly capitalism, costs of pollution arising from the tax can be easily passed on to consumers. The consumer will then suffer a double bite: higher prices along with unchanged pollution. Finally, the government is controlled by businesses. Who is then going to enforce the tax?

Let us now analyze the environmental degradation in centrally planned economies of communist countries. There is no question of capitalistic greed there, although the state greed remains. Surely the planner, planning for a whole society, must take into account pollution damage in his cost calculations of various projects. But he did not, and does not. For every lake polluted in the United States, you can find another in the U.S.S.R. For every beach blackened by oil-slick in America, you can find one in Russia. For every dose of nuclear radiation in the West, you can find one in the East. The problems of pollution are as staggering in communist countries, as in capitalist nations. The nuclear plant accident at Chernobyl was among the deadliest on record.

Some of the reasons for pollution in Russia are the same as elsewhere. A Soviet enterprise also pays only for labour, equipment

and raw-material costs, but not for social costs arising from contaminated water and air. Non-material resources in Russia have also been treated as free. Production there is not guided by profit motive, but by the motive of state aggrandizement. Hence, the result is the same. Social welfare matters as little there as in capitalist economies. Moreover, state officials in Russia are rewarded mainly by their region's rate of economic growth. The government officials, therefore, favour growth and industrialization at all cost. They do not invest in pollution control which only diverts resources from the production of goods, and could thus lead to lower growth. As long as it is the welfare of the state rather than of people that guides resource allocation in communist nations, pollution control will remain a dream.

Degradation of the environment spreads across the ideological spectrum. It also afflicts the underdeveloped economies, although for different reasons. The main reason there is poverty. Streets in India are dirty, because there are no resources to clean them. Water is filthy and not fit for drinking, because money to purify it is lacking. In addition to these, India has tried to follow the same path of industrialization as the capitalist and communist economies. The smog over Bombay is as heavy as that over Los Angeles, Tokyo, Moscow and London. At least in the United States today, the automobile fumes are less toxic than before, because of the widespread use of the catalytic converter; the same is not the case in semi-industrialized nations of India, Korea, Taiwan, China among others. These countries simply cannot afford to clean up their environment.

So far we have examined some apparent causes of environmental pollution all over the world. What are its basic causes? There is less agreement here among scholars than meets the eye.

That the environmental damage is real is no longer debated. What is debated is its severity, whether or not humanity needs to drastically alter its values, its mode of living which everyone cherishes in developed countries and which most want to achieve in underdeveloped countries. The environmental controversy is now polarized into two extreme positions. On the one hand, there are those who argue that the crisis is here; that it is on a scale unprecedented in recorded history, and that we must surgically change materialistic lifestyles in developed countries, if an ecological catastrophe is to be averted in the near future. There are others, however, who admit that there is an environmental problem but not a crisis. True, errors of technology have been made in the past, but new technologies can be developed to correct past mistakes. In any case, the human metabolism is resilient enough to adapt to the fast changing milieu, and all we need to do is to divert a small fraction of resources to fight pollution without essentially changing our lifestyles.

These are two extreme views. The first emits undiluted pessimism, the second unguarded optimism. The acute divergence of these views can be attributed to their perception of what technology can achieve.

The pessimistic view is quite old and owes its origin to Thomas Robert Malthus who alarmed his contemporaries by predicting an imminent disaster arising from the growing pressures of population. Malthus argued that the supply of food grows in arithmetic progression, whereas population multiplies in a much faster geometric progression. Therefore, if there is no voluntary or "moral" restraint, then wars, famines and diseases will break out to control the population.

Malthus wrote his essay in 1798. Scientific developments since then have proved him wrong. Population, of course, has grown the way he predicted, but food supply has also kept pace. As a result, there has been no worldwide famine in the 20th century.

It became fashionable with scholars to denounce Malthus and his undue pessimism about the future of humankind. But he has been rehabilitated since the 1960s by writers expressing alarm at the growing pollution and depletion of natural resources. Prominent among the neo-Malthusians are Barry Commoner, Paul Ehrlich and Ezra Mishan. Commoner argues that technologies introduced over the last 75 years have been ecologically faulty; they have been producing harmful emissions without public recognition, but their cumulative effect has imperiled our life-support system in the ecosphere. As a result we must attend to the damage already done and make use of technologies that keep pollution under control. He contends that the current technology has been an economic success only because it is an ecological failure [4].

Ehrlich, in a book coauthored with his wife, argues that the basic cause of environmental degradation is population growth rather than technology. The Ehrlichs do not disregard other problems such as poverty, racial tension, energy and urban blight among others, but they argue that these problems cannot be cured without population control [7].

While Commoner and Ehrlich respectively attribute environmental pollution to faulty technology and population pressures, Mishan blames it on the worldwide mania for economic growth. To him, social welfare is uniquely related to neither the GNP nor the expansion of consumer's choice through new gadgetry. In affluent countries, the

costs of economic growth, he argues, far exceed its beneficial effects. And the relentless pursuit of technology at the expense of other values is nothing but a manifestation of this very mania for growth [8].

While Mishan has questioned the need for continued growth in developed economies, an international group of scholars, identified as the Club of Rome, has questioned our planet's capacity to sustain continued growth. Under the chairmanship of Aurelio Peccei, the Club issued a report entitled *The Limits to Growth.* And the title tells the whole story. The report followed an international approach, examined the five most important variables – population, natural resources, agricultural output, industrial output, and pollution – traced their global growth rates to 1900 and projected them to the year 2100. It concluded that the earth's resources will be seriously depleted early in the next century, causing a drop in population because of a lack of food [8].

By now we have a good idea of the major sources of resource depletion and environmental pollution. To sum up, the basic causes of pollution, according to scholars, are faulty technologies, exponential growth of world population, and mania for growth. Not surprisingly, their cures for the malady aim at controlling these sources of pollution. Thus, Commoner proposes to replace ecologically faulty technologies by ecologically wiser ones; the Ehrlichs call for restraints on global population; Mishan and the Club of Rome prescribe a no growth society. Many other participants of the environmental debate have called for a nostalgic return to communion with nature, to a simpler life devoid of noise and fumes.

Prout and the Environment

Let us now see what Prout has to add to the environmental debate, which is still raging and is expected to grow in the future. Our environment all over the world has become so contaminated today that any theory dealing with social welfare must tackle this crisis.

Prout shares many ideas of the environmental debate, but differs radically from its varied prescriptions. Sarkar's idea of progress itself identifies the basic cause of environmental degradation, and in no uncertain terms. Writing four years before Commoner identified technical advance as the major source of pollution, Sarkar called for a balance in the use of material and non-material resources of the world. His idea of progress carries the following implications for scientific and technological change:

1. In Sarkar's view, every scientific invention or technological advance that seems to make life easier must emit harmful emissions that make life harder to the same extent. Technical change has been classified by economists into three categories, namely, capital-using, labour-using or neutral between the use of capital and labour. Normally, it is the capital-using technical change that seems to make life easier, for previously tedious, labourious and repetitive chores can now be performed by machines. But machines use energy, and the production of energy generates pollution. Therefore, increased use of machines leads to increased pollution.

In cases where the machine-labour ratio remains unchanged or falls, the technical change by itself does not increase the damage to the environment. But then this kind of technical advance is not usually associated with scientific inventions. It results mainly from improved

management or increased division of labour, but not from the invention of new machines. Therefore, we may conclude that only capital-using technical change hurts the environment. The neutral or labour-using change may not.

Wherever industrialization has occurred in the past 200 years, technical change has been mostly capital-using, and no wonder the cumulative effect of the past scientific inventions has now generated unprecedented pollution.

2. Sarkar's definition of progress is forceful and precise. It implies that any scientific invention, including that designed to control pollution, will generate deleterious side-effects or what Mishan calls disamenities. The pollution controlling technologies will generate emissions of their own. Herein lies the gravity of the environmental problem. It should not be taken lightly, especially in countries where it has already begun to harm health and productive efficiency.

In the United States, under the prodding of the government, factories have installed smokestacks to clean the air. These devices, no doubt, eliminate 99.8 percent of the smoke particles that would otherwise be released in the air. But the U.S. scientists now report that these smokestacks generate pollution of their own. They release invisible thunderstorms of highly charged electrical particles, which could affect the rainfall in the area.

Those who say that the environmental degradation in industrialized countries can be solved through patchwork taxes affecting the market mechanism are dead wrong. It would take a monumental national, and eventually an international, effort to undo the cumulative harm of decades of uncontrolled, capital-using technological change that has been unleashed all over the world.

3. Since every capital-using technology must generate harmful emissions, it cannot be left to the private producer, for all he cares to see is its salutary effects on his profits, disregarding its unsalutary and inevitable side-effects on the rest of society. Hence, the scientific research should be in the public domain. Private producers may engage in research activity, but no invention should be translated into industrial technology without approval from the government, which will have to determine how far-reaching its side-effects are.

4. The fourth principle of Prout calls for maintaining a balance in the utilization of the resources of the universe, so that environmental pollution is minimized.

Environmental degradation may be defined as an imbalance in the crude resources resulting from the use of what Commoner calls ecologically-faulty technologies. There is no doubt that such an imbalance currently exists in the world. *Hence, Prout calls for an international effort to clean up the environment..*

How can it be done? The environmental cleanliness, as shown above, is not a simple task. Here Prout agrees with Commoner that only new technology can do the job. It is true that new inventions will also generate harmful emissions; but then, technologies will have to be devised which not only eliminate previous pollution but also destroy each other's emissions. Such technologies are within the realm of possibility. Diamond cuts diamond: *Let technology cut technology.*

5. Those who believe that there are limits to growth and call for restraint on population are also dead wrong. In Prout's view, the present world population is only a short-run problem arising mainly from internal wealth disparities and income inequities among nations. Population never was, and has never been, a long-run problem. The

real problem has been the inadequate use of resources. Malthus could not foresee the technological change that has already occurred since his prophecy of doom. Today's doomsayers are unable to visualize beyond the limited horizon of the spaceship earth. Their concept of resources is limited to our planet even though the historic journey of many Americans to the moon has demonstrated how myopic their vision is.

According to Prout, the ultimate limits to material resources are provided by the universe, not just by its tiny dot we call earth. If the earth cannot provide living space to all its denizens then humans would migrate to other planets, and build society anew. America was unknown to much of the world until 1492. But that does not mean that it had to remain inaccessible forever. Today other planets also seem inaccessible, perhaps devoid of life. But that is the challenge the human spirit will meet in the same way it met other formidable challenges in the past.

- Human intellect created the environmental crisis, human intellect will also eliminate it. Whether population grows faster or at a slower pace does not matter.

Actually it is impossible to control population on a global scale. One nation or another may be able to restrain its growth, but not the whole world. This is what follows from the law of evolution wherein matter is converted first into unicellular amoeba and eventually into multimillion cellular humans. In this evolutionary process, matter must sprout into life. That is the very property of matter. Therefore, population will keep on growing. It may be checked in the short run through wars, famines and other catastrophes, and even through family planning. But it cannot remain on the leash over the long run.

Hence, all efforts to control population are destined to fail, and this is more evident today than ever before.

The growth of the population is actually a blessing in disguise. Without large populations to support, the new technologies would have never been operational. Whatever the faults of science, no one can fault it for increasing human mastery over supplies of food which in the past was so vulnerable to vagaries of Nature. Similarly, without large populations to maintain, the human mental horizon would not have been as broad as it is today. With fewer people on earth, societies were first organized into village communes. As population increased, city states were born and then came provinces and finally nations. Thus, expanding population has steadily expanded human loyalty from village communes to nations. The human mind and institutions, whatever their contradictions, have slowly become broad-minded. Population growth, in other words, is not necessarily bad.

In India, people tend to blame all their problems on excessive population growth. This serves to hide the real cause of India's poverty. Japan has greater population and fewer natural resources per square inch than India. Yet, the Japanese have produced an economic miracle in the past four decades. Europe is also densely populated, yet is far more affluent than India. Many countries in the past had smaller populations; yet, they were poorer than they are today.

Population is seldom the cause of poverty. Corruption and faulty economic policies generate more hunger and homelessness than the number of people. In any case, poverty itself is the cause of high population growth, which will decline as the country prospers through proper economic policies.

To sum up our discussion, Prout encourages scientific inventions,

but they have to be such as to control the harmful emissions of each other. For it must be recognized that every scientific advance will have an unsalutary side-effect. Current population of the world is only a short-run inconvenience. The problem arises from the inefficient use of world-resources. One may object to continued growth in developed economies, but not because there are limits to growth, but because it has generated materialism, selfishness and crime in society. As regards underdeveloped countries, high growth rates are needed to solve their problems of survival. This is a matter to which I turn in the next section.

Economic Development

Following the second world war, and especially following India's Independence, a number of economists have explored the problems facing a poverty-stricken economy. A huge literature has appeared apparently to solve economic dilemmas facing the poor countries. Such literature, whether theoretical or empirical, is usually classified under the rubric of economic development. Prout offers its own path of development, one which is drastically different from any offered by scholars before.

Most underdeveloped economies display common features. They suffer from shortage of capital and technical know-how, illiteracy, excessive dependence on agriculture, and lack of industrialization. All these features lead to low productivity and chronic unemployment, and that is why the poverty-stricken countries are mainly called labour-surplus economies. Obviously, the abolition of poverty calls for the abolition of its causes, and that means economic planning aimed at the development of agriculture, industry, new technologies and

educational facilities. All this requires massive investment which depends on the economy's rate of saving. But in a poor country, savings are low because its national income is low. This is the well-known vicious circle of poverty, whereby a country is poor because it is poor. Hence, the first step in economic development is to raise the economy's rate of saving so that investment can be increased.

There are several ways to increase an economy's rate of saving. The government can force the people to save more through draconian means. This is what Russia, specifically Stalinist Russia, did for a quarter century. Millions of Russians were sent to labour camps where they worked on abysmal wages in government's factories. At the same time, the state charged exorbitant prices for goods it produced, thereby further lowering the workers' consumption. Similarly, agricultural prices were fixed at low levels, so that the agricultural profit, in addition to the profit in its industries, accrued to the state. For a long time, working conditions in Russia were simply horrible, and millions of people revolted and paid with their lives. This is certainly not a prescription for welfare maximization. No civilized country would like to grind its citizens through such oppression so that the state can prosper.

Other methods recommended by experts and traditionally attempted by the poor economies include increasing savings through taxation or through deficit financing whereby the government simply prints more paper money, purchases resources from the public and utilizes them in new investment projects. Both these methods have been tried before, and they have some merit, although when put to excessive use they can be harmful. For high taxation may be evaded, or it may lead to serious loss of incentives to work. And deficit

financing, a form of taxation, can cause serious inflation, thereby hampering the development effort.

Another source of investment is aid from rich foreign countries. But the rich never donate enough, nor is their donation without strings and motives. It is not surprising, therefore, that whatever meagre foreign aid the developing countries have received has done little to abolish their poverty. A country can also borrow from foreign commercial banks, but they charge high interest rates.

Ultimately, each nation has to stand on its own feet, at least until the time a world government comes into being. Savings have to be generated from within an economy, and not under the threat of capital punishment. Prout's answer to the paucity of savings is morality. People have to be persuaded to increase their savings and to reduce wasteful consumption. And even in poor countries, there is a considerable amount of wastage, or conspicuous consumption. People have to be taught that saving is a virtue, as it will ultimately reduce poverty of their children and their fellow beings. People have to be encouraged to sacrifice their present consumption, especially those who can afford to do so. The virtue of saving has to be presented as a humanitarian idea indispensable for the well-being of all.

It is well known that the power of morality dwarfs the power of authoritarian commands. It also dwarfs capitalistic greed. Will any of us offer to die for millions of rupees? But some of us might, for a cause. Will anyone have his head severed for comforts? But some of us might for the sake of a selfless idea. Hence, morality transcends brute force and human avarice, and it is this force which Prout calls for harnessing to achieve a high rate of saving. The connection between

morality and economic development is very real, for consuming less and saving more can be presented before the people as an ideal involving sacrifice for their children.

Will such increased saving cause a decline in social welfare? No! If people are forced to reduce consumption under the threat of death-blows, there is certainly unimaginable misery in society. But, when someone willingly makes sacrifices, especially for a cosmopolitan idea such as general economic development, individual welfare actually rises. Mind feels happier than before. Hence, increased savings under Prout's encouragement will never reduce social welfare. If anything, overall happiness in society will rise.

There is no doubt that, in theory at least, savings can be raised through the medium of moralistic preaching. But theory is one thing, and translating it into reality is another. The only way that people can be persuaded to save more is if their political leaders save more. People will be austere in their consumption, if their leaders do the same thing. Mere official preaching will not do. Nay, the leaders will have to be more austere than the people. They will have to live on the same subsistence on which the masses live. They will have to set examples before their subjects. Morality is a powerful force. But, harnessing the best side of human conscience requires the leader to practice what he preaches. As is the king, so are his subjects. Hence, if leaders sacrifice their present consumption for posterity, so will the masses no matter how poor they are.

Prout's connection between morality and the savings rate is not a utopian idea. On the contrary, it is a practical and wonderful idea. For it will increase savings without reducing social happiness and harmony. Some rich people may not decrease their wasteful

consumption, no matter how altruistic their leaders are. In their case, force through high taxation may be necessary. But by and large, Prout relies on human conscience and exemplary living for higher savings.

Once enough resources are generated through persuasion and even taxation, there arises the question of their utilization. Here Prout calls for balanced growth, which means allocating resources to all important sectors of the economy. Both agriculture and industry must be emphasized, and they should be developed in a way that each complements the other. Thus, investment should be increased in such staples as wheat and rice; cash crops such as cotton, sugar and jute should also be promoted. Side by side, agri-based industries should be developed. This way agriculture is to complement the development of industry.

Industry, on its part, should provide fertilizers for agriculture, and modern machinery for agri-based industries. In other words, industry should be the base of agriculture and agriculture the base of industry.

We have already seen that Prout divides industry into three categories, namely the public sector producing key products, the cooperative sector comprising large-scale industries producing consumption goods, and the small-scale sector comprising mainly the private industries. We also saw how the basic sector is to complement the others in a pyramidical fashion. But how are these industries to get started? Where should they be located? Answer to these questions are required in any theory of economic development.

Prout favours an industrial organization that combines elements of the present-day factories and the putting-out system which, prevailing in Europe between the 16th to the 19th century, preceded the modern system. In the United States, also, the primary form of manufacturing

organization between the 18th and 19th centuries was the putting-out system. Sarkar believes that the answer to ubiquitous poverty in the poor nations lies not only in the most modern technologies leading to high labour productivity but also in employment-generating small-scale industries located not in urban centers but in rural areas. The latest techniques can be used only in large-scale factories. They require huge investments and can be profitable usually in urban areas where skilled labour and other economies-of-scale are available. However, urban centers in most underdeveloped economies are already congested; besides, they have enough unemployed people of their own, and there is no need to lure rural workers to cities. Rather, small industries should be established in the rural areas, and, as much as possible, their products should also be marketed there. Raw materials and modern machines for these industries are to be supplied by the public sector [10].

As an example, take the textiles industry. Yarn and power looms can be produced in the public sector. The power looms and yarn may, in turn, be leased out to weavers in villages to weave cloth in their own homes. The cloth so produced should be sold in the surrounding villages, and only the surplus in cities. If power is not available in rural areas, then hand looms should be distributed. This is just one example which can be repeated in many industries.

Let us see how this location of small industries in villages compares with the putting-out system. In this system a merchant middleman or a putter-out supplied raw materials to skilled as well as unskilled labourers who worked in their houses. Later he would collect the finished product and carry it either to the market or to another artisan for another stage of manufacturing. The putting-out

set-up was prevalent in almost every industry – paper, mining, ship-building, pottery, cutlery, iron, and especially woollen and cotton textiles. The merchant middleman varied in origin as well as scale of operations. Many had a humble beginning, starting as wage earners. But most belonged to the class of merchants organized in craft guilds.

Quite often the merchant provided raw materials on credit and bought the finished goods by the piece. Occasionally, the workers bought the raw-materials and contracted for payment in wages. The same applied to the equipment, with the putter-out mostly leasing but occasionally selling it to the workers.

While workers worked mostly in their homes, usually without external supervision, with the emergence of power machinery a number of small workshops came into being in rural areas. In these workshops, eight to ten artisans worked under the supervision of a master tradesman. At times, workers would rent space in these workshops and produce goods for the putter-out. In England in the early 17th century, for instance, the Earl of Shrewsbury rented out centrally located grinding wheels to master cutlers, who in their spare time subleased them to other workers.

Even when power machinery developed later and culminated in the large-scale factories in urban areas, the putting-out system worked well in rural areas for a long time. This shows that the large-scale factories can coexist with profitable small-scale industries in villages. Prout advocates the use of this latter model for rapid economic development to generate high growth and employment without large scale migration from rural to urban centers. This would avoid urban congestion and myriad related problems.

Prout modifies this factory-cum-putting-out system by injecting a

dynamic role of the government which is to invest directly in modernized plants producing raw materials and equipment. The raw materials and equipment in turn should be provided to artisans in villages through the medium of a central small-scale-industries agency having branches spread all over the economy. Since most workers initially will be too poor to invest money on their own, the agency should lease the equipment and raw materials to workers. Or they could purchase the machinery in installments to be deducted from their earnings. The workers could either work at home, or, if necessary, in rural workshops.

In addition to these tasks, the agency should (i) provide workers the necessary training in the use of machinery, (ii) supervise their work for quality control, at least initially, and (iii) purchase their goods on piece basis. The goods can be marketed either directly by the agency in the surrounding areas or sold at wholesale prices to consumer-cooperatives, which in turn sell goods to final consumers. Alternatively, the agency may encourage the formation of workers' cooperatives which will lease raw materials and equipment, engage in the production process, and perform functions of quality control and the marketing of finished goods. This way workers' cooperatives may be formed for all essential commodities in rural areas. The same holds true for agri-based industries where the raw materials will come from agriculture and equipment from the small-industries agency. Small-scale industries in urban centers can also be established on the same model.

The factory-cum-putting-out model of economic development proposed by Prout has several advantages over the path of industrialization followed by poor nations over the last four decades.

The first and obvious advantage is that no disruptive migration need occur from rural to urban areas, avoiding all concomitant problems of congestion and city pollution.

The second advantage is that to the extent workers can work at home, investment in huge buildings and other infrastructure of large factories is unnecessary. As a result, substantial savings in the cost of capital can be achieved.

Third, workers' cooperatives, or even workers' leasing or owning their own equipment, have higher labour productivity than similar production organization based on the capitalistic firm where a producer hires workers. This point has been emphasized by Vanek in his analysis of economic development in a subsistence economy [12].

Fourth, the system will generate a relatively equitable distribution of income, and unlike the case with past developmental efforts, the poor, not just the rich, will be able to taste the fruits of economic development.

Finally, with rural areas self-sufficient in essential commodities, transportation bottlenecks or disruptions caused by national disasters will not cause famines in remote places.

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Chapter 5

PROUT'S SYSTEM OF PLANNING

In order to materialize the Proutist economic system and hence eradicate poverty from a developing country like India, economic planning is essential. In developed economies, Proutist goals of happiness and prosperity for all could be perhaps realized without extensive state intervention in the economy. But in the Third World, which lacks the essentials of development, extensive government planning is indispensable for speedy economic growth.

Economic planning has been adopted by many countries including India, but the Proutist planning is quite different from any other tried before. It is far from the centralized system, long used in Russia and China, which the communist nations now seem to be abandoning. It also differs radically from the mixed-economy planning tried in India in terms of seven five year plans.

Decentralized Planning

In communist countries, as well as India, plans are formulated at the federal level by a planning body far removed from local areas, where the planning decisions have to be materialized in reality. The inevitable result is a gaping chasm between goals and their realization. The

government launches the plans with great fanfare, but then has to cut a sorry figure when good intentions have been unrealized five years later.

According to Sarkar, a developed economy is one with four major parts – general economy, people's economy, commercial economy and psycho- economy.

General economy comprises all the economic theories, including capitalist, socialist or Proutist. Prout's general economy is a three-pronged system consisting of key industries, the cooperative sector and small-scale proprietorships – something we have already studied in the previous chapter. Also included in the realm of the general economy are coordination of planning at all levels, infrastructure, taxation, the banking system and any other economic institution organized at the national level.

Commercial economy, by contrast, aims at the maximum utilization and the rational distribution of the world's resources. It deals mainly with internal and international trade and investment.

Modern economic theories, according to Sarkar, are limited to the analysis of general and commercial economies. Economists have generally ignored people's and psycho-economies.

People's economy should ensure the provision of minimum requirements for all. Each and every worker should be able to earn enough to meet his minimum needs of food, clothing, education, housing and medical care. Sarkar goes as far as saying that the guarantee of minimum requirements should be enshrined in the Constitution itself. In other words, the provision of employment at a need based minimum real wage is a fundamental human right. Few, if any, countries have done this.

Psycho-economy is as yet a totally new concept. Its main purpose is to expose theories and social institutions that exploit the workers and the handicapped. "The first and foremost duty of psycho-economics is to wage a tireless struggle against the degenerating and dehumanizing economic trends in Society", says Sarkar. [2, p. 19] Some well known psycho-economic theories are as follows:

1. Monopolies lead to excessive profits and lower wages;
2. Wealth concentration and excessive income inequality cause depressions;
3. Communism or centralized planning generates economic stagnation, and so on.

Discovery of new techniques to improve labour productivity and reduce working hours is the main purpose of the psycho-economy. With fewer working hours, people will have more time for intellectual and spiritual activities.

Psycho-economy will grow once other parts of the economic system are fully developed. While experts have paid little attention to this aspect of economic theory, it is the most crucial to maximum social welfare.

How is this four-pronged economic system to be brought about, especially in poverty-stricken areas of the world? Through decentralized planning. This type of planning involves the nation at all levels. It is a gradual, step-by-step process to take the country through various stages of economic development in such a way that the entire society participates in rising prosperity rather than a few sections or classes of people.

A few Third World nations have adopted models of centralized planning, but they have concentrated on urban development while

neglecting the rural areas, which constitute the vast majority of these countries. India's economic plans are also guilty of neglecting the vast number of villages. This defect in development can be corrected only through decentralized planning. The planning machinery should therefore operate at the central, state, district and block levels, with the block-level planning body being the lowest planning unit.

Planning bodies at all levels should be composed of qualified economists. Their first and foremost task in the Third World should be the development of people's economy, with focus initially on the rural blocks and districts, emphasizing agriculture and related industries. Most Third World nations including India lack even the people's economy, because they have been unable to provide basic necessities to their people despite decades of planning and aid received from the developed world.

The planning bodies at block and district levels should constitute what Sarkar calls a samaj, which is a socio-economic group or unit. These groups "should be formed on the basis of factors like common economic problems, uniform economic resources and potentialities, ethnic similarities, common geographical features, and the sentimental legacy of the people, which arises out of common socio-cultural ties like language, cultural traits, etc." [1, p. 10]. These socio-economic units or samajes have the following characteristics.

1. Each samaj is free to formulate its own plan aimed at first developing the people's economy, then the commercial economy, and finally the psycho-economy.

2. Each samaj should aim at self sufficiency at least regarding the basic necessities of life. Trade should be its last resort. Self sufficiency means that each samaj will have to develop its own

irrigation facilities, power plants, machine tool industries, and so on. Most of these schemes will be on a small scale, requiring much smaller amounts of capital and investment than huge projects that have been developed in India's public sector, which is currently underutilized and is grossly inefficient.

While trade is the last resort for samajes, it will certainly be there; it cannot be eliminated altogether, even in the initial stages of planning. However, as far as possible, raw materials should not be exported. Rather, they should be utilized in local industries to produce consumption goods and machines.

3. In each samaj the employment of local people should take precedence over non-local labour. In order to achieve full employment, the principle of self-sufficiency, noted above, is very important. True, with self-sufficiency, consumers in a samaj may not obtain goods at the cheapest price or at the highest quality, but at least they are employed and produce and consume goods locally. With so much unemployment in the Third World, the first priority of planning is to provide employment to local labour at wages that can afford at least the necessities.

4. In order to achieve full employment, labour-intensive agro and agrico-industries should be started, utilizing locally developed natural resources. Modern technology can and should be obtained from other regions, but not the raw materials. As far as possible, the raw materials should be produced locally and then the related industries should be established.

The industries will be either cooperatives or individual proprietorships. Agro-industries are those producing products that are used in agriculture prior to harvesting, whereas agrico-industries are

post-harvesting plants that use farm goods as raw materials. Thus fertilizer is an agro industry, whereas textile is an agrico-industry.

5. Planning in each samaj, while aiming at self-sufficiency and maximum employment of local labour, should take into account five factors: productivity, cost of production, purchasing power, collective needs, and balanced growth.

Productivity of local resources is to be maximized by locating industries near raw materials and the sources of power. The cost of production should be minimum, but should be calculated to include all expenses, even the expenses arising from one's own work and the work of family members, something that Indian farmers have ignored for long. Pricing should be based on such rational cost calculations.

The emphasis of planning should be on the purchasing capacity of the people and not on per capita income alone. This is because if the incomes are highly unequal, a nation's per capita income can be very large, and still some people may starve. Hence purchasing power of the people is more important than the overall per capita income. The minimum purchasing power should, of course, be guaranteed by a need-based minimum wage. A part of this wage may be paid in the form of locally-produced goods, rather than money. This will enhance a samaj's self-sufficiency by ensuring a balance between demand and supply of local production.

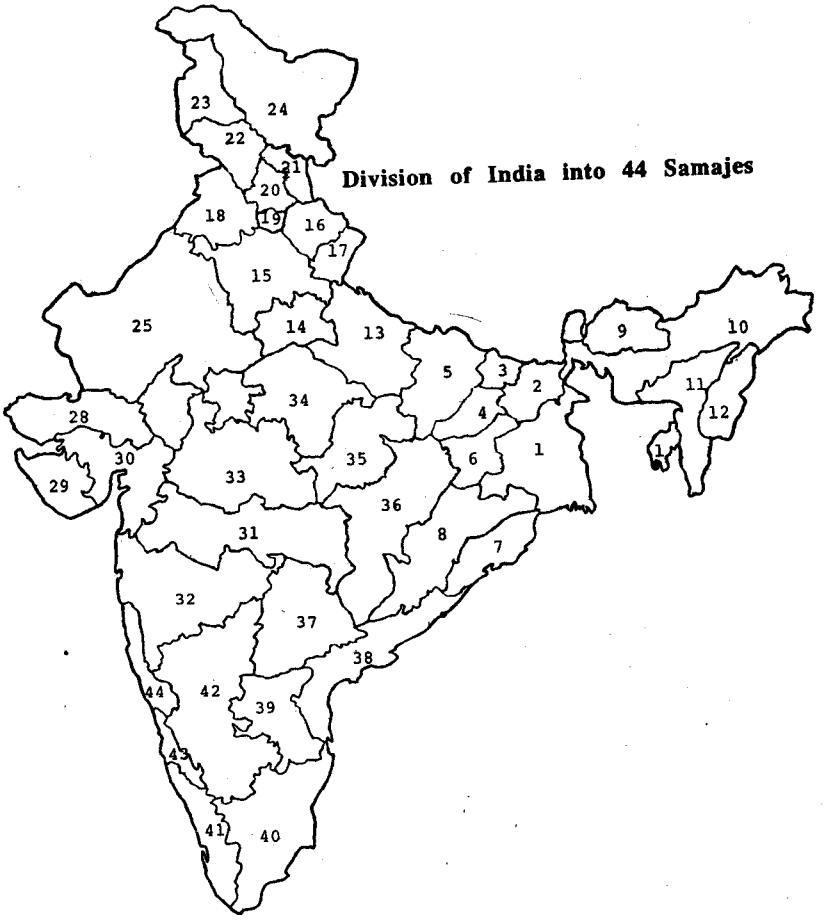
Each planning unit should assess the collective needs, and assure a dynamic balance between demand and supply of all locally produced goods. Prices are to be set by the planning bodies, but with some flexibility so that the demand supply balance is maintained over time. It may be noted that when incomes are not extremely unequal, the demand-supply imbalance is rare.

Finally, each samaj should aim at balanced economic growth. In other words, no more than 30% to 40% of the population should be engaged directly in agriculture, another 20% in agro-industries such as fertilizers, picks, axes, spades, tractors, harvesters, etc., another 20% in agrico- industries such as flour mills, textiles, paper mills, etc., about 10% in internal trade and commerce, and the remainder in intellectual or white-collar jobs.

Socio-Economic Units For India

After a careful study of India's geography, soil conditions, natural resources, languages, and cultural factors, Sarkar suggests that India should be divided into 44 samajes, and each should be initially developed into a self-sufficient people's economy with the least disruption to the existing system. Rather, the existing Indian structure should be integrated into the Proutist style of planning. The samajes are as follows, and their location is indicated by the assigned numbers in the enclosed map of India.

1.	Amra Bengali	2.	Angika Samaj
3.	Mithila Samaj	4.	Magahi Samaj
5.	Bhojpuri Samaj	6.	Nagpuria Samaj
7.	Utkal Samaj	8.	Kosal Samaj
9.	Bhutia Samaj	10.	Bodo Samaj
11.	Assamia Samaj	12.	Lepcha Samaj
13.	Avadhi Samaj	14.	Braj Samaj
15.	Hariyanvi Samaj	16.	Garhwali Samaj
17.	Kumayun Samaj	18.	Punjabi Samaj
19.	Sirmauri Samaj	20.	Pahadi Samaj



Division of India into 44 Samajes

21.	Kinnauri Samaj	22.	Dogri Samaj
23.	Kashmiri Samaj	24.	Laddakhi Samaj
25.	Marwari Samaj	26.	Hadauti Samaj
27.	Mewari Samaj	28.	Kuchhi Samaj
29.	Kathiawari Samaj	30.	Gurjar Samaj
31.	Vidarbha Samaj	32.	Sahyadri Samaj
33.	Malwa Samaj	34.	Bundelkhand Samaj
35.	Baghel Khand Samaj	36.	Chattisgarhi Samaj
37.	Telengana Samaj	38.	Chirkar Samaj
39.	Rayal Seema Samaj	40.	Tamil Samaj
41.	Malayalam Samaj	42.	Kannada Samaj
43.	Tulu Samaj	44.	Konkani Samaj

Almost all Indian provinces have at least one samaj, and some have two or more. Bihar, for instance, has five socio-economic units such as Angika, Magahi, Mithila, Bhojpuri and Nagpuria. The cultural, linguistic and economic similarities within each samaj are essential to awaken socio-economic conscience of its people, arousing a spirit of cooperation and diligence.

Sarkar illustrates his concept of samajes in India by focusing on Amra Bengali and the Punjabi samaj. This is what he says:

"Let us take the case of Bengal. As an example of how people's economy concerning the minimum necessities of life can be developed, the following program should be adopted to improve the economic standard of Bengal."

"First, food. Bengal is fertile, but is divided into two parts – areas short of rainfall and areas with no shortage of rainfall except in the winter. In both parts, water conservation is required. The irrigation

problem can be solved by any one of the four methods – shift irrigation systems (canals), lift irrigation systems (pumps), tank irrigation systems (reservoirs), and small scale river projects. The quality of water varies in different rivers. Some water is sweet, and discriminating use of this water can improve agricultural production. Different crops, fruit and vegetables can be grown all over Bengal, which is capable of feeding its entire population of around 60 million people through its own resources if they are properly managed."

"Clothing. The type of clothing that people wear depends primarily on climatic conditions and the availability of raw materials. In Bengal four major raw materials are available for clothing – cotton, mulberry silk, non-mulberry silk and synthetic materials. Bengal can not only become self-sufficient in cotton, silk and synthetic materials, but can even produce a surplus for export to other regions. Mulberry silk is ideally suited to Bengal because it requires a slightly dry climate, which is found in western Bengal. Non-mulberry silk can be grown throughout Bengal, while synthetic fibres from copra, rice plant, bamboo and coconut shells, banana and pineapple leaves are also widely available. Bengal can also grow wool, and even jute can be used for clothing."

"Housing. House building materials are abundantly available throughout Bengal. These essential requirements are sand, lime and cement. The soil of Bengal is suitable for manufacturing bricks, fire-bricks and tiles, while enormous limestone deposits have been discovered in one district. Bengal can not only be self sufficient in the production of building materials, but can also export to other regions. Industries producing housing materials would be quite profitable."

"Medicine. Bengal is richly endowed with both herbal and

mineral medicines. The major diseases of Bengal are fever and stomach problems, and it is the practice of nature to provide readily available herbs that cure local diseases. Specific districts of Bengal are suitable for herbal cultivation while other districts are rich in mineral medicines."

"Education. One's mother tongue is the natural medium of expression, hence Bengali should be the medium of instruction in Bengali schools. English, which is presently the global language should be the second language and higher education should be imparted in English. Sanskrit should be taught to enrich the cultural heritage of Bengal. The materials of learning – paper, ink, etc. – are also available in Bengal. Paper can be manufactured from different grasses and plants that can be grown in several districts. Ink can be manufactured from a synthetic process or from indigo."

"Energy and Transportation. Until solar energy can be manufactured cheaply, other energy sources can be utilized, like hydro-electricity, coal, thermal power, tidal power, geo-thermal power, wind-power and natural gas. All the raw materials necessary for transportation are also available, including rubber, steel, mica, mica chips, mercury, silver, copper, quartz and manganese. Hence Bengal could provide all kinds of transportation." [2, pp. 17-19].

Decentralized planning calls for one plan for the whole samaj, and other plans for the districts and blocks within each samaj. In Sarkar's words, "Take the example of Bengal again. For the entire western Raarh including Bankura, Purulia, etc., there could be a sub-plan. Similarly, for Jalpaiguri, Coochbihar, Siliguri and Golpura, etc., there should be another sub-plan." [1, pp. 12-13]

The above provides Sarkar's illustration of how Amra Bengali can

become a self-sufficient samaj, satisfying the minimum needs of all its people and eradicating poverty. At another place, Sarkar further demonstrates the virtues of decentralized or block level planning by comparing the Punjabi samaj with the Cauvery Valley, which stretches across many samajes in the south. The two need totally different types of planning because of regional differences in soil and climatic conditions.

"First, the Punjab rivers Jehlam, Chenab, Ravi, Beas and Sutlej are all of Himalayan origin. They provide a perennial source of water because they are ice-fed. But the rivers of the Cauvery Valley – Tungabhadra and Cauvery – are of Ghat origin (Eastern Ghat and Western Ghat). They depend upon seasonal rainfall. There are two rainy seasons in a year in the Cauvery Valley area, but they are not a perennial source of water because they are not ice-fed. Thus no hydro-electricity can be generated from the Cauvery Valley rivers, because of the uncertainty of water. But hydro-electricity can be generated in the case of the Punjab rivers because there is a supply of water throughout the year, as in the case of Bhakhra Nangal dam. The Punjab rivers maintain their existence with the help of molten ice."

"Secondly, the Cauvery Valley, being nearer to the equator, has an extreme climate. Even the Punjab has an extreme climate, but this is due to the different winds coming from the northwest and the east. The Cauvery Valley does not depend on any winds."

"Thirdly, the central portion of the Cauvery Valley consists of wavy, laterite soil and is called the Deccan Plateau. There is a small slice of land situated between the hills and the sea that is alluvial soil and is plain. Only a small portion of the Deccan Plateau is of alluvial soil. The Punjab is plain. The Deccan Peninsula consists of four

coasts – first, the Utkar coast, stretching from the Mahanadi to Godavari; secondly, the Coromandal Coast, from Godavari to Cape Comerin; thirdly, the Lamabar Coast, from Cape Comerin to Goa; and fourthly, the Konkan Coast, from Goa to Gujarat. These coastal areas are not composed of wavy land. These coastal portions are known as the granaries of India, whereas in the Tilangana area in the Deccan Plateau there is a chronic shortage of food. In the Cauvery Valley, the eastern coastal area, the Coromandal area, should chalk out a developmental programme. The Deccan Plateau can have only palmyra trees but no coconut trees, whereas the coastal areas can have both."

"A proper approach to planning will take into account all the relevant factors before the developmental programme is implemented." [2. pp. 38-39]

Socio-Economic Units In The Third World

Like the Indian samaj plan, other Third World countries should also be divided into proper socio-economic groups in order to promote their economic development and eradicate their poverty. The basic principles of these units are the same as those for the samajes in India. While the developing nations have many common problems, they also have a variety of differences. India, for instance, has many regional languages, whereas Mexico has only one main language, such as Spanish; so does Brazil with Portugese as its main language. Linguistic differences in these countries are of no use in forming samajes. Their socio-economic groups should be formed on the basis of similarity in economic problems, resources and potentiality. But the division of various nations into samajes is indispensable to their

development, because only then the concept of decentralized planning can be translated into reality. Needless to say, the creation of self-sufficient people's economies will have to be their first priority.

Long-Term Planning

Prout supports the concept of step-wise planning. Materializing a people's economy in all samajes is only the first step in the planning process; it is a program to be launched immediately, so that minimum needs of everyone are satisfied. But the planning process must not stop there. Effort must be continued to raise the living standard for all. In other words, Prout has a short term as well as a long term plan to eliminate poverty from the Third World.

In the short run, nations first have to be divided into cohesive samajes, and then, through decentralized planning at the samaj, district and block level, people's economies must be developed in all regions. While the districts and blocks concentrate on the creation of new cooperative enterprises and sole proprietorships, the samaj-level plans could focus on the strengthening of existing key industries, which now languish in the public sector. There should be no rush at this point to launch new, highly capital-intensive projects. With capital in acute shortage, the existing stock of capital should be first put to maximum use, and new labour-intensive, farm based industries should be started.

In the long run, the planning process opens into the next phase. The first phase could take about five years. The Proutist planning system should be able to provide minimum needs to all Indians – labourers and intellectuals, villagers and urbanites – within five years of its inception. The next phase will develop the commercial

economy, and will involve the following steps.

1. As individual samajes grow and become economically self-reliant, two or more of them may be merged to form a larger unit. This will promote economic and administrative efficiency. While the district and block level planning committees will remain intact in the larger unit, the latter will have only one body at the samaj level.

2. The larger samaj will obviously have greater resources and a bigger demand-base or purchasing power to support the production of goods on a large scale. Capital-intensive projects should be introduced at this stage at all levels of the planning process. The samaj could then launch new mechanized power projects and industries, or introduce new technology into existing industries. The same thing could be done at the district and block levels. Workers would then require retraining into the complex, modern technology. Productivity would sharply rise, but no one would be laid off. As a result of higher productivity, wages would rise, but, working hours would be reduced to maintain full employment.

3. With reduced working hours, people could spend more time in intellectual and spiritual pursuits, and in recreation. Many leisure industries would be born at that stage. Radio, television, tourism, cinema, and theatre industries would then take off.

4. With the increased scale of production in the now fewer samajes, there will be more trade among them. This will facilitate specialization and further increase labour productivity.

5. While inter-samaj trade increases, foreign trade should still be kept at the minimum in the second phase of planning, because infant industries of India would still be unable to face foreign multinational corporations.

6. If, in spite of strenuous efforts, some labour remains unemployed, then foreign capital and technology should be invited to utilize India's highly skilled labour in export industries. Foreign concerns should own no more than 49% of the cooperative enterprises, or they may be invited to produce goods only for export with 100% ownership. Generous tax benefits may be offered to lure them into the export sector, which will not compete with the rest of the Indian samaj-level economies.

The second phase of Proutist development program could take about 10 years to complete. During these years, the country would become self- reliant in agriculture and all those industries that use indigenous raw materials. Technology might be local or foreign, but it would have to be suitable to internally produced resources.

After the completion of the second phase of the development program will come the third and final phase, which will transform India into a well developed economy, with all the four Sarkarian economies in full swing. In other words, India will then have its full complement of commercial, psycho and people's economies. The third phase will involve the following steps.

1. All the samajes of the second phase will merge into one large unit called India with one planning body at the center. Of course, the district and block level planning bodies will continue to function, but some of them also may be merged together to reap the economies available from large scale operations. The most modern techniques will now be introduced in agriculture and industries.

2. India will then become one samaj and there will be no question of preferential treatment to local labour for employment. All of India's labour will then be local labour, which could move freely in

search of better opportunities.

3. There will also be full-fledged trade within India.

4. In this phase India could gradually remove its foreign trade barriers and expand its international trade. Industries producing necessities may still have to be shielded from foreign competition, but they must face vast internal competition to become efficient. This way competition among industries will increase from one phase of the planning process to another. Competition is the only way to keep industries efficient in the long run, whether they be capitalistic or cooperative. Monopolies in general breed inefficiency and produce shoddy products at high prices.

The third phase of the Proutist program could also take about 10 years to complete. This way, within a matter of 25 years after inception, Prout could transform India from a penurious country into a vastly developed economy vying with America, Germany and Japan. What India needs is the Proutist spirit of honesty, discipline and cooperation. And in this respect, what can be done for India can be done for the entire Third World.

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Chapter 6

ANANDA NAGAR: A MODEL OF PROUTIST PLANNING

Decentralized economic planning is a novel idea which has not been tried before. In order to show how Proutist planning works, how it can create miracles out of nowhere, Sarkar and his students are now busy building a model city in a barren area called Ananda Nagar, which is a part of Amra Bengali Samaj. Located in one of the poorest and most backward areas of India, Purulia district in West Bengal, the area around Ananda Nagar is inhabited by tribal villagers and portrays most of the problems that rural people face in the Third World – massive illiteracy, chronic disease, malnutrition verging on starvation, lack of electricity, unproductive farming on arid land, and absolutely no industry.

By developing one of the most neglected areas of the world into a vibrant community, Sarkar hopes to demonstrate the virtues of planning aimed at local self-sufficiency. He is virtually creating an oasis in a desert. The plan is to first introduce small irrigation schemes into hitherto sterile land, develop raw materials locally and then build farm-based industries providing jobs to local labour. It is a

noble experiment at rural development of not just any area, but a tribal area, which is the most resistant to change. Ananda Nagar is thus a model for an integrated approach to planning, aimed at creating a balanced economy within a small block of the Amra Bengali Samaj. The following projects, some of which have already been completed, are planned:

* Primary school
* High school
* Degree college
* Institute of Technology
* Homes for orphans and handicapped children
* Hotels for poor students
* Hospital
* Leper asylum
* Cultural academy
* Women's welfare centre
* Adult literacy centre
* Printing press and bookstore
* Farms
* Dams and irrigation works
* Agricultural research centres
* Industries and industrial research centre
* Solar energy installations
* Biogas plants
* Reforestation projects
* Zoological and botanical gardens

Human Resources

In order to eliminate unemployment in any area, it is first necessary to educate the people and provide them proper training. For this reason, the Ananda Nagar project has established an educational complex, which aims at offering the highest standard of education not only to the local tribal people but also to students from neighbouring cities.

There are reports that Ananda Nagar's English medium primary school, whose student body is composed mostly of children from illiterate village and tribal families, is producing such talented graduates that those who enter other secondary schools are immediately promoted three grades. The Ananda Nagar high school gives training not only in academic subjects but also in extra-curricular activities such as art and sports; its students have garnered countless prizes in inter-school sports and cultural competitions. Ananda Nagar Degree College, which is affiliated to Burdwan University in West Bengal, provides scholarships to deserving indigent students, free medical care, and cheap hostels for village youth. Ananda Nagar's Institute of Technology, offering degrees in civil, electrical, mechanical and chemical engineering, provides apprentice jobs to engineering students in nearby industrial cities like Jamshedpur and Bokaro, not only to give them vital practical training, but also to enable the indigent students to earn while they learn.

Ananda Nagar's Women's Welfare Development Centre, Uma Nivas, includes a kindergarten and primary school, a children's home and hostel, and a cottage industry project to develop the backward women of the area not only intellectually but also economically. It is now recognized that one of the most important factors for change in tradition-bound societies is the transformation of attitudes of the rural

women. Uma Nivas, with its all-round programme for child and adult female education in health and hygiene, nutrition, literacy, academic subjects and livelihood projects, will be an increasingly important agent for change in the coming years.

Agriculture

Like most Third World nations, India is primarily an agricultural country with 80% of its population living in villages. The Green Revolution was lauded as the solution to India's increasing food problem, but its capital-intensive, large-scale and unecological farming methods have completely bypassed the small farmers, and indeed widened the gap between the rich and the poor in rural areas. Throughout the country, primitive and uneconomic methods of cultivation are being practised which produce only one crop per year, and during the remaining eight months the land remains unutilised – a gross waste of natural resources.

Ananda Nagar's agricultural development scheme provides for the maximum productivity of land through progressive water management techniques such as trickle-drip irrigation, prevention of erosion through afforestation and soil conservation, the application of organic fertiliser from biogas plants, and especially systematic crop planning with intercropping and crop rotation. For example, one such crop rotation scheme being implemented is this: plant maize with groundnuts in the spring, millet with soybeans in the rainy season, potatoes with spices in the autumn, and cotton with sweet potatoes in the winter. With horticulture in paddy fields, fruit trees fencing the fields, and spices like ginger and turmeric growing in the shade of the fruit trees, full utilisation of land will bring about a rapid and

sustainable rise in productivity in one of the most unproductive areas on earth.

A comprehensive network of agricultural research centres is also being established at Ananda Nagar to maximally utilise the vast untapped wealth of plant resources – 2,000,000 species of plants – many of which can be adapted to arid or rocky regions. Plant germplasm and seeds from all parts of the world are being collected for research on cross-breeding to evolve new varieties of plants, especially polyvalent plants and trees which provide at the same time oil or fruits for food, foliage for fodder, fibre for cloth, and wood for building. In research centres for summer and winter vegetables, tubers, spices, fibre plants, fruits, cereals, pulses, oil, sugar crops, silk, cotton, medicinal plants and floriculture, among others, research will be conducted on techniques to develop agrico-industries. For example, molasses can be obtained from sweet potatoes and flowers, edible oil from melon and radish seeds, cloth fibre from okra , etc.

Thus the development of agriculture based on rigorous scientific research, using simple, inexpensive and appropriate technology easily mastered by farmers, will provide fresh hope for attaining self-sufficiency in food. By releasing the full resource potential of water, soil and plants, this organic agriculture will convert barren lands into fertile fields and bring about a great rise in productivity that can keep pace with the growing population.

Agro and Agrico Industries

With few exceptions, technological and industrial development in the Third World has benefited a small modern sector, and, like the Green Revolution, bypassed the rural masses. What is urgently needed now

to remove poverty and social tension is a systematic transfer of technology to villagers, so that the fruits of modern technology can reach the doorsteps of the poor.

Ananda Nagar is setting a dynamic example of accelerated rural industrial growth – not only of small-scale cottage industries but also major agro-industries to raise the income and employment of the villagers. The goal of development must be to make each rural community like Ananda Nagar a self-sufficient unit, producing not only its own food but also its own clothes, medicines, toiletries, utensils, fertilizer, paper, building materials, etc. by fully utilising local resources and agriculture. Thus Ananda Nagar's research centres offer innovations that can, for example, produce cloth from banana fibres and cement from rice bran; they will not only revitalise traditional and indigenous techniques but also do research on more sophisticated technologies like electronics, and solar and nuclear energy.

The Institute of Technology imparts technical training to bright students from the most economically backward sections of society, providing skills to rural and tribal youth, and organising programmes for the transfer of technology to surrounding villages. Ananda Nagar's development scheme includes more than sixty factories for the production of the following:

* Dairy products (milk, cheese, butter,curd, sweets, etc.)
* Herbal and Ayurvedic medicines
* Honey & beeswax products
* Jams, jellie, sauces, syrups, pickles

* Refined sugar & glucose
* Refined edible and non-edible oils
* Plastic boxes & other products
* Paper & packing cases
* Inks and pens
* Machines & tools
* Bolts, nuts and ribbets
* Woollen goods
* Cement from paddy bran
* Limestone
* Soap, shampoo, toothpaste, detergent
* Processed cereals and pulses
* Rope products
* Natural cosmetics
* Glassware and kitchen utensils
* Silk & cotton thread spinning
* Bandages & first aid materials
* Hospital & clinical apparatus
* Biscuits, candies & medicated chocolate
* Woven cloth
* Ready-made garments
* Toys & sports goods
* Baked goods
* Distilled water & ice
* Coal products
* Scents from various flowers
* Dried fruits & fruit juices
* Handicrafts

* Furniture
* Dehydrated vegetables
* Iron products
* Tin cases
* Aluminum goods
* Stainless steel articles
* Boric powder & napthalene
* Mattresses & mosquito nets
* Fertilizer

Alternative Energy: Biogas and Solar

Many ills of poverty, disease, deforestation, soil erosion, and excessive flooding in developing nations are directly related to the problems of energy production. It is now universally accepted that fossil fuels such as oil and coal are not only limited but, for developing countries, prohibitively expensive. Due to the scarcity of fuel, many rural people depend heavily on firewood, which in turn is resulting in massive deforestation, flooding and soil erosion. Millions of others depend on cattle-dung cakes for fuel, which not only deprives agriculture of precious organic manure, but is highly inefficient, cumbersome and unhygienic. To avert an energy crisis in the Third World, dwindling fossil fuels must be replaced by alternative, renewable energy sources such as biogas and solar power.

Ananda Nagar is taking a leading role in the use of biogas technology by installing 23 new biogas plants throughout the complex, including one large plant attached to the dairy farm. The methane gas produced by these plants will run generators to pump water for irrigation, operate industries, light bunsen-burners in

laboratories, and provide smokeless, odourless fuel for cooking. Slurry from the plants will be utilised as rich, organic fertiliser for the fields. In keeping with Prout's basic principle of maximum utilisation of resources, biogas technology not only disposes of human, animal and plant wastes hygienically, but converts them into useful and profitable end-products of biogas and fertilizer.

Solar energy, too, is about to be harnessed at Ananda Nagar through solar roofs and panels which will operate irrigation pumps, indoor and street lighting, educational television, and refrigerators for vaccines in the clinic and hospital.

Research and developmental work on alternative sources of energy will be coordinated in the Biogas and Solar Research Centres. Ananda Nagar will serve as a dissemination centre for new technologies by training local technicians at the Institute of Technology, and promoting biogas and solar power as part of an integrated programme for rural development. These ecologically sound and hygienically safe sources of energy will provide an important alternative to indigent villagers now driven to desperation by the increasing scarcity of fuel in rural areas.

Development Without Destroying the Environment

Planners now recognise that sustained economic development must proceed not in violation of nature's laws and creatures, but in harmony with the earth: that ecological principles must be incorporated in development schemes from the very beginning to prevent a looming global eco-crisis. Ananda Nagar's multifarious projects have been designed to promote not only human progress but the development of plant and animal life as well. Every endeavour at

Ananda Nagar is inspired by Sarkar's philosophy that all creatures are linked together in an inseperable web of life. Human beings, as the most evolved beings on earth, rather than mercilessly ravaging the environment in which they live must recognize their sacred responsibility of caring for the entire creation. Otherwise, if we continue to annihilate the creatures at the present rate of destruction (one specie a day) we will end by destroying ourselves.

The PASAKA Conservation and Research Centre at Ananda Nagar is, as its Sanskrit name *Parivesh Samvardhan Kanan* implies, a "garden for the development of all beings." In a protected area of two square kilometers, rare plants will be nurtured and endangered animals will find a safe habitat. PASAKA will be a sanctuary for creatures from all parts of the world, especially those animals which are becoming extinct due to the destruction of forests. The endangered species – including the giant heron, blacknecked stork, large white-rumped swift, Indian elephant, sloth bear, honey badger, etc. – will be preserved and cared for in the sanctuary, with its shelters to protect them from heat and cold.

A Prototype for the Third World

In spite of the remarkable technological progress in the 20th Century, countless millions in the rural areas continue to lead lives of drudgery and despair. Ananda Nagar, located in one of the most indigent and stagnant areas of the world, is a concerted effort by dedicated people to solve the problems of the rural masses, and rapidly improve the quality of village life. Prout's multi-faceted approach to development places equal emphasis on education, agriculture, industry, energy production, health and hygiene. With its factories, farms, schools, gardens,

humans, animals and plants all ecologically integrated in a harmonious tapestry of life, Ananda Nagar provides an ideal model to solve the burning problems not only of India but of the entire developing world.

Chapter 7

THE THIRD WORLD DEBT

Since 1982, when they first captured headlines, external debt troubles of the Third World have mushroomed into a crisis almost unparalleled in the history of international economic relations. The shadow of the crisis now stretches from plush boardrooms of the world's financial centres to barren marshes of poor nations around the globe. With each passing year, the shadow looms darker and wider.

By the end of 1987, Third World countries had accumulated over $1 trillion in foreign debt. Six had piled up obligations that actually exceeded their Gross National Product. Others were not far behind; among the 17 countries identified by the World Bank as "Highly Indebted Countries"(HICs), the external debt averaged almost 61% of GNP. Staggering though these sums are, they are not the real source of the crisis facing these nations. The crisis is rooted, instead, in their inability to service their debt regularly.

As long as a country remains current in its interest and principal payments, it is deemed a "healthy" debtor, regardless of the size of its debt. The United States is a case in point; its foreign debt is about half of the debt of the entire Third World, yet one rarely hears about an

American debt crisis, because the U.S. has managed to maintain regular interest and principal payments on its debt. On a more modest scale, India, with $45 billion in external debt, has successfully evaded the classification of an HIC, although only three of the 17 nations actually bearing this unsavoury label (Argentina, Brazil, and Mexico) have a higher debt level. Therefore, to get an idea of the magnitude of this crisis, you have to understand just how oppressive the debt servicing burden has become to many Third World nations.

Major crises in international lending are by no means a phenomenon of the 1980s. Shortly after the Civil War a number of state governments and municipalities in the United States borrowed heavily on European credit markets to finance their railway expansions and the opening of new territories. Within a decade, many of these governments had fallen so deeply into debt that they had to float fresh loans just to meet interest payments on their existing loans. This is the insidious debt trap. Sixty years later the saga was reenacted, this time on the Latin American continent with national governments themselves in the role of borrowers.

Why is the current crisis so remarkable? The answer lies in its unprecedented scope, both on the side of debtors and creditors.

On the debtors' side, the sheer scale of international indebtedness is breathtaking. Even at the height of the Latin American crisis of the 1930s, commonly regarded as the most serious until the present one, no more than ten nations experienced debt-related difficulties. Since 1982, more than forty developing nations, almost all in Latin America and Africa, have declared problems in servicing their debt. Most of these nations are by now firmly in the clutches of the debt trap, and their desperate attempts to cure their ills have met with severe inflation,

soaring interest rates, reduced per capita incomes, and a contraction in real investment. More importantly, however, their governments have been forced to impose harsh austerities on spending programmes for health, education and food, programmes on which the country's poorer sections depend so vitally.

On the creditors' side, the scope of the crisis can be gauged from the unparalleled involvement of private commercial banks as lenders to Third World governments. By 1987, almost 75% of the debt of the HICs was held by commercial banks – a degree of involvement that makes the current crisis unique in the annals of international lending. Prior to the Second World War, large-scale loans to sovereign governments were almost exclusively the preserve of major merchant banks such as Lloyd's of London or the House of Rothschilds, which did not accept deposits and whose sole function was money lending. Therefore, if loans went sour, the losses fell only on a select group of professional risk-takers. In the present situation, however, losses on Third World loans could jeopardize the entire international network of commercial banks and the financial well-being of their hundreds and thousands of depositors.

The magnitude and persistence of the debt crisis raises a number of questions. To begin with, why did this crisis come into being? Why did commercial banks venture so deeply into the risky terrain of development finance, something they had never explored before? For their part, why did LDC (less developed country) governments voluntarily take on debt that even they must have recognized to be excessive? Why does the crisis continue to deepen? And finally, what measures can be taken in the immediate future to resolve this crisis, or at least to minimize the harm it inflicts on debtors, which already live

on the verge of subsistence?

Evolution of the Debt Crisis

Although the Third World debt crisis is largely a phenomenon of the 1970s, its genesis can be traced to 1959, when the market for non-resident dollar deposits was first established in London. These deposits, because of their relative freedom from credit controls, were particularly attractive to banks. In other words, the U.S. banks could manage the dollar deposits of their London branches on a much lower margin than their domestic branches. Not surprisingly, banks vied with each other to offer the most attractive terms to depositors on the non-resident deposits. By the mid-1960s the market had extended beyond London to other European cities, acquiring in the process a new name – Euromarket. By the early 1970s even the prefix "Euro" had lost its geographical meaning; the market had truly become global. However, London remained the greatest offshore market, attracting branches from over 400 foreign banks.

Euromarket deposits were a haven for exporters seeking to evade the foreign exchange restrictions to which their earnings would be subjected at home. The stage was now set. The drama formally began in 1973-74, when OPEC (Organization of Petroleum Exporting Countries) suddenly raised the price of crude oil fourfold. The immediate result was a major transfer of income from the rest of the world to countries like Saudi Arabia and Kuwait, that could spend only a fraction of their new-found wealth at home. These oil rich nations needed a convenient store for their soaring earnings, and their choice was obvious – the Euromarket.

All of a sudden, the Euromarket was awash with petrodollars.

Idle funds built up at an alarming rate, and bank officials felt increasing pressure to find borrowers for these funds. They began to pursue the Third World, which to them must have appeared a godsend at the time.

The LDCs were by no means familiar clients. Despite the decline in merchant banking after the Second World War, commercial banks played only a peripheral role in these nations, providing short-term finance for exports and imports, and, occasionally, working capital for local enterprises. The commercial banks largely shunned development projects, leaving this task to international lending agencies – the World Bank and the IMF. Thus, in 1961 private banks accounted for just 27% of the external debt of the LDCs.

1974, however, was very different from 1961. Now bankers had to put their large and growing volume of petrodollars to work immediately. They needed to open new frontiers in commercial bank lending, and the only major frontier yet to be explored was development finance. Casting their caution aside, they proceeded to tempt the LDCs with vast loans.

In an article that is at once amusing and appalling, S.C. Gwynne [3] describes this bizarre era in commercial banking history. Unable to perform adequate case-by-case analysis, banks resorted to an arbitrary approach under which senior bankers in the New York office would establish lending limits for a country, based upon some broad perception of its economy. Marketing officers would then be dispatched to that country to try and issue loans up to the limit. These officers were usually "bright and hopelessly inexperienced lenders in their mid-twenties" who travelled "the world like itinerant brushmen, filling loan quotas, peddling financial ware, and living high on the

hog."

A cardinal rule in banking is to make sure the borrower has adequate collateral for its debt. In their LDC operations the marketing officers were instructed to ignore this rule. If a particular borrowing agency lacked creditworthiness, but the bank's country quota was not yet full, the loan officers were told to try and obtain, from the government or the central bank, some kind of guarantee against which the loan could be justified. Since these loans originated from Euromarket deposits, they went virtually unchecked by regulatory authorities in Western nations.

In short, the flexibility of Euromarket deposits, in conjunction with a sudden inflow of petrodollars and the need to put these funds to work resulted in an unprecedented supply of loans to the Third World nations. As Winston Churchill would put it, the bankers turned out to be unwitted bunglers.

However, it takes two parties to transact a loan. In order to see how the Third World debt soared so high one must also explain why debtor nations accepted huge sums from the banks. Not all loans create repayment problems. If a loan is utilized productively, its repayment can come from the proceeds of additional output. Therefore, productive loans, no matter how large, should not create any debt problems. It is when the loan is used unproductively that the borrower gets in trouble, for now he has nothing new to show as income, but still has to service his debt. Therefore to explain the current debt crisis we have to focus on how the LDCs frittered away the borrowed money.

To some extent, the waste of borrowed funds was beyond the control of the LDCs. The same oil price hike that led to the glut of

loanable funds immediately quadrupled the petroleum expense of oil-importing nations. Petroleum being such a vital resource for the functioning of the economy, the oil-importing LDCs, already so poor, had to meet the additional expenditures through borrowing. In 1979, they were rocked again by a second oil price hike. William Cline has estimated that between 1974 and 1982, non-OPEC LDCs imported $345 billion worth of petroleum, nearly a third of the outstanding LDC debt. [1]

This, of course, fails to explain why some of the major oil exporters such as Mexico, Venezuela, and Indonesia are among the world's largest debtors. Ironically, in their case also the culprit was oil. With the sky-high price of petroleum, commercial banks rushed to lend money to oil-rich LDCs. In Mexico, the state-owned petroleum monopoly, Petroleos Mexicanos (PEMEX), alone borrowed $20 billion to expand its operations. Eventually, the oil market collapsed, leaving the oil-rich LDCs with the crushing burden of debt.

Thus, for less developed nations, the oil price hikes of the 1970s proved to be a double-edged knife, hurting both importers and exporters, the former directly and the latter indirectly. Yet, not all the responsibility for their plight can be placed on external developments. In many ways, the LDC governments were themselves responsible for their indebtedness.

Perhaps the most important culprit is official corruption, ranging from the petty larceny of clerks to the grand theft of the Marcoses and the Somozas. The area where the graft is the heaviest is the importing of capital equipment and technology.

For most LDCs an unpleasant reality is the degree to which their development relies on imported capital. Few LDCs have the

technological maturity or the industrial capacity to service their own needs for modern capital equipment. Except for an occasional intergovernmental transfer, much of this equipment has to be acquired from manufacturers and paid for by loans from either developmental agencies or, as in the 1970s, commercial banks.

Usually, these transactions are determined through an auction; the company that offers the government the best deal wins the contract to supply the machinery. Now, the best deal is that which offers the best equipment value for the money. For the bureaucrats who administer the process, however, the term has a different dimension; the quality of the deal is related to the bribes accompanying it. To see how the auction system is manipulated, consider this example, not altogether hypothetical. An LDC invites bids from Western suppliers for the establishment of a thermal power generator. Company A comes up with a solid, high quality proposal for $10 million. Its rival, Company B, has some inefficient and outdated equipment, which it wants to sell for $15 million. In order to get the contract, Company B spends $2 million on payoffs and graft. Where does this $2 million come from? Simple; it is built right into the bid.

The bid is approved, the government takes on a $17 million loan to pay the company, and the company, in turn, siphons back $2 million to local bureaucracy. The bank has found a borrower for its idle funds, the company has managed to dump its inefficient equipment, and the bureaucracy has effectively stolen $2 million from the government. The only loser in this transaction is the nation itself, which is now saddled with at least $7 million of wasteful debt. In fact, the nation's actual deadweight loss may well exceed this sum, because inefficiencies in the equipment may render the entire loan non-

productive. For instance, an estimated one-third of Brazil's $114 billion external debt went into the financing of nuclear power reactors, which do not work.

These instances of larceny have collectively inflicted huge unproductive debt upon the LDCs, but their impact pales in comparison to the thefts perpetrated by the great Robber Barons of the Third World. Ferdinand Marcos, the ruler of Philippines until 1986, stands out among them. He and his wife Imelda are alleged to have stolen at least 15% of the Philippine external debt, currently $25 billion. The list could go on; it includes Somoza of Nicaragua, who is said to have funnelled away almost the entire amount of reconstruction loans extended to the country after the earthquake in Managua in 1972. He left the nation with less than $3 million in the Treasury to deal with a $4 billion foreign debt. The point should be clear by now. The military dictatorships that currently rule 60% of Africa, and which emerge regularly on the Latin American continent, have played a major role in the accumulation of external debt in the name of their countries. They continue to siphon off funds into their own treasure chests, leaving their subjects with the burden of paying the interest and principal.

The money illegally appropriated by politicians and the bureaucracy was usually held outside the country for safety, and often wound up in the same Euromarket network from which it initially left as loans. Thus a curious recycling mechanism came into being, in which a large portion of the loans made by banks actually returned shortly thereafter via transfers by corrupt officialdom in debtor nations. This phenomenon, referred to as capital flight, has been the most severe in Latin America, where the ten largest debtor nations are

estimated to have lost almost 70% of their capital inflows between 1983 and 1985 through such recycling. The perversity of capital flight is best illustrated by the experience of Mexico: its new borrowings between this two-year period was $9 billion, and its estimated capital flight $16 billion. Capital flight has allowed banks to lend the same money many times over, in each round accumulating a new book asset on which to claim interest payments.

Another cause for the proliferation of non-productive borrowing was the dramatic increase in the militarization of the Third World during the 1970s. The 1985 yearbook of the Stockholm International Peace Research Institute (SIPRI) shows that about 20% of the current external debt of non-OPEC developing nations can be attributed directly to purchase of arms. Between 1972 and 1982 Latin America's armament imports increased 13% annually, while that of Africa rose 18.5% per year. The tragedy of this militarization is that it was most pronounced in the countries that could least afford it. Needless to say, military expenditures are almost entirely unproductive.

It is significant to note that such extravagance in the LDCs was not a sudden product of the 1970s, but was deeply rooted in their social and economic structures. The adoption of socialist agendas along with faulty implementation created the same syndrome in other LDCs as in India. In this sense, the Third World debt was an explosion waiting to happen. The event which brought this all about was the unprecedented influx of loanable funds, which induced banks to shed their customary caution and make risky loans.

Development of the Crisis

The five years between 1974 and 1979 were euphoric in terms of

international bank lending. The price of oil remained high, and petrodollars surged into the rapidly expanding Euromarket. Even as these deposits were made, bank officers were dispatched to developing nations in every corner of the globe. Much of the money lent seemed to come right back within a short period, which suited the banks just fine for they now were paid back twice for a single loan – first in deposits and later in interest. As for the debtor nations, they enjoyed reasonably high export prices, which allowed even non-OPEC nations to keep their trade deficits within control.

In 1978, net official inflows of capital to developing countries (i.e. excluding capital flight) peaked at $31.6 billion, but by then trouble began to surface. The debt-to-GNP ratios of these countries averaged almost 28%, more than 10% above the level at the beginning of the decade. This was a clear warning of things to come. Over the next two years, although net capital inflow declined, the gross borrowing of the LDCs increased. The debt trap had begun to close around them.

The second oil price shock in 1980 proved to be the catalyst of the debt crisis. This unexpected increase in petroleum prices forced an abrupt recession in Western economies. As their foreign markets contracted, export prices of developing nations plunged. This, in conjunction with expensive oil, quickly doubled their trade deficits (from $45 billion in 1979 to $90 billion in 1981).

The banks now woke up. The LDC debt burden was too large to ignore. The debtors had borrowed money on the basis of floating rates. Therefore, the increase in interest rates resulting from oil-induced inflation further aggravated the burden. Latin America also faced another problem. Almost 40% of its debt was due for repayment within twelve months, and 70% within three years. Thus, at a time

when the debtors needed fresh capital infusion desperately, most bankers woke up to the debt peril and changed their minds. What followed was inevitable. The debt crisis formally broke loose in August 1982, when Mexico, facing a severe foreign exchange shortage, announced that it might not be able to meet the forthcoming interest payments on its foreign debt. Within the next twelve months, more than twenty other developing nations had joined Mexico in its plight.

The initial response of the Western financial community was swift and decisive. With the very stability of the system at stake, the first priority was to ensure that creditor banks did not sustain major paper losses over their troubled loans. Through the leadership of the IMF, the World Bank and the Bank for International Settlements, arrangements were made to provide bridging finance to the debtor nations, and in almost all cases, the debtor's outstanding loans were restructured to reduce the immediate debt servicing burden.

These measures did, in fact, accomplish their objective. A financial melt-down was averted, and banks managed to find temporary respite from accounting losses. However, they did little to quell the economic turmoil that had been unleashed in the debtor nations, where living standards plunged over the next two years and have not yet recovered. Bankers, who now winced at the mere mention of these countries, refused to make fresh loans. As a result, the net inflow of foreign capital into debtor nations actually turned negative; they were now drained rather than enriched by their linkage to foreign credit markets.

Debt Resolution Plans

In their desperate search for fresh loans, many debtors turned to the IMF, which proved to be a rather inhospitable refuge. When the LDCs came to the IMF for help, they found that this help had a price. First, the country had to adopt aggressive export promotion policies, whose success would be measured by the trade surplus they generated. Second, they had to slash "wasteful" social programs in order to reduce government expenditure. Since they had nowhere else to turn, most nations submitted to these demands. The damage these demands inflicted on the already ailing debtor nations can best be understood from Susan George's account of what happened in Jamaica:

> "6200 jobs were cut from the public sector alone, including 1500 slashed from the Health Ministry's Budget. Public investment fell by 30 percent; food subsidies disappeared; real incomes were slashed by a drastic 48 percent between 1983 and early 1985 as the minimum wage was held to $U.S. 8.95 per *week*. Some may, thus, have found it a shade Orwellian to hear the World Bank call 1984 'a successful year for Jamaica'. The government itself trumpeted, 'The response of the economy to the challenge of achieving the [IMF] targets can only be described in superlative terms.' Why the rejoicing? Because the balance of payments had shifted from a negative $289 million to a positive $225 million in 1984." [2, p. 175-6]

The dominant view in the West was that all these problems stemmed from the lack of a competitive environment in the LDCs. Its proponents typically pointed to the prominent role of the public sector, government price controls, food subsidies and protectionist trade

policies, and argued that it is because of the productive inefficiency fostered by these structural problems that the economy was failing to expand. However, structural reform is a long-term process, and many of the debtors' problems were immediate. The crisis could therefore be resolved only if the debtors implemented structural reforms and, at the same time, lending agencies offered fresh short-term credit to them at low interest rates. Once these countries had recovered, they could pay off their obligations in full. Naturally, to ensure that these irresponsible societies did not abuse the privilege extended to them, fresh credit to these countries had to be contingent upon their progress towards structural change.

This approach is best epitomized in a highly publicized plan proposed by James Baker, the U.S. Treasury Secretary, in 1985. The Baker approach intended to extend a total of $29 billion to 15 recipients over a three year period, of which commercial banks would contribute $20 billion and the World Bank and IMF the remaining $9 billion. In addition, a separate $2.7 billion IMF trust fund was to be established for the poorest of the debtor nations, i.e. those with annual per capita income below $550.

In return, recipients would commit themselves to a strict set of conditions: trade liberalization, increase in export capacity, privatization of public sector companies, and the removal of price controls. In due course, Baker assured, this strong dose of capitalism would bring health and vigour to these emaciated economies. Of course, the reforms would inflict some pain in the short-run. Workers would be laid off, consumption levels would drop among the beneficiaries of government transfers, and local businesses may be driven out by foreign competition. However, Baker suggested, these

costs were a necessary evil if the countries were to recover.

The potential recipients proved singularly unenthusiastic about the proposal. To begin with, the financial inflows offered by the plan were inadequate. Mexico's annual interest payment ($12 billion) itself exceeded the annual inflows offered to all the participating countries together. Moreover, the transition cost that Baker described with academic detachment was, in fact, compelling economic and social trauma for them, and they were not about to take on these evils for the crumbs that the Baker Plan offered.

The commercial banks made a big fuss about having to put up $20 billion in new money, but privately they recognized that this money would flow right back to them by way of interest receipts on the outstanding debt. And if the structural reform actually worked, they might get to collect every cent of the loans. This was a much better scenario than they really expected. In the secondary market that had emerged in the U.S., this debt was worth only 40 cents on the dollar.

Following the lukewarm response to the Baker Plan, experts have proposed alternative strategies all seeking to establish a "world debt agency," which would buy the LDC debt from commercial banks at a discount and then pass this discount along to the debtors themselves. A typical proposal suggests that this agency issue its own bonds and trade them with banks for their LDC debt at a discount. The agency would collect on its LDC claims, but in a more lenient fashion; it would, of course, honour its own obligations to the banks. Banks should be willing to enter such an exchange, even at a discount, because in return they would be completely eliminating their risk.

The problem with all these proposals is that no institution involved in the crisis is willing (or in some cases even able) to contribute the

capital needed to float the world debt agency. Nothing is expected from commercial banks; they have all along been unreasonable about bearing any cost of resolving the crisis. It is expected, however, that the governments in some creditor nations will participate, which may be expecting too much.

Although these proposals have failed, they made a valuable contribution to the crisis resolution effort. They articulated, for the first time since the onset of the crisis, that the ultimate solution might involve partial debt relief for the debtor nations. Unlike the Baker Plan, whose interest in the debtor's economic revival seemed driven by its desire to secure full payment for commercial banks, these proposals suggested that banks might have to settle for less than the full face value of their claims. However, the idea took a concrete form only in the proposal that Senator Bill Bradley of New Jersey offered in 1986. This plan offers partial debt relief to all Third World debtors. Banks, of course, promptly turned the plan down.

But why should debtor nations wait for their creditors to voluntarily extend them debt relief? Since their indebtedness has caused acute misery to their people, why do they not just repudiate their obligations? Debt repudiation by sovereign governments is hardly new in the history of international lending; both the American crisis in the 1840s and the Latin American crisis in the 1930s ended in such repudiations. So why not the LDC crisis of the 1980s?

The difference between this crisis and its predecessors is in the forces arrayed on the creditors' side. In the past, the creditors usually were a small number of large merchant houses, without a great deal of bargaining power even as a group. The Latin American governments of the 1930s could unilaterally announce repudiation, confident that

the merchant banks could not hurt them badly. Of course, they lost all access to international credit markets for a while, but these markets tend to have a rather short memory. Most of the nations that repudiated in the 1930s found their credit-worthiness restored within a decade.

In the present crisis, the ranks of the creditors include a large number of commercial banks interlinked in an immense global banking network. Together, their collective power is enormous. In 1983, speaking before the International Forum of the US Chamber of Commerce, the then Deputy Secretary of the Treasury, Mr. R. T. McNamar outlined some of the options banks could exercise in the event of a repudiation:

> "The foreign assets of a country that repudiates its debt would be attached by creditors throughout the world; its exports seized by creditors at each dock where they landed; its national airlines unable to operate; and its sources of desperately needed capital goods and spare parts virtually eliminated. In many countries, even food imports would be curtailed. Hardly a pleasant scenario." [4]

In an effort to keep the debtor nations in line, the U.S. Treasury has compiled a list of items that are likely to become scarce in the debtor countries should they choose to default. One of these items: insulin for diabetics. Until now such threats have persuaded the debtors not to default.

India's External Debt

India's external debt currently stands at $45 billion, making it the fourth largest debtor among developing countries. Yet it is not, as

pointed out earlier, regarded as debt-distressed, because it has so far managed to stay within its debt-servicing capacity. A country's debt servicing capacity is determined by its ability to meet interest payments out of its foreign exchange earnings, and the commonly used index for this ability is the ratio of interest payments abroad to export earnings. The smaller this ratio, the better. Among the 17 HICs identified by the World Bank, this ratio averaged almost 24%; in India this ratio is about 10%. Less than 12% of India's foreign debt has come from private sources; the remaining has come from other governments or from international lending agencies at very low interest rates.

However, India should not be too sanguine about its foreign debt. Although export earnings have so far been adequate to cover its interest payments, the government's debt servicing capacity is increasingly threatened by its truly mind-boggling domestic debt. In fact, on the domestic front the Indian government already appears to be in the clutches of the debt trap, a situation in which it has to issue fresh debt just in order to make interest payments on its outstanding debt. Clearly, the government has to break out of the trap before it is drawn in too deep, yet if it tries to do so by increasing money supply, the resulting inflation would hurt its export performance and damage the government's foreign debt servicing capacity.

The Proutist Solution

Three major players are responsible for the Third World debt crisis – OPEC, banks, and leaders of the LDCs. The crisis occurred because of the greed of these players, yet the burden of the debt has so far fallen almost entirely on the LDCs. Even though OPEC is one of the culprits, to date no one has suggested that the oil cartel ought to bear a

part of the burden. In fact, OPEC benefited from the commercial bank lending without which the oil demand from the LDCs would have fallen much faster than it did otherwise, thereby causing a quicker collapse of the price of oil. OPEC was not just a culprit in generating the debt crisis, but a beneficiary as well. Wealthy OPEC countries such as Saudi Arabia, Kuwait, United Arab Emirates, Iraq, Iran, etc. ought to bear at least a third of the LDC debt burden.

Commercial banks should also bear a third of the total debt, not only because of their thoughtless lending, but also because they pocketed huge initiation fees at the time they made the loans.

Finally, a third of the debt burden should fall on the LDCs themselves. After all, their leaders squandered the borrowed money, and some even enriched themselves at the expense of their poverty-ridden people. Thus, the LDCs are indeed liable for their follies, but not beyond a third of their foreign obligations.

Such should be the broad framework for any plan aimed at resolving the debt crisis that exists between the LDCs and the commercial banks. The LDC debt to development agencies such as the IMF, the World Bank, etc., is another matter, which is not a cause of the crisis.

The World Bank figures show that in 1982, when the crisis first broke open, the total LDC debt was $557 billion, of which 60%, or $334 billion, was owed to private creditors. Since then, the banks have halted their lending to the LDCs. They have, indeed, restructured their Third World loans, extending maturities and lending a part of interest due to them. But, they have rarely, if at all, provided new money on long term basis. Their short term financing of LDC exports has, of course, continued with minor interruptions since 1982.

As mentioned earlier, the LDCs owed $334 billion to banks in 1982, which is the benchmark year because after that fresh long-term lending stopped for all practical purposes. The money that banks loaned to a problem LDC to service its debt is just a paper transaction; it should not be counted as fresh money. Since the LDC liability should be no more than a third of the total debt, the LDCs owed only a third of $334 billion or about $111 billion. In 1982, the U.S. prime rate of interest charged by commercial banks was 15% and had fallen to 8.2% by 1987. Suppose the LDCs had to pay an average 10% interest to the banks over the five years between 1982 to 1987. Their liability to the banks would then jump from $111 billion to $178 billion at a compound rate of 10% per year.

The World Bank figures show that between 1982 and 1987 the LDCs paid $635 billion to their creditors; of this 90%, or $572 billion, went to banks, from whom the LDCs received $363 billion in terms of deferred interest and principal. In other words, the LDCs paid a net of

$$\$572 \text{ billion} - \$363 \text{ billion} = \$209 \text{ billion}$$

to the private banks over the five years. But, the total LDC liability over this period, at a 10% compound interest rate, amounts to only $178 billion. This means that the LDCs had more than paid off their debt to the banks by the end of 1987. In other words, assuming that the LDC liability is only a third of the total debt, the LDCs no longer owe a penny to private creditors.

Even if OPEC is thrown out of the picture, and the banks and the LDCs share equal responsibility for the debt crisis, then the LDCs owed the banks $167 billion in 1982. This, at 10% rate, grew to $269

billion by 1987, leaving $60 billion in arrears. Since the LCDs have already paid some $90 billion in debt servicing in 1988, the debt has been more than paid off by now.

The conclusion is unmistakable. *Following the age-old principle of shared responsibility between debtors and creditors, the Third World owes nothing to commercial banks at this time. The Third World debt crisis is a misnomer.* It exists only because powerful commercial banks have shirked all responsibility for their mindless banking practices in the 1970s.

An LDC Cartel

Even though the LDCs have paid off several hundred billion dollars since 1982, commercial banks, supported by the World Bank figures, still claimed some $700 billion from the LDCs in 1988, more than twice their 1982 claim. These figures are a figment of the bankers' imagination. Why should the debt be rising even on paper, when from all accounts there has been a net outflow of capital from the LDCs since 1984?

The LDCs, as a group, owe nothing to commercial banks and should form a cartel to press their views. They should stop all payments immediately, and take their case to the world court. The banks, supported by their governments, will call this move debt default, and try to impose penalties on the LDCs. That is why a cartel of involved LDCs is crucial for this purpose. At the very least, the LDC trade would be disrupted as the indebted LDCs would lose all short term financing for their exports.

A Trading Agency For Debtors

In order to alleviate this problem, the LDCs should enter into barter agreements among themselves and with other countries willing to trade with them. They should also establish a trading agency that will act as a clearing house for trade transactions among the member countries. Its task will be to match the export surpluses of various LDCs with the import needs of LDCs and other countries on the basis of exchange of commodities for commodities. The terms of exchange could be determined by international prices settled in trade among developed countries.

The LDCs could also be cut off from developmental aid from international agencies. This should not matter if they adopt Proutist planning, which aims to create prosperity on the principle of self-sufficiency based on local raw materials and labour. The cooperative enterprise envisioned by Prout is more efficient than the capitalist and Marxist models of development that the LDCs have followed since the 1950s. The LDCs have to stand on their own feet, and Prout will help them in this noble venture.

Until now the threat of penalties from the bankers, who have a defacto cartel of their own, has been highly effective. Even debtor nations have counseled other debtors against the so-called default. But, the LDCs fail to realize their own collective strength. If any one nation defaults, it may indeed be possible for creditors to enforce the penalties that McNamar outlined in gory detail; but, what if all forty or so debtor nations defaulted at once? Banks could not inflict these penalties on them simultaneously without disrupting their own countries. In fact, it is the divisiveness of debtor nations, shorn of any viable alternative, that has allowed them to be pushed around by

commercial banks and international agencies. Prout provides the alternative. Armed with the new system, the LDC cartel will triumph over the antics of greedy money lenders.

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Chapter 8

PHILOSOPHY OF HISTORY

Sarkar's views regarding society and its organizations partly derive from his understanding of history. As with every other subject, his vision of history is novel and original. Much like Marx, Toynbee and Spengler, Sarkar detects a certain pattern in the quagmire of past events, but his hypothesis, called the law of social cycles, is more general than similar hypotheses combined. It is an answer to all the pointed darts that critics in the past have hurled at once-popular dogmas of historical determinism.

I have examined this subject in great detail in another book [1]. Here I will present a brief outline, and let the reader decide for himself how brilliant and prophetic is Sarkar's diagnosis of the human past. Sarkar argues that the law of social cycles has operated without fail in all civilizations, and will continue to operate in the future as well.

Characteristics of Human Mind

Every author, with a new and deep message to convey, introduces his own terms, concepts and definitions. In this respect, Sarkar is no

exception. Even where he borrows a bit from the stock of already known ideas, especially those of Marx and Toynbee, his exposition reveals new insights.

Sarkar's thought is based on a simple and yet deep perception. It begins with the fact that society is basically composed of four types of people, each with a different frame of mind. Some by nature are warriors, some intellectuals; some are capitalists and some labourers. This way there are four broad groups or classes in a community. Thus Sarkar differs sharply from Marx and other socialists who define classes on economic grounds – on the basis of income and wealth. Sarkar, of course, does not neglect the economic aspect, but to him it is only one of the four aspects that describe the totality of society. Class divisions, in his view, exist, and have existed ever since the genesis of civilization, because of inherent differences in human nature. The basic idea is that while most people have common goals, their methods of achieving these goals may differ, depending upon their mentality.

The four types of people mentioned above do not, of course, cover the full range of society. There are many gradations among the stated groups. Among labourers, for instance, some are highly skilled and some unskilled. Simiarly, capitalists did not exist in the past in several societies. In order to provide class definitions independent of time and space, Sarkar goes deep into human behaviour and commences with the fundamentals – with characteristics of the mind which he classifies into four distinct categories. That is why every society basically comprises only four types of people whom he groups into labourers, warriors, intellectuals and acquisitors. To a scholar of Hindu civilization, these groups relate either to the caste system still

lingering in India or, as in ancient times, to one's occupation. But to Sarkar they convey an altogether different meaning and significance: they simply reflect four types of mind, each manifesting itself in nothing else but one's deeds, thinking, and outlook towards life. Of course, given the freedom of choice, the mental make-up is also reflected in one's occupation. Therefore, in the case of society's privileged classes, which are usually free to make such choice, the profession is a true gauge of their mentality.

A labourer-mind is one that is completely dominated by the environment surrounding it. It is not as intelligent as the other types, and those whose actions and behaviour exude such mentality are usually called physical workers. The labourer-mind usually fails to do anything subtle or intellectual, for it is ruled by materialistic thoughts which run parallel to the crude waves of matter. Sarkar believes that every entity in this universe emits certain waves and vibrations which the naked eye cannot perceive. The waves of the labourer mind are similar to those of matter, and therefore a labourer cannot subjugate material forces or the physical environment in which he or she resides. Unskilled workers, peasants, serfs generally belong, or have in the past belonged, to this class. Exceptions, of course, may be discerned in all these occupations. Some peasants or farm workers may be persons of keen intelligence, or there may be other physical workers who perform hard labour not by choice but under social oppression. Such persons are not, of course, labourers. Similarly, in virtually all societies in the past slavery was a common institution and slaves were forced to do the servile, physical work. But in no way does it mean that the slaves were labourers. A labourer is simply one who performs physical work either by choice, or because he or she is unable to

acquire technical skills. Even though imbued with physical strength, labourers lack the marketable skills, and are always exploited by others. This exploitation, Sarkar says, must be choked.

The mind that is moved by the spirit of subduing matter is the warrior-like mind. "To make a slave of matter," says Sarkar, "is the wont of a warrior." [2. p. 14]. Thus, a warrior is one who loves adventure, is full of courage and high-spiritedness, has natural curiosity to learn new ways, and applies his physical strength and skills to solve his problems. Since the martial intellect is subtler (more intelligent) than the labourer intellect, the warrior makes the labourer do a considerable amount of his work. Of the three divisions of time – past, present and future – a labourer abides only in the present, whereas the warrior mind abides in the past as well as the present. A warrior does not just live; he wants to live with dignity and self-esteem. Those endowed with superlative martial qualities want to leave their mark on history, to seek eternity through their exploits. The warrior class is usually composed of army officers, skilled workers, adventurers, professional athletes, etc. – anyone who struggles to solve the problems through a direct fight or through physical prowess.

An intellectual mind is one that is more prone to mental pursuits than the warrior mind. Like the warrior, the intellectual too wants to subjugate matter, he too strives to make the environment conducive to his living, but, unlike the warrior who wrestles material forces with his heroism and physical skills, the intellectual uses his expertise to attain the comforts of life. The intellectual mind is subtler than the military mind: hence in social interactions as well as politics, the intellectual eventually comes to sway the warrior. Thus, the ambitious

intellectuals, lacking in the warrior endowments of virility and fearlessness, endeavour to dominate society by controlling the martial mind and through it the labourer. In Sarkar's words, "The warrior wants to bring matter under his subjection by a direct fight and the intellectual wants to keep the warrior, the conqueror of matter, under his own subjection through the battle of wits." [2, p. 36]. Thus, a warrior's behaviour is straight and simple, not difficult to read, but intellectuals usually approach a problem in a roundabout way. They devise theories, cults and dogmas to confuse the warrior and take advantage of his intellectual poverty.

Priests, scribes, poets, scientists, lawyers, physicians, teachers and the like constitute this group. Most intellectuals keep aloof from politics and earn a living by dint of their intellectual calibre; but those seeking high social status and political power attain them by prevailing over the warrior mind. Thus, whenever scholars rule, they rule by winning over the warriors who alone are physically and mentally equipped to maintain order in society.

Finally, we come to the acquisitive mind. Most people want enjoyment from material things, but the acquisitive mind also has a penchant for their accumulation. In fact, acquisitors, according to Sarkar, "are more partial to possession than to the enjoyment from material objects – want to feel peace in the mind thinking of them or feasting upon them with their eyes." [2, p. 101]. Of the three intervals of time, the acquisitor frets constantly about the future and seeks to amass wealth for a rainy day. At some point in time, the affluent acquisitor comes to dominate the other three groups by purchasing their services with opulence. In other words, accumulation of wealth is the lever through which the acquisitor seeks not only the

comforts of life and the security of future, but also prestige and dominion in society. Money lenders, merchants, feudal lords and capitalists belong to this class. Not all acquisitors, of course, are interested in politics, but those who are usually surge in society by hiring the intellectuals. However, before this, warriors were working for intellectuals and labourers for the warriors. So at some point in time all non-acquisitor sections submit to men of fortune – to those abounding in acquisitive mentality.

Let me illustrate the difference in the four mental types through a simple example. If a problem crops up, a labourer simply ignores it or tries to postpone the solution as long as possible. A warrior, by contrast, faces it head on, uses physical prowess, and does not rest until the resolution is in sight. An intellectual applies his/her intellect, but, if that does not work, either requests help from a warrior, or attempts to win him over through persuasive arguments. Finally, an acquisitor tackles the problem by pouring down money to hire intellectuals, warriors and labourers. This illustration does not cover all cases, but pretty much gives an idea of the different attitudes with which men and women in general lead their lives.

Wherever civilization developed, in Africa, Asia, Europe or anywhere else, a careful examination of history reveals this four-pronged division of the body social. Sarkar calls it the "quadri-divisional social system." His categories of mind are broad enough to cover the full range of a mature society. Thus, every civilization, which is what we call a mature society, is composed of four sections, each comprising people reflecting the predominance of a certain type of mind. Ordinarily, individual behavior displays two, or even all, of the four attitudes, but for the most part and especially under duress

only one mentality betrays its true colors. There is a bit of acquisitive instinct in each and every one of us, but only a few constantly long for money and make it the *summum bonum* of life. We are all after a comfortable living standard and social prestige, but some of us attempt to attain them through physical strength and skills, some through intellectual pursuits and excellence, and some by ceaselessly saving money or making more money with money already at hand. In this order, we are warriors, intellectuals, and acquisitors. Those of us imbued with little ambition or drive, wanting in basic education and skills of the time are the labourers.

It is worth noting that Sarkar's division of society into four different groups is very flexible. Social mobility among the groups may occur if an individual's mental characteristics change over time. Through concerted effort or through prolonged contact with others, a person may move into the realm of the other class. For example, a labourer, under the command of a warrior, may become a genuine warrior, or through vigorous education, he or she may become an intellectual, and so on. Similarly, the scholar's intellect, through contact with money, may turn into the acquisitive intellect, or an acquisitor may turn into a labourer. Thus, even though class distinctions in society, according to Sarkar, derive from differences in human nature, they may or may not be hereditary.

The Theory of Social Cycles

Having described the four types of people in society, I am now in a position to state Sarkar's theory of social cycles. In accordance with his quadri-divisional social system, he argues that a society evolves over time in terms of four distinct eras. Sometimes warriors,

sometimes intellectuals and sometimes acquisitors dominate the social and political system. Labourers never hold the reins, but at times the ruling class becomes so self-centered and decadent that for a while society may have to languish through the disorder of labourers' age. Thus, no single group can exercise social supremacy and power forever. What is more interesting, as well as intriguing, is that the movement of society from one epoch to another follows a clear-cut pattern. Specifically, in the development of every civilization, ancient or modern, oriental or occidental,

> *the labourer era is to be followed by the warrior era, the warrior era by the intellectual era, and the intellectual era by the acquisitor era,culminating in a social revolution – such a social evolution is the infallible Law of Nature. [2, p. 40].*

This is Sarkar's law of social cycles. Note the word "evolution." This law of nature is "infallible," because it is based on evolutionary principle. Just as human evolution from animal life is indisputable, just as the onward march of humanity along the evolutionary ladder cannot be arrested, so is this movement of social cycle an inevitable natural phenomenon, whereby social hegemony shifts from one section of society to the other, from the collectivity of one type of mind to the other. Thus, underneath the seemingly haphazard change in society lies the invisible but unmistakable imprint of certain laws of nature: Social evolution goes hand in hand with human evolution. It is in such apocalyptic terms that Sarkar conveys his message. To him, society is a dynamic entity and perpetual change is its essence. A civilization emerges with the advent of the warrior era, and, after

considerable ups and downs through intellectual, acquisitor and labourer eras, it goes back to the warrior age, only to resume its evolutionary march in tune with the same old rhythm. This, in short, is Sarkar's social cycle.

Why must society go through these changes? Why must it move in cycles and not in a straight line? Sarkar argues that the dynamics of every mundane entity – singular or collective such as society – is systaltic; that is to say, just like the heart-motion, its movement is characterized by alternate flow of systole and diastole – ups and downs. The systolic aspect of every movement is simply an expression of its progressive state, at the culmination of which it reverts to its retrogressive or diastolic phase. The reason why every relative movement is systaltic is that its source of inspiration is the state of motionlessness, which to Sarkar defines not a static state but a state of equilibrium and poise: It is from motionlessness that every activity springs, and it is back towards motionlessness that every activity proceeds. For instance, suppose that the equilibrium of an entity is disturbed by some extraneous force. Then this deviation from equilibrium and the corresponding agitation of that entity constitutes its diastolic phase. If during that phase, it still has some vitality left, there begins its systolic phase marked by a reverse movement. The entity, which may have been transfigured in the process, then goes back towards equilibrium or towards what may be called a steady state. Depending on its momentum, it may evolve during the systolic phase with a far greater inspiration than ever before. However, if during the disequilibrium or diastolic phase, no reverse movement occurs, the entity meets its death. Thus, all relative movements are pulsatory. They may perish before or after the completion of a full cycle or,

depending upon the innate strength, may indefinitely move along a cyclical path marked by alternate currents of diastoles and systoles. Uninterrupted, unidirectional flow of any entity is impossible.

A civilization also is a relative movement. It also like every action has certain velocity along which society evolves at a much faster rate than a primitive community – one that according to Toynbee [3] fails to offer adequate response to challenges of life. Being relative movements, civilizations, are also systaltic; they too are subject to the phenomenon of cyclical variations that Sarkar's social eras represent.

What then is the labourer era? The society of labourers is one that suffers from complete lack of guidance, and authority; one where the so-called leaders become so egocentric that the majority of people, following in their footsteps, display labourer mentality, a mentality ruled by instinctive behavior and pure self-concern. The labourer era is then characterized by anarchy, by a lack of social order. There the family ties are not binding, people scoff at higher values and finer things of life, religious behavior, if any, is born out of fear of the unknown, morals are extremely loose, crime is rampant, and materialism permeates society to the core. People of labourer like propensities exist at all places and in all civilizations, but it is only when society lacks all purpose and the repression of the masses is at the maximum that the labourer era begins. The state or government may exist in the labourer era, but its dominion is not respected. And in any case the labourers, despite their majority, do not control the government; the important point is that the labourer era arises because of the self-conceit of a dominant group of acquisitors, who care nothing for how their actions affect others. For this reason, it is better to call a labourer era the acquisitive-cum-labourer age.

The martial era, in terms of the political and social structure, is diametrically opposite to the labourer era where, as stated above, labourers are in the majority but the government, if any, is controlled by a different group of people. In the warrior age, the warrior-minded persons, though not necessarily in the majority, dominate society as well as the government. There the political authority is extremely centralized, people are highly disciplined, family ties are morally binding, social prestige through physical prowess and feats is earnestly sought, the religious behavior of people reflects the warrior's common desire for victory over the crude matter, and so on. Intellectuals and acquisitors enjoy some respect in the warrior era, although they have little say in governance. But labourers perform physical labour for the warrior, and in the closing stage of this period, as in that of every other era they are mercilessly exploited. However, at the dawn of the martial era, the ruler respects their contribution and treats them with care and compassion.

The intellectual era is marked by the rise of priests and scholars, though here again the ruling class does not have to have a numerical superiority. Many new theories dealing with various aspects of life are then born. Although most intellectuals are interested mainly in pursuing their worldly careers, a few, through earnest yearning, come to attain a beatific experience transcending the mind. It is through them that the ideal of prayer to God for love alone was born. Whereas in the beginning of the warrior era, strong, benign leadership comes from persons of physical might, in the intellectual era it comes from selfless intellectuals and a few rare, enlightened beings. Unscrupulous intellectuals, however, exploit warriors and labourers in the name of these sages who themselves had tamed all infirmities. Near the end of

the intellectual age, this exploitation becomes oppressive.

The acquisitor era bears close resemblance with the final stages of the intellectual era where, as mentioned above, warriors and labourers are heavily exploited. The intellectuals, however, are no longer at the helm of the polity; rather they work for the affluent class. It is in this era that the practical value of things is reduced literally to zero. Everything is valued in terms of rupees and pice. Human values begin to recede; art, music, religion, sports, everything is commercialized. Crime flourishes, family ties again become loose, and gradually the acquisitor age heads to the lawlessness of the labourer age. At the end of the acquisitor era, all non-acquisitor groups are remorselessly exploited by the limitless rapacity of the acquisitors. Society then passes through a period, which may be very brief, of the acquisitive-cum-labourer age, only to be engulfed in a social revolution, following which it resumes its march in terms of another martial era, and so on.

Note that in every age other than the acquisitor era the transfer of government may come about through social evolution or revolution, but the acquisitor era positively ends up in a social revolution. This rotation of societal dominance along the hub of warriors, intellectuals and acquisitors, culminating in the labourer revolution is Sarkar's law of social cycles. In his view most countries today are in the moribund phase of the warrior age; at places the intellectual era is about to be established, whereas in many democratic countries the acquisitor period is in vogue.

Examples from Indo-Aryan and Western Civilizations

Let us now briefly explore the annals of some well-known civilizations and see if they evolved in terms of the law of social cycles.

In the case of Indo-Aryan society, modern historians such as K.M. Munshi, R.C. Majumdar among others agree that the foundation of this civilization was laid by the Aryans who migrated to India from Central Asia around 1500 B.C. Much of what we know about the early Aryans has been preserved in the Vedas, of which there are four, and of which Rig-Veda is the oldest. And the society that Rig-Veda described fits neatly with Sarkar's warrior age. The Rig-Vedic period lasted from around 1500 B.C. to 1200 B.C. or to as late as 1000 B.C. (The duration of India's first warrior era is, of course, debatable. Some suggest that the Aryans might have migrated to India as early as 6000 B.C. In any case, at the dawn of civilization in India, warriors were in power).

Following the Rig-Vedic period appeared what is known as the Brahmanic age, which is so called to reflect the brahman's or priest's ascendancy over other classes. This was then the intellectual era which lasted until about 600 B.C. India's caste system is the handiwork of those brahmans who thus sought to perpetuate their stranglehold over society.

Following this came what historians call the Buddhist period during which merchants came to dominate the warriors, priests and, of course, the labourers. This was the acquisitor age of the Indo-Aryan society and it lasted till 324 B.C.

The acquisitor age generated unprecedented exploitation of labourers, and a time came when a warrior Chandragupta Maurya and a priest Chanakya pooled their resources together to overthrow the rule of wealth. The dethronement of the then King Dhana Nanda by Chandragupta Maurya in 324 B.C. marked the first labourer revolution in recorded annals of India.

Following this labourer revolution began another warrior period known as the Mauryan age. The fall of the Mauryas was followed by the resurgence of brahmans, culminating in another intellectual age. Then came another acquisitor era coinciding with India's disintegration into small, decentralized states in the third century. It is to another warrior named Samudra Gupta that the credit goes for launching the second labourer revolution, following which the martial era appeared for the third time in Indo-Aryan society. The new period of absolutism lasted with ups and downs until the eighth century, when prime ministers and priests took over major parts of India again. Following this intellectual epoch appeared India's feudalism where big landlords, and hence the wealthy, came to power. This was India's third acquisitor age, which culminated in another acquisitive-cum-labourer era.

Around these times when India was internally weak and divided, systematic invasions began from the Muslims. Muhammad of Ghur defeated Prithvi Raj Chauhan in 1192 and laid the foundation of subsequent Muslim conquests. The new labourer era coincided with the barbarity with which the Muslim rulers such as Iltmush, Balban among others ruled over much of Northern India. The chaos that thus resulted was ultimately put to an end by another Muslim ruler, Alauddin Khilji, who came to power in 1296 and soon unified almost all of India under his centralized rule. In other words, his martial genius brought about yet another labourer revolution in Indian history, and initiated what may be called the Muslim warrior age.

The Muslim warrior age lasted till the rule of Akbar the Great, and then began another intellectual age which may be called the Mughal-Maratha Intellectual Era. In the first part of this period, Muslim

priests, *Ulemas*, ascended to the peak of power in the reign of Aurangzeb, whereas in the second part, this peak was held by brahman Peshwas who controlled the Maratha kings.

The Maratha dominion in India lasted, with inevitable vicissitudes, until the end of the 18th century, when the British dealt a crushing blow to the Peshwa in 1804. Then began another acquisitor age during which the village money-lender, *Baniya*, *Zamindars* and capitalists came to prominence. Today, India is passing through the acquisitor-cum-labourer age in which the acquisitor rules and the materialism of the ruler comes to infect the masses, resulting thereby in chaos. This chaos will continue until the current system is overthrown by another labourer revolution, which may not be far off. According to my calculations, the new labourer revolution should occur within the next decade and no later than the year 2000. [1, p. 216]. The current lusting for power among hungry politicians is by far the clearest indication of the coming revolution, which means a change in thinking, not necessarily bloodshed.

This is how the Indian society has evolved. Let us now see how the West has evolved.

Going as far back as the first century, we find that the period of the Roman Empire conforms with the warrior era, the early Middle Ages in Europe with the intellectual era, the later Middle Ages or Feudalism with the acquisitor era, the period of peasant rebellions with the labourer era, culminating in the labourer revolution that was brought about by Louis XI in France, Isabella and Ferdinand in Spain, and Henry VII in England. The evolution of this entire period of about fourteen hundred years following the birth of Christ completed one rotation of the social cycle. Another cycle commenced with the new

warrior period of centralized national monarchies, followed first by the intellectual age portraying the influence of the Prime Ministers and then by the acquisitor era dominated by affluent capitalists. Today, the West is also passing through the acquisitor-cum-labourer age and is inching towards the avalanche of labourer revolution, which is sure to occur before the year 2000.

So far, I have shown the validity of the law of social cycles in two ancient and diametrically different civilizations. The reader can examine other societies, and they will all be found to have evolved in tune with one and the same pattern. Herein lies the universality of Sarkar's message. Herein lies its generality and breadth, its brilliance and vision.

Human Exploitation

If it is necessary to describe the annals of human past by only one word, then "exploitation" describes it better than any other. This exploitation followed more or less a similar pattern. Towards the end of each era, the ruling class would oppress the masses. It would be opposed by the class next in line of succession, and when the "opposition" came to power in the new era, people would experience a temporary relief. Before long, however, the new ruling class would become an engine of repression, until yet another class emerged to wrest the reins of government, and so on. Thus, one class after another ascended to power in the past in all civilizations, and exploited the other three in accordance with its mental characteristics. When warriors were at the top, they constantly fought with each other to expand their empires and in the process conscripted the labourers in their armies. Labourers, thus, became victims of their ambition.

When intellectuals attained prominence, they inflicted intellectual exploitation on society. They devised illogical dogmas to bind the warriors and through them the labourers. They started the oppression of woman, calling her a temptress, inherently evil, and devoid of soul. They are the ones responsible for prostitution which began in the temples. When acquisitors came to power, they imposed economic repression on the masses. Much of society's income and wealth became concentrated in their coffers. Consequently, prostitution and crime soared during their rule.

The broad pattern of human exploitation just described was repeated verbatim in all civilizations. The question is: can we do anything to rupture this age-old pattern? Given that the eternal rhythm of the law of social cycles cannot be broken, is humanity foredoomed to undergo the agony of ups and downs, of momentary benevolence and prolonged persecution? Are we predestined to be trampled, as in the past, under the grinding wheels of oppression perpetrated in turn by the three classes of warriors, intellectuals and acquisitors? My answer is a definite "NO!" The law of social cycles indeed cannot be violated, but once we understand the pattern of historical events, we can devise a socio-economic system designed to fit into this pattern in such a way that the period of persecution is minimized. What we need is a Constitution that establishes a nucleus of benevolent people who control the movement of the social cycle. Society, like any other entity, is subject to ups and downs. This is the inviolable law of Nature. What we must and can do is to shorten the downward period by electing an honest and responsible leadership. This, in today's world of dark materialism, is possible only in a Proutist system.

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Chapter 9

INDIA'S FUTURE GLORY

Swami Vivekananda, in a discourse somewhat reminiscent of Sarkar's law of social cycles, prophesied as early as 1896 that the "rising of the labourers will take place first in Russia and then in China; India will rise next and will play a vital role in shaping the future world." [1, p. 126] Two prophecies of Swami Ji have already come true. The third, I may submit, is about to come true in the near future. This is a dictum of the social cycle.

A labourer's revolution took place in Russia in 1917 and in China in 1949. India's rise has not occurred yet, but that sublime day is about to dawn on the eastern horizon. I have already said this to the Indian press, and I now say it again that India will become a global power at the turn of the next century. In other words, within two decades from today (1988), India will exercise a world-wide influence, and usher a global golden age.

These statements may sound far-fetched to many. On the one hand, India today is convulsed by an exploding population and poverty, and, on the other hand, by increasing fragmentation and disunity, corruption in every nook and corner, widespread illiteracy

and malnutrition, and political unrest and crime. No stretch of the imagination could conceive of India leading the world in the next century, barely a decade away.

But I predict it will happen. Out of my fifteen previous forecasts, based on Sarkar's socio-economic analysis – including the fall of the Shah of Iran and the stock market crash of 1987 – all fifteen have proved correct. India will emerge like the proverbial phoenix from the ashes of the Great Depression of 1990.

The Great Depression

The coming Great Depression, like all depressions in history, will be caused primarily by one factor: increasing concentration of wealth in the hands of the few. Whenever there is extreme disparity of wealth, which tends to build up through inheritance in cycles of sixty years, the rich make increasingly speculative investments in risky stock market ventures. This wild speculation, unlike productive investments, far from creating jobs and prosperity for the people, results in temporary profits for a few. As a consequence, the stock market heats up and expands in a speculative bubble that eventually bursts, resulting in a giant collapse of the economy.

This is exactly what is happening in America today. The tax cuts of the Reagan administration in 1981 and 1986 have caused the disparity of wealth to climb at an unprecedented pace: within a few years, the disparity will surpass even the peak reached just before the Great Depression of 1929. The number of billionaires in the United States more than tripled between 1985 and 1987 from 14 to 49 in just two years--thus claiming an increasing share of the nation's wealth at the expense of the poor; the richest 1% of Americans now own 36% of

of the country's wealth. These are ominous figures, giving us advance warning of things to come. If no remedial measures are taken, then 1989 will be like 1929: the stock market will suffer another crash, and be followed by an abysmal decline in business activity and a sharply higher rate of unemployment – an unprecedented Great Depression of the 1990's.

The Depression in India

How will it affect India? Although India has tried to maintain an economic policy of self-reliance, yet it is not completely isolated from the international economic stream. India too will be hit hard by the coming economic crisis, although not as severely as the West.

India is economically linked to the rest of the world in three ways. First, the country exports primary and manufactured goods to the West, such as jute, tea, manganese, leather, iron ore, textiles, diamonds, and light engineering products. When Western economies are in a depression, these exports will sharply fall, resulting in a shortage of foreign exchange and increased unemployment. Secondly, India receives a sizeable amount of foreign aid from abroad, which will be drastically cut during the depression. Thirdly, Indians working abroad, especially in the United States, Canada and England, remit home a substantial amount of foreign exchange, and when many of them join the swelling ranks of the unemployed during the depression, these remittances will also plunge, further aggravating the paucity of foreign exchange. These three strains will greatly hurt the Indian economy which, even at present, is not all that strong: the national debt is high and rising, unemployment is spreading, the budget deficit and inflationary pressures are increasing, and there is the same

dangerous disparity of wealth in India as in the West. Although the Great Depression of 1990 will not be felt so severely in the rural areas in India, it will hit hard in the urban centres, and throughout the country there will be social and political unrest, and rampant crime.

It will take about one year for the shock waves of the Great Depression in the West to reach the shores of India. From 1991, the whole world will be plagued by social and economic turmoil. But because the Indian economy is mostly self-sufficient, and because of the origin of Prout from India, the latter will emerge faster from the crisis than the rest of the world, which could suffer an economic drought for seven long years.

An Explosion of Progress Through Prout

The coming crisis will actually be a blessing in disguise, for it will force a re-evaluation of all the economic policies that have been followed since Independence. It will precipitate a broad-based awareness that there must be a drastic change in economic planning. In short, the soil will then be fertile for Prout to emerge as the only alternative. The struggle for independence in India was mainly political, launched against a foreign rule; it should have also have been, but was not, an economic struggle against the staggering wealth disparity, which has caused the massive poverty we see all around us today.

From this economic and social turmoil, which will grow during the next few years, a new leadership will emerge. As Toynbee would say, a "creative minority" of charismatic leaders with dynamic new ideas, will then be born. That is when India's vast reservoir of human and natural resources will be progressively utilised and rationally

distributed; that is when the extreme concentration of wealth will be eliminated, and the country will enjoy an explosion of social and economic progress.

Generally, people tend to lament India's poverty but ignore its vast wealth – an abundance of mineral reserves of iron, coal, manganese, limestone, thorium and uranium – a huge cultivable land area second only to the United States, and the most powerful resource of all, 700 million people, the second largest pool of manpower in the world. India is a huge, untapped reservoir of human intellect. Scientists, economists, historians and physicians of Indian origin are prominent in so many other lands, out-competing all other ethnic groups – Chinese, Japanese, Koreans, Europeans, and even Americans. Indians living abroad teach, they treat patients, they solve socio-economic problems in many other countries. Can they not do the same for their own land? Certainly they can. And remember that only a fraction of India's intellectual resource is working abroad.

India is a rich country with a lot of poor people only because it is not utilising its resources productively, including its human resources. If the Indians' native entrepreneurial talents and skillful intellect are harnessed, if the masses are properly educated and fully involved in the task of nation building, there will be an economic surge in India that will bring it quickly out of the coming depression and make it the envy of the rest of the world.

Decentralized Economy Based on Cooperatives

The economic reforms of Prout will create a fertile ground for the full unleashing of India's human potential. Prout recommends a democratic system of free enterprise, one in which everyone involved

has a stake – a decentralised economy based on cooperatives where workers become masters of their own destiny. When industry and agriculture are managed by representatives of the employees, there will no longer be crippling confrontations between management and unions; because as workers find that the system works for them, they will co-operate and labour unrest will cease.

According to Prout, the economy must first ensure that everyone has the purchasing power to fulfill his or her minimum requirements; and after these are guaranteed to all, bonuses should be awarded to skilled people in proportion to their productivity. People will work harder when they are rewarded with incentives and a fair share of profits. With an equitable distribution of income, crime and other social problems will recede.

The labyrinthine rules and regulations that are currently hampering the Indian economy must be removed; the cumbersome bureaucracy must be trimmed to give people more freedom to act on their own initiative; and huge monopolies must be divided into smaller competing units. When these Proutist reforms are implemented, and excesses of extreme wealth concentration are removed, then the suppressed energies of the people will be unleashed, and after 1992 the Indian economy will take off like a rocket into the stratosphere of double-digit growth.

Spiritual Heritage in Demand

During the 1990's, a great contrast will be apparent between the rest of the world, tottering in economic chaos, and India, aloft in economic growth. Other countries will eagerly follow in India's footsteps. At that time not only will the world emulate India's new system, but the

nation's ancient spiritual heritage will also become prominent.

There is increasing awareness today that we now live in a single, global economy that affects us all. When the U.S. stock market crashed on October 19, 1987, its echoes were heard around the world, from Sydney to Tokyo, from Paris to Hong Kong. In the deepening turmoil of the 1990's, humanity will realise as never before that only global cooperation can put an end to the world-wide crisis. India's universalistic wisdom will then play a great role in unifying our planet. The country's spiritual heritage will heal the wounds caused by materialistic greed. When the moral values throughout the world have reached their nadir in the 1990s, only the eternal philosophy of India will be able to fill the spiritual vacuum. India will then assume the moral leadership of the world, and Vivekananda's third prophecy will also come true.

Thus, India faces a glorious future. It does, indeed, suffer mortally today. The night has been long and dark. The ancient land has been in periodic agony for almost a thousand years. But now the country is at the bottom point of its downward cycle, ready to erupt into volcanic growth. This is not the first time in its long chronicle that India has faced turmoil. During the Buddhist period at the close of the third century, and again during the 11th century, India was torn apart by the greed of acquisitors. Then, as now, wealth disparity plagued the land. But it is at the juncture of such a crisis that illustrious leaders emerge to illuminate the life of humanity in pain. The sun rises soon after the night is the darkest; the proverbial light at the end of the tunnel is just about here.

Come, my sisters and brothers, come; do not despair. You have no time to lose. Join the march of practical spirituality to usher a new

age in our greed-scarred world. You will be the harbingers of a new universalistic philosophy. From you will sprout a life-giving movement, choking poverty and misery from the parched land of India and the rest of the world. The spiritual flame that Vivekananda first lit on his voyage to America will now burn aglow in the blossoming of Prout. The challenge is formidable, and the hurdles vast. Pay no heed. Rise, and sing with me the immortal song that captures the spirit of the *Bhagavad Gita:*

The bigger the goal, the bigger the obstacle
The bigger the obstacle, the bigger the achievement
So blame the failures not on obstacles
But on the absence of relentless effort.

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