De-[Constructing] Growth: Decoupling Profits from Unsustainable Production*

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Degrowth has been described as a "movement" rather than an ideology1, and as such it presents several variations. For some of its proponents, degrowth is a proxy for sustainable consumption, and to a lesser extent production2. A second group of degrowth advocates are those for whom an emerging discussion of "sufficiency" as a societal norm is taking shape, as a result of activism3. Finally, a third group of advocates views anti-capitalism as central to the degrowth agenda. They see growth as the principal influence and root cause of sustainability challenges.

Most importantly, amidst these diverging perceptions within the degrowth movement, a continual dissatisfaction with the term degrowth has been voiced, acknowledging its unfortunate connotations and difficulty in influencing mainstream policy discussions.

While not offering a critique of the degrowth discourse, I throw some light on the debate by offering a deeper and more useful conceptualization that avoids the negative connotations of, and resistance to, "degrowth"4. Conceptually, rather than simply describing the degrowth discourse by the descriptor "degrowth", I recommend a more nuanced approach that gets rid of the jargon and negative aspects of the evolving concept of degrowth and makes a distinction between growth in production and growth in private-sector profit. My proposed formulation, ***De-[Constructing] Growth***, achieves this by decoupling profit from unsustainable consumption and production.

Meanings and implications of growth

According to this formulation, growth widely understood has different meanings and implications:

- ***Aggregate growth in products and services that consume energy and materials;***
- ***Growth in profits (tied to subsidies, tax treatment of investment, profit, and the provision of producer and consumer credit, all of which encourage consumption);***
- ***Growth in trade (avoiding internalizing the externalities by globalizing commerce);***
- ***Growth in disparity in consumption, wealth, and income; and***
- ***Growth in under- and un-employment.***

From an environmental and energy consumption perspective, some of these kinds of growth need to be diminished, while in other areas, growth needs to be enhanced. For example, that part of society that does not have access to the ***essential*** goods and services need to increase their consumption. Many in the global south cry out for more consumption, even if others there reject materialism as a model that should be emulated.

Others have emphasized the need to decouple GDP growth from environmental impact[5], but my more nuanced assertion is that rather than reducing profits giving rise to economic growth as an overall goal, ***profits*** not only need to be decoupled from unsustainable production and consumption, but also enhanced by encouraging ***sustainable*** production and consumption. This decoupling is not simply "greener growth" or a green growth proposal, which in and of themselves would be welcomed by many, but rather changing the incentives for increasing profits from the incentives to produce and consume more – especially more ***environmentally*** unsustainable products and services, or ones that have a negative effect on work. To re-emphasize the point, it is important to note that my views do not contradict other authors who claim that growth in GDP cannot be decoupled from growth in material and energy use. I state, however, that decoupling profit from growth is where useful policy opportunities lie. In addition, pursuing eco-efficiency gains, while using less environmentally scarce resources, may at the end of the day encourage more total consumption and impact, reflecting a Jevons paradox or "rebound effect".

Fundamental changes in law are indispensable

While cultural changes are needed, fundamental changes in law are indispensable to achieving degrowth and growth where they are needed: Growth means different things and **requires different interventions**:

- ***Aggregate growth in products and services that consume energy and materials.***
  - **De-emphasize GDP and Productivity; Decouple physical growth fromprofit by internalizing externalized costs and by pricing policies.**
- ***Growth in profits (tied to subsidies, tax treatment of investment, profit, and theprovision of producer and consumer credit, all of which encourage consumption).***
  - **Change the nature of subsidies, tax incentives, and credit practices; antimonopoly legislation/regulation that discourages profits linked to growth in production and consumption.**
- ***Growth in trade (avoiding internalizing the externalities by globalizing commerce).***

Changes in the trade rules: allow/encourage border adjustments and local investment to encourage sustainable production by taxing or banning products and services that have large negative environmental and labor externalities, or which discourage regional self-sufficiency and economic independence.

Growth in disparity in consumption, wealth, and income.

Embody sufficiency in law; tax and inheritance reform; provision of guaranteed income.

Growth in under- and un-employment.

Implement a shorter workweek with maintenance of wage parity[6]; incentivize employment; design work back into the production and service systems[7]. Recognize and arrange remuneration for unpaidwork.

These changes include reforms to the financial system (credit, wealth and income) as well as control of monopoly (in products, energy, and media); environmental, health and safety regulation; the economic treatment of investment, profit, and labor; and trade rules[8].

Change the reward structure for profit and investment (see the discussion below for specific interventions).

Lessening the private sector resistance to sustainable transformations

The current industrial system – especially with capture of the legal/economic interventions – links profit to increases in production and services, with concomitant environmental destruction and energy consumption. My insight is to de-couple profit-taking, not eliminate profit-taking, from unsustainable production and services. By a judicious choice of policy interventions, society may be able to lessen the industrial/private-sector resistance to sustainable transformations that the degrowth movement has heretofore been unable to accomplish. These interventions may appear radical to mainstream economists and the larger public, and having never been tried they may seem utopian. However, in various emerging discourses about sustainable development, changing the rules of the economic system is receiving serious attention[9], and further, decoupling profits from production and consumption is far less radical than hoping for the end of capitalism.

Indeed, decoupling profit-making from unsustainable practices is a key challenge that could nevertheless be overcome provided that the right supply and demand side policies are applied.

The classical efficiency solution from the mainstream economics literature to reducing the adverse environmental effects of products and services is to internalize the social costs of consumption (for example by taxing production and perhaps consumption directly as well) to reflect environmental damage. This results in ***increased*** costs to consumers and ***decreased*** profits for producers. If these policy changes were implemented, it would of course be good. But both producers and consumers will balk. Therefore, by a judicious scheme of increasing costs to consumers (together with other policy-instruments to reduce social inequality) less consumption could be encouraged while, at the same time, rewarding producers – rather than penalizing them – for producing less. Pricing schemes have been used in the case of water polices in response to water shortages to encourage both less marginal increases in consumption and total consumption, but little attention has been devoted to lessen the resistance to subsequent profits to providers[10].

Why tax labor and subsidize pollution?

Today, profit in the sale of most products and the provision of services is not only generally enhanced by the favorable tax treatment of investment and inputs, straight out-and-out subsidies, and by marketing practices reducing the cost of incremental increases bought by the consumer – but also by specific advantages sought by the provider of particularly unsustainable activities, e.g. as in the case of fossil fuels.

The law affecting tax incentives and regulation can be changed to encourage both less general and specific consumption by rewarding the provider not only for providing greener products and services – the classical green proposal -, but more importantly and beyond that, by

> ***Rewarding allowable profit on both a per-unit basis and on total revenue secured by selling less by appropriate pricing – for example, not only charging an increased incremental price for more electricity use, but also raising the incremental price from the first increment sold onwards,***
>
> ***Removing subsidies for, and taxing, unsustainable economic commerce, and***
>
> ***Subsidizing/rewarding less production and more sustainable production by increasing the incremental profit per unit with smaller/more beneficial output.***

By sustainable, of course, we mean both environmentally-sustainable and job-enhancing economic activity. Herman Daly, amongst others, asks why we are taxing labor and subsidizing pollution if what we actually want is more employment and less pollution.

Carrying this idea into specific reforms would receive more support – and achieve realistic possibilities of success – if we were to redefine in legal and economic terms the nature of acceptable and allowable profit for the providers of goods and services that must be tied conditionally on engaging in sustainable production. The present advantages of profit tied to increased production are the result of decades of privileges lobbied for. In principle, these could be reversed and redefined.

At present, the substitution of physical capital and energy for labor is rewarded by both the tax and legal system. Relocating production abroad is rewarded, not penalized. In our tax system, an accelerated depreciation deduction from profit is allowed for end-of-pipe pollution control, but not for technological changes or other labor-related production changes focused on cleaner production. Focusing on the redefinition of acceptable profit is certainly worth thinking about.

Of course increases in private-sector profits need to be reconciled with the overall concern with wealth and income inequality, but that concern can and should be addressed by other policies withinan overall strategy.

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