

BEYOND GROWTH, BEYOND PROFIT? - POSSIBILITY AND DESIRABILITY OF PROFIT-MAKING IN A STEADY-STATE ECONOMY

Summary

We question to what extent the pursuit of profit, as a fundamental element and the final goal of economic activity in capitalist societies, is compatible with the principles of a steady-state economy (SSE). We discuss both the possibility and desirability of “steady-state capitalism” and suggest that the profit motive creates two broad types of problems for a SSE: (1) the accumulation of wealth (and consequent inequality and power imbalances) and (2) the prioritisation of financial returns over socio-environmental needs.

We suggest that the first group of problems may be tackled through redistribution policies (progressive taxes) and economic democratisation (cooperatives). The second poses greater challenges, but social enterprises offer a potential structure to allow firms to prioritise socio-environmental goals over financial profit. While modern shareholder-owned corporations have been described as (negative) “externalising machines”, social enterprises could represent “positive-externalising machines” and a path to redefine the pursuit of profit in a SSE.

Keywords: Profit; capitalism; steady-state economy; social enterprises.

Introduction

The degrowth transition to a steady-state economy (SSE) has been proposed as a way to reduce material throughput to within ecological limits, while improving quality of life. Some see a SSE as being fundamentally incompatible with capitalism's characteristics (Gorz, 1995; van Griethuysen, 2010; Harvey, 2010; Kallis, 2011; Kovel, 2007; Smith, 2010b), while others believe that capitalism can be reformed to make it compatible with a non-growing economy (Daly, 1977; Jackson, 2009; Lawn, 2011; Porritt, 2007). To help further this debate, we present an analysis of the extent to which the pursuit of profit, as one of the fundamental elements and the final goal of economic activity in capitalist societies, is compatible with the idea of a SSE. We explore this issue from two perspectives: (1) the possibility and (2) the desirability of profit-making in a SSE. Following our analysis, we make some suggestions on how to move both beyond growth and beyond profit.

Possibility: Profit-Making and Thermodynamics

Smith (2010a) and Lawn (2011) have engaged in a debate about the possibility of "steady-state capitalism", regarding to some extent the profit issue in an economy of constrained resources. Smith (2010a, p. 31) claims that the structure of the modern corporation, whose owners compel executives to prioritise profit, allied with competition in the marketplace, sets the law of "grow or die". After competitors reach the limits of qualitative improvement of production (efficiency improvements, cuts in labour costs), shareholder demand for increasing profits can only be achieved by growth.

Lawn (2011 p.9) argues that "profit or die" is the true law of survival, and that "profit does not require growth". He points to two ways through which a company could increase profitability without growing: (1) by enhancing the quality of produced goods (selling the same amount at a higher price); and (2) by producing goods more efficiently (selling the same amount, but producing it at a lower cost).

However, considering the first and second laws of thermodynamics (conservation of matter/energy and entropy), it remains unclear how feasible it is to make ever-increasing or even stable profits in the long term in a SSE, since improvements in production must inevitably reach thermodynamic limits. Blauwhof (2012) and Li (2007) argue that it would be necessary to either constantly increase labour productivity or totally decouple economic growth from throughput increase. On the other hand, the idea of absolute decoupling is highly criticised from the standpoint of ecological economics (Wiedmann et al., 2013; Næss & Høyer, 2009) and the SSE approach to work goes towards optimising rather than increasing labour productivity (Dietz & O'Neill, 2013; Jackson, 2009).

Considering this, some important questions remain unanswered: Is steady-state capitalism possible with a non-increasing profit rate? What are the economic consequences of this technical impossibility?

Desirability: Profit-Seeking and Its Consequences

In addition, there is the question of the desirability of profit-making in a SSE. Some authors describe inequality and the accumulation of wealth as inevitable consequences of the capitalist profit imperative. According to van Griethuysen (2009), capitalist expansion has a circular, accumulative and exclusionary nature, while Daly and Cobb (1989, p.49) point that “last year’s winners find it easier to be this year’s winners. Winners tend to grow and losers disappear”.

Perhaps more importantly, the quest for profits prioritises financial returns over socio-environmental needs. In capitalist economies profit is the main parameter for shareholder-owned companies to plan what will be produced with the available resources (Smith, 2010b; Gorz, 1995). Corporations function as “externalising machines”, externalising every possible cost in order to maximise profits, acting selfishly and immorally, in a manner similar to disordered psychopaths (Bakan, 2004). Why then would we expect profit-seeking corporations to behave any differently in a SSE?

The efficiency promoted by the market is, as argued by Smith (2010a, p.41), “completely the opposite” of efficiency from a social and ecological perspective, considering the relation between inputs and outputs only in monetary terms and disregarding other kinds of outputs resulting from the transaction. A SSE needs to move from cost-effectiveness towards multi-criteria considerations to include socio-environmental interests in resource allocation choices, since profit-seeking market allocation is designed to prioritise them. For these reasons, alternatives to profit maximisation are needed in a SSE.

Beyond Growth, Beyond Capitalism, Beyond Profit?

We suggest that profit-making may be *possible* (up to thermodynamic limits), but *not necessarily desirable*. We identify two different categories of undesirable effects: (1) the accumulation of wealth (and consequent inequality and power imbalances); and (2) the de-prioritisation of socio-environmental needs.

Various authors have suggested using progressive taxation and implementing both a minimum and maximum income to reduce inequality (Daly, 1977; Dietz and O’Neill, 2013; Jackson, 2009). Such taxes might asymptotically reach 100% and include forms of wealth such as land and the means of production, helping to distribute economic decision-making more equally. Carrying this idea even further, Blawhof (2012) proposes a reform for the rearrangement of business ownership in a more democratic way, namely cooperatives.

However, although these proposals address the problems of profit related to wealth accumulation, they do not tackle the position of profit as the main reason for production. Dietz and O’Neill (2013) present types of business structures that could be more suitable for a SSE, under the umbrella category of “social enterprises”. Many of these enterprises have a legal structure that allows them to pursue socio-environmental goals as their primary objective, while generating a financial profit becomes a secondary objective. These kinds of

companies have been encouraged by some governments with tax breaks (Dietz and O'Neill 2013).

As Johanisova et al. (2013) point out, social enterprises are less prone to externalise costs, since their ultimate objective is not given in monetary value. They indicate that a social enterprise may not be efficient from a purely financial standpoint, since it produces positive externalities; on the other hand, if negative externalities were considered for common corporations, they could be considered very inefficient.

We suggest that social enterprises may be able to address the problems arising from profit as the first goal of the economy. These organisations aim to achieve social and environmental efficiency, not the economic efficiency for which the market is designed. If Bakan (2004) describes modern shareholder-owned corporations as (negative) “externalising machines”, social enterprises could be seen as “positive-externalising machines”. They subvert the very concept of externality, since producing positive benefits to the community is not a consequence of their behaviour, but their primary objective.

Conclusions

Although the pursuit of profit may be possible in a SSE, it is not necessarily desirable. We find that there seems to be a contradiction between profit as a primary goal for organisations and the aims of equity and qualitative improvement that are embodied in a SSE. Although constraining resource use would possibly guarantee a sustainable scale for the economy, leaving the market alone after limiting throughput would not automatically lead it to address socio-environmental priorities or tackle inequality. It is possible that highly progressive taxation and democratisation of the ownership of the means of production would reduce wealth accumulation. However, only by redefining the very concept of (economic) efficiency – as social enterprises attempt to do – will a SSE be able to overcome the quantitative obsession that rests, not just with growth, but also with the pursuit of profit.

References

- Bakan, J. (2004). *The corporation: the pathological pursuit of profit and power*. London: Constable and Robinson.
- Blauwhof, F. B. (2012). Overcoming accumulation: Is a capitalist steady-state economy possible? *Ecological Economics*: 84 (2012) 254–261
- Daly, H. E. (1977). *Steady-State Economics*. Washington DC: Island Press.
- Daly, H., & Cobb, J. (1989). *For the Common Good: Redirecting the Economy Toward Community, the Environment, and a Sustainable Future*. Boston: Beacon Press.
- Dietz R., & O'Neill, D. (2013). *Enough is enough: building a sustainable economy in a world of finite resources*. London: Routledge.
- Gorz, A. (1995). *Capitalismo, Socialismo, Ecologia*. Madrid: Ediciones Hoac.
- Harvey, D., (2010). *The Enigma of Capital: And the Crises of Capitalism*. London: Profile Books.
- Jackson, T. (2009). *Prosperity without growth: economics for a finite planet*. London: Earthscan.
- Johanisova N., Crabtree, T., & Franková, E. (2013). Social enterprises and non-market capitals: a path to degrowth? *Journal of Cleaner Production*: 38 (2013) 7-16.
- Kallis, G. (2011). In defence of degrowth. *Ecological Economics*: 70 (2011) 873–880.
- Kovel, J. (2007). *The enemy of nature: the end of capitalism or the end of the world?* London: Zed Books.
- Lawn, P. (2011). *Is steady-state capitalism viable? A review of the issues and an answer in the affirmative*. *Annals of the New York Academy of Sciences*: 1219 (1), 1-25.
- Li, M., 2007. *Capitalism with zero profit rate? Limits to growth and the law of the tendency for the rate of profit to fall*. University of Utah Department of Economics Working Paper Series. Accessed on the 4th of December 2014, at: http://www.econ.utah.edu/activities/papers/2007_05.pdf.
- Næss, P., & Høyer, K. G. (2009). The emperor's green clothes: growth, decoupling, and capitalism. *Capitalism Nature Socialism*, 20(3), 74-95.

- Porritt, J. (2007). *Capitalism: as if the world matters*. (revised ed.). London: Earthscan.
- Smith, R. (2010a). Beyond growth or beyond capitalism? *Real-World Economics Review*: 53, 28-42.
- Smith, R. (2010b). If Herman Daly has a better plan, let's hear it. *Real-World Economics Review*: 55, 120-123.
- van Griethuysen, P. (2009). Why are we growth-addicted? The hard way towards degrowth in the involutory western development path. *Journal of Cleaner Production*. doi:10.1016/j.jclepro.2009.07.006.
- van Griethuysen P. (2010). *Implementing Degrowth: An evolutionary economic perspective*. Barcelona: 2nd Conference on Economic Degrowth.
- Wiedmann, T. O., Schandl, H., Lenzen, M., Moran, D., Suh, S., West, J., & Kanemoto, K. (2013). The material footprint of nations. *Proceedings of the National Academy of Sciences*, 201220362.