Is Profit-Making Compatible with the Principles of a Steady-State Economy?

Introduction

The degrowth transition to a steady-state economy (SSE) has been proposed by a number of authors 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 (e.g. Gorz, 1995; van Griethuysen, 2009, 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 (e.g. 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 steady-state economy. We explore this issue from two perspectives: (1) the *possibility* of profit-making in a steady-state economy, and (2) the *desirability* of profit-making in such an economy. Following our analysis, we make some suggestions on how to move both beyond growth and beyond profit.

Possibility: Profit-Making and Thermodynamics

The definition of capitalism and what is considered to be intrinsic to it influences the different perspectives of its compatibility with a SSE. Richard Smith and Philip Lawn have engaged in an interesting debate about the possibility of "steady-state capitalism", opening a discussion that deals to some degree with 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 the best opportunity for profit, allied with competition in the marketplace, sets the law of "grow or die". After all competitors reach the limits of qualitative improvement of production (technological efficiency, cuts in labour costs, and the search for the cheapest resources), shareholder demand for increasing profits can only be achieved by quantitative growth, which would not be allowed in a SSE.

Lawn (2011 p.9) argues that Smith commits a misconception in believing that growth is a prerogative for survival in a competitive market. He claims that "profit or die" is the law of survival (not "grow or die"), and that "profit does not require growth". The institutional arrangements of a SSE would prevent companies from continuously increasing output, but Lawn points to two ways through which a company could enhance its profitability without growing: (1) by enhancing the quality of produced goods (i.e. selling the same amount at a higher price); and (2) by producing goods more efficiently (i.e. selling the same amount, but producing it at a lower cost).

However, in face of the first and second laws of thermodynamics (the conservation of matter/energy and the entropy law), it is unclear how it would be possible to make ever-increasing or even stable profits in a SSE in the long term. Even Lawn (2011, p. 4) recognises that profit margins would be reduced in the initial stages of a SSE and "eventually decline" since improvements must inevitably reach thermodynamic limits. Considering this, some important questions remain unanswered: Is steady-state capitalism possible with a declining profit rate? What are the economic consequences of the technical impossibility of non-increasing profits in a SSE?

Desirability: Profit-Seeking and Its Consequences

In addition to the question of the possibility of profit-making in a world of constrained resources, there is the question of its desirability. 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. This analysis is reinforced by Daly and Cobb (1989, p.49), who note that "last year's winners find it easier to be this year's winners. Winners tend to grow and losers disappear". Accumulation of wealth leads to accumulation of political power and attempts to manipulate the institutional framework according to proprietors' interests (van Griethuysen, 2009).

Perhaps more importantly, the quest for profits prioritises financial returns over socio-environmental needs. In capitalist economies profit is the main – if not the only – parameter for shareholder-owned companies to plan and determine what will be produced with the available resources (Smith, 2010b; Gorz, 1995). In the words of Joel Bakan, author of *The Corporation*, shareholder-owned companies function as "externalizing machines", externalizing every possible cost in order to maximise profits. In doing so, they act selfishly and immorally, in a manner similar to disordered psychopaths (Bakan, 2004, p.60). 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. Economic efficiency considers the relation between inputs and outputs only in terms of money, not considering any other kinds of outputs resulting from the transaction. A profit-seeking enterprise can promote economic efficiency by producing "more-from-less", but in this context "more" simply means more economic gains – not more social or environmental gains. An economy focused on qualitative improvement needs to go further than simple "more-from-less" monetary analysis. Multi-criteria considerations are needed in order to include social and environmental returns in resource allocation choices. The goal should be "the best-from-less", or "enough-from-less" and "the right-things-from-less". Market allocation driven by profit maximization is neither designed to account for justice and equality nor to address socio-environmental interests. For these reasons, we believe alternatives to profit maximization are needed.

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-prioritization of socio-environmental needs.

Various authors have suggested using progressive taxation to reduce inequality, some going so far as to propose implementing both a minimum and maximum income across society (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. Such taxation would help 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 would help to address the problems of profit related to wealth accumulation, they would not change the position of profit as the main reason for production. Blawhof (2011) recognises that cooperatives acting in a competitive market are still mainly interested in profits (although not necessarily at any cost). Dietz and O'Neill (2013) present other 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 social and 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, such as in Germany where they are exempted from income taxation (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, but in the satisfaction of people's real needs. They must have a local scale that allows them to be locally and democratically controlled and serve primarily community interests. Johanisova et al. (2013) 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 reinvent the capitalist concept of "efficiency" and to address the problems arising from profit as the first goal of the economy. These organizations 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) "externalizing machines", social enterprises could be seen as "positive-externalizing 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-seeking as a primary goal for organizations and the important 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 measures such as highly progressive taxation and democratization of the ownership of the means of production would reduce wealth accumulation and power imbalances. 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.

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