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Non-Growth Market Economies

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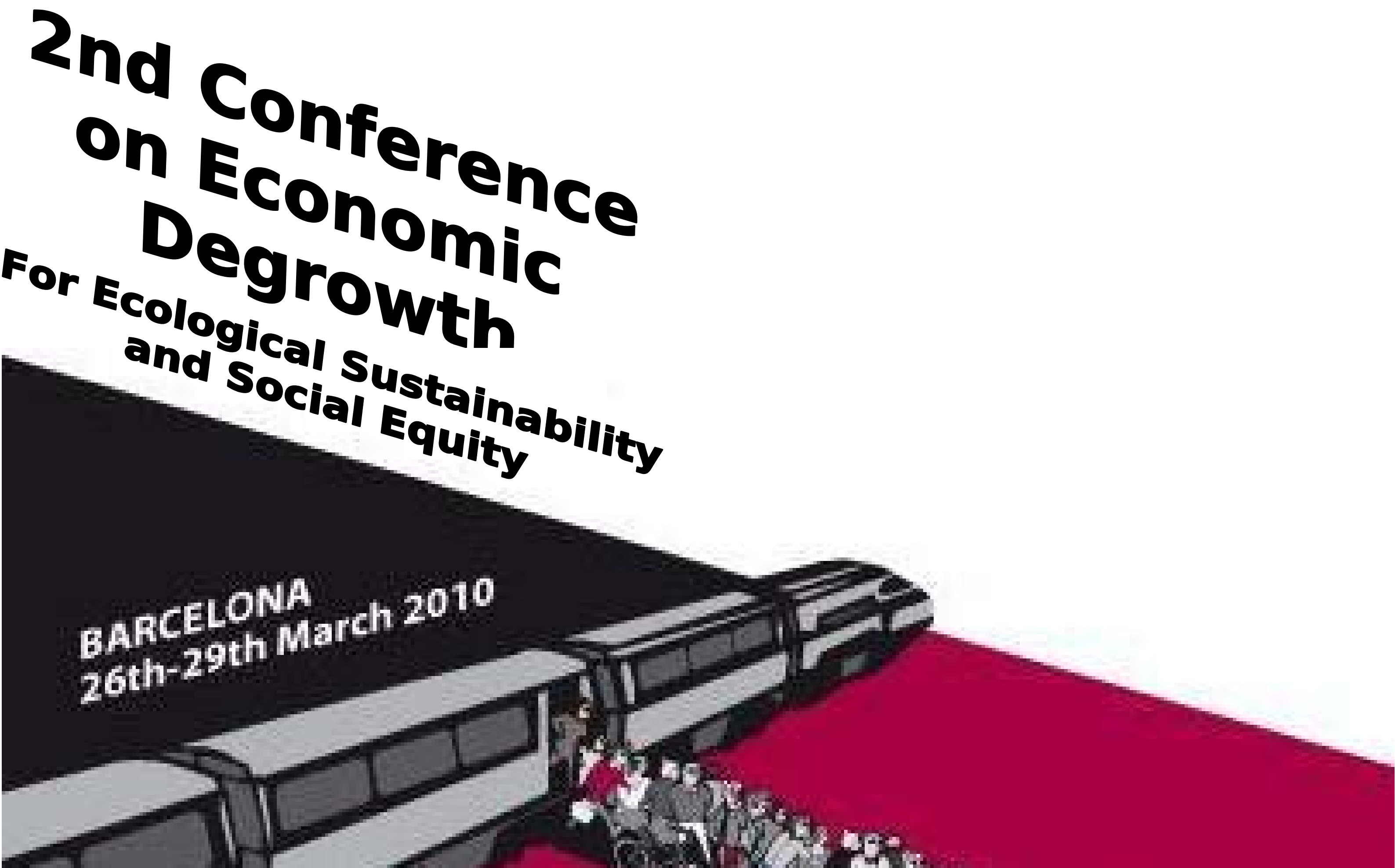

Abstract

As capitalist market economies need growth, do ecological limits force us to shift to central planning? Not necessarily, but market economies then need profound institutional changes. We must distinguish between capitalism, a scheme of property rights (esp. in production means), and markets, a form of property coordination. The driver of economic growth is capital concentration with the inherent need to increase profits on individual firm level, leading to aggregate growth. Any growth-constraint capitalism would rather lead either to an even more severe concentration of capital with undesirable distributional consequences, or require massive anti-trust interventions creating inhumane competitive pressure. Hence we must free enterprises from the pressure to grow. Current capital intense forms of business (e.g. stock companies) no longer are adequate, but must be replaced by economic organizational forms like cooperatives or foundations which can survive without growth.

Keywords

Market economies, cooperatives, eco-socialism, eco-capitalism, cap & trade, per-capita-certificates

1 Introduction

In this paper, the following questions are discussed: 1. Which institutions allow for a sustainable, non-growing economic system (in the sense of long-run survival of it)? 2. Which among these seem desirable from the viewpoint of those living within it? 3. Compared to the suggested systems called “eco-socialism” and “eco-capitalism”, (a) is there an alternative, (b) why is it more desirable than the two aforementioned solutions, (c) and how might it roughly look ? The normative benchmark for “desirability” is maximum individual liberty and best satisfaction of needs. This choice is made first of all, since in all Western ethical systems, the ultimate reference point according to which the desirability of social rules and hence social states is individual liberty (Pieper 1979)[1]. Secondly, the needs approach has a long tradition in the normative interpretation of sustainability and is compatible with maximum freedom because without the fulfillment of at least basic needs, liberty is impossible or at least seriously restricted.[2]

The paper starts with the assumption that economic growth is not feasible in the long run since this point is non-controversial in degrowth research. The true controversy arises with the question: How then could and should an economic system, which is compatible with non-growth and which seems attractive to those living in it, look?[3] Even though no exact answer can be outlined here—already the attempt to do so would be overweening—at least some answers shall be provided why some of the most prominent alternatives do not look desirable, and in what might be general features of a non-growing economic system taking individual liberty and need satisfaction seriously.

Therefore, as a first step, the two systems “socialism” and “capitalism” are analyzed with respect to the first two above raised questions to see whether “sustainable socialism” or “sustainable capitalism” is possible at all. “Socialism” is understood here as a centrally planned economy with public ownership in means of production, of course neglecting at this first stage the wide range of “socialist” regimes which do not hinge fundamentally on one central planning agency. “Capitalism” as a term simply means a system of private property in means of production. It will be shown that in principle both systems could survive without growth, but both will have severe deficits in maintaining individual liberty. The non-growth variant of capitalism additionally can be expected to run at odds with the fulfillment of basic needs for many. Therefore, this secondly leads to the rejection of both systems since they do not look attractive.

Consequently, the question “What else then?” arises. The crucial point for an answer – which is developed in the last part – is the following distinction: Capitalism on the one hand is about ownership in means of

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 One famous example is Rawls’ First Principle of maximum individual liberty in a “just society” (Rawls 1971).

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 Where classic liberals are mainly concerned with negative freedom in the sense of freedom from coercion, modern liberalism (see again Rawls 1971) also requests that positive freedoms must be guaranteed, which means that at least a certain endowment material goods and the satisfaction of psychological needs has to be guaranteed, otherwise freedom is insubstantial. This interpretation of liberty is to my viewpoint highly compatible with the traditional needs approach.

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 It must not be forgotten that degrowth is not an aim in itself!

production, whereas markets, which as such allow for free individual interaction without central force, are an institution for exchange (Kurz 1999). The empirical co-existence of markets with capitalist ownership regimes do neither necessarily imply that markets only can work with purely private property in productive means, not does it follow that alternatives to capitalism automatically require central public control over means of production as demanded by many (see e.g. Sarkar, 1999; Sarkar/Kern, 2004). To conclude, the basic features of a decentralized, non-growing economic system compatible with individual freedom are sketched. These comprise above all strengthening of cooperative forms of production, but necessarily also some form of ecological macro-management e.g. by per capita-distributed emissions certificates derived from a democratically set emission cap.

2 Socialism, Capitalism, and Sustainability

Now, the very same abstract investigation has to be repeated for "capitalism". Capitalism, as sketched out in chapter 2.1., is first of all a system in which means of production are privately owned. Of course there might be limits to capital concentration (Eucken 1952), and real existing capitalist system usually go parallel with some publicly owned productive means. But this should not blur the general insight that capital is owned by private persons, and capital concentration to some extent exists—since accumulation is a driver of the capitalist dynamic.

Exactly the issue of the inherent dynamics of capitalist systems has again and again given rise to the claim that capitalism as such is incompatible with non-growth. The argument roughly goes like this: Since all firms want to extend their production to increase profits, the overall system must grow as well. This hypothesis, despite its so-far empirical support, will be rejected in its categorical formulation in the next section.

2.1 Possible...

In a similar manner as presented by Spangenberg (2010), a thought experiment is done to answer the question: Can a capitalist system which is compatible with non-growth be imagined at all? Let us assume that physical throughput is fixed via resource depletion and waste disposal certificates, derived from a global ecological cap. A strictly enforced cap as such guarantees that the system remains within ecological limits, so "intergenerational justice" is taken care of. But will such a limit, as claimed by some critics of capitalism, sooner or later lead to the collapse of capitalist organization? Not necessarily. Limits to growth will finally constrain the expansion of this economic system, because thermodynamic limits to increasing resource and energy productivity at some point will cause all efficiency potentials to be exploited. From then on, the capitalist system under investigation is simply "caught in a physical box"—further expansion is ruled out provided the cap system is strictly enforced.

2.2 ... but desirable?

Growth on the aggregate is therefore no longer possible, but this doesn't mean that we cannot observe spots of growth on the micro-level! The categorical difference between these areas of growth compared to physically unlimited capitalism is that net growth must be zero[4], which implies that the growth of one

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or even negative, if we are on a degrowth path for reasons of ecological necessity company or one market must be compensated by shrinking of other companies or market activities (ibid.). The overall capitalist enterprise, which according to Adam Smith (1776/2003) is a positive sum game to the benefit of all now has changed into a zero sum game. This immediately makes clear why a non-growing capitalist economy will create larger problems for those living within one generation: Someone's gain is at the same time someone else's loss.[5] As a consequence, intra-generational distributional conflicts will play a much larger, if not the central role in non-growing capitalism. The "safety valve" called growth, which actually allows for compensating the worst off, is no longer available.

Growth not only has the "merit" of compensating bad-off consumers, but also partially releases the competitive pressure in capitalist markets. Competition for market shares usually leads to a change of relative market positions of competing enterprises, but absolute losses for firms can be cushioned or even avoided if the total market grows.

On the other hand, this implies that competition will be much fiercer once growth as a "valve to release competitive pressure" no longer works (Spangenberg 2010). The situation resembles a "Monopoly" game[6]: "You win, I lose"—or vice versa. Capital accumulation hence becomes more severe, because individual losses cannot be "outgrown" any more. In order to avoid too strong oligopolistic or monopolistic results, a harsh enforcement of antitrust law is necessary. As a result, the development of firms will be more volatile, which will be much more stressful to both capital owners and workers than competition in a growing capitalist system already is. So either accumulation is unconstrained, which of course increases the potential for exploiting of both workers and consumers (reducing the possibility of satisfying individual needs and reducing most people's liberty), or antitrust intervention impedes too excessive accumulation—with individuals becoming subject to enormous competitive forces, with detrimental effects on well-being.

3 Intermediate Summary: Why maintaining a system which is non-desirable?

The discussion in chapters 2.1. and 2.2. should have made clear that both "eco-socialism" and "eco-capitalism" are possible in principle, but if values like individual liberty and basic need satisfaction are taken seriously, both alternatives are refuted because of their undesirable effects. In other words: Why bother with sustaining a system that doesn't fulfill its role of giving people what they need and protecting what they want?

It would be unsatisfactory to end this investigation at this point, after nothing but a dismissal of two prominent alternatives. Consequently, in the remainder of this paper, some characteristics of an alternative system shall be sketched. The leading questions again are: How to guarantee "ecological sustainability"? How to ensure that an ecologically supportable, non-growing system also is compatible with basic needs satisfaction and doesn't jeopardize the liberty of individuals living in it?

5 We are back at the distributional problem of scholastic thinkers, who claimed that distributional justice arises as an issue exactly because of the zero-sum characteristic of goods allocation. It was Adam Smith' great contribution to economics to show how that individual interaction on capitalist markets allow for positive sum games, making everyone better off.

6 Without the income received when passing "Go", of course.

3 An alternative market economy: Non-growing, non-capitalist

3.1 Market vs. Capitalism

The careful reader will have noticed that so far the term "market economy" has been largely avoided, even though the word "capitalism" has been used excessively. Why this distinction?

Even though usually both terms are used as synonyms, it shall be highlighted here that they actually are not (Kurz 1999). A market is an institutional arrangement for exchange, capitalism is about ownership in means of production (and hence about ownership in the products thereof). The question if capitalism is possible without markets, and whether non-capitalist market economies are possible is not simply an academic exercise for its own sake, but is one key to the solution of the problem this paper is about. First of all, capitalism can be imagined without (competitive) markets, in case there is concentration of capital in a few hands. Markets as a place for relatively free exchange—letting consumers choose what they want—then do not exist, since the owners of productive capital can exploit their powerful position and basically dictate consumption patterns and prices. A very similar situation arises with systems actually qualifying as "socialist" according to the definition given in chapter 2.1., when capital is entirely under state control, and the state de facto is in the hands of a small autocratic elite (as it happened to be in the USSR). No wonder the term "state capitalism" was coined for such an arrangement of means of production.

The more interesting question now is: Can we imagine non-capitalist markets, and would such an economic system be compatible with non-growth as well as allow the satisfaction of individual basic needs and maintenance of personal liberty? Taking both the definition of capitalism and markets, of course we can imagine such an institutional arrangement. To avoid drifting towards "socialism" as defined above, on the one hand control over means of production must not entirely lie in the hands of "the state" for the reasons mentioned. On the other hand, extreme capital concentration in private hands is undesirable, too. Private property in means of production as such is not a problem, as long as productive means are not accumulated too intensely. But for most enterprises, some form of collective ownership <u>between</u> state and private control seems to be desirable. The factual organization of the entire economy than can, and should be, achieved via market exchange of both productive means and products.[7] Small and medium scale collective as well as private ownership is desirable for several important reasons: It first of all allows for a widespread distribution of property in means of production, creating income for basically all which enables the satisfaction of basic (physical) needs. If collective ownership goes along with more democratic control over non-concentrated productive means, the potential for exploitation of the many by a few is significantly lowered. Last, it is true that capitalism usually has a tendency to grow since it is the aim of capitalist enterprises to expand production. "Grow or perish" is the motto of the capitalist, whether (s)he personally likes it or not. Ensuring that an economic system is compatible with non-growth <u>without</u> at the same time allowing for either intensive capital accumulation or excessive competitive pressure

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Markets are, despite all existing deficits, still a quite efficient way or organizing and allocating resources and allow for more decentral, flexible and individual decisions. Additionally, markets do have the potential to work as a disempowerment tool (Böhm 1966).

implies that first of all, the pressure to grow must be taken from enterprises. Empirically, it is easy to see that small and to certain extent medium sized privately owned enterprises (mainly family run business) are not subject to extreme growth pressure. Beyond this, especially collective forms of production like co-operations are forms of enterprise compatible with stagnation at firm level, because they follow a different logic: it is not profit for the sake of making money that runs such enterprises, but rather generating a decent income for the members of a co-operative. Of course there are examples of growing and clearly profit-oriented co-operations, especially those who had been growing from the very beginning (see the German Raiffeisenbank example). But still, it makes a difference whether a firm is a larger-scale capitalist corporation or not. Above all, large international stock corporations indeed create problems concerning growth and capital accumulation. It is the explicit purpose of stock companies to grow, since stock holders invest money into them, expecting and demanding capital growth. Taking pressure for growth from enterprises means that certain capital intense and only-for-profit forms of business organization will not have a future. What hence crystallizes as a feasible and desirable economic system is a market economy with small and medium sized capitalist enterprise and a much larger fraction of co-operative business, while large stock-companies do not seem to have a place in a desirable, sustainable economy.

3.2 Setting Ecological Limits: Cap and Trade with Per Capita Certificates

One deficit often found in such "utopias" is that it is assumed that a switch to "alternative" forms of business automatically will take care of the ecological problem. I cannot follow this approach (which is at best a naïve hope), but want to stress that even though growth-pressure is released in an alternative market economy, there is no guarantee that ecological limits will be respected automatically. So some form of macro-management of ecological limits is indispensible in any economic system which shall sustain the life base of our planet. The most adequate form for a physically constrained market economy seems to me the introduction of resource extraction and emission certificates. The aggregate level of total emissions and extraction is given by respective caps which must be set by a democratic process. The crucial point here is—for which at the moment I don't see a satisfying solution—how to overcome the tendency of current generations to set to high caps on the expense of future generations. This of course is a general problem any form of environmental regulation faces, so it is not a drawback occurring with caps and certificates only. Even though currently, especially after the sobering experience with the European Emission Trading System, there seems to be a renaissance of eco-taxes,[8] I don't think that such taxes necessarily outperform a cap and trade solution. The main problem with taxes is that they do not guarantee reaching a specific target, but rather require a trial and error process which is politically difficult to implement. Furthermore, the general argument that taxes actually solve the externality problem once prices are set right via a necessary rate is flawed because no-one can actually gather all the necessary information needed (Hayek 1973)—and ultimately, pricing nature via taxes is a normative question, so "correct prices" do not emerge as the outcome of a mere technical administrative process. It is understood that setting a certain cap is a political decision as well, but at least the debate on caps is more directly aimed at the problem to be solved.

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 This is my personal observation, based on a lot of discussion with activists from several environmental activist and eco-politics groups, especially in Germany (e.g. from Friends of the Earth Germany, Green Budget Germany, or the Green Party).

From a distributive viewpoint, certificates additionally allow for an elegant per capita distribution.[9] This way, ownership in natural goods is distributed equally among all, which is justified for the following reason: No-one has actually produced these resources; hence no-one can claim first ownership in natural goods and services. Rather, since these resources are naturally given, everyone (within a given generation) has an equal claim in ownership at least in the amount of resources which can be used sustainably within one generation's time. De facto, this form of natural resource endowment has two effects: It first of all works like a (admittedly fluctuating) element of a basic income, which actually makes people less dependent on labor income. As an effect, the request for economic growth additionally ceases, since the generation of (higher and higher) market incomes as one driver of economic growth loses importance. Secondly, citizens as owners of production inputs get more of a say concerning where resources actually flow to. They no longer only have the power to steer economic production decisions indirectly via their demand, but now can actively influence business decisions by deciding whom to sell their per capita rights. Last, the regressive effect of uncompensated eco-taxes is avoided—even though eco-bonus systems with a per capita redistribution of tax revenues might avoid the problem, too. But with an eco-bonus, people only indirectly have a say on changing production, whereas direct ownership in licenses helps emphasizing the political dimension of a citizens decision what to do with one's licenses.

4 Summary and Outlook

This paper investigated whether capitalism or state controlled socialism could be sustainable. The answer was yes, but the outlining of how such systems actually would look led to the conclusion that both "eco-socialism" and "eco-capitalism" do not seem to be attractive. Both endanger individual liberty, and it is not sure whether the needs of those living in such a system are sufficiently fulfilled. Therefore, an alternative is sketched. The crucial point is the distinction between market economies and capitalism. Markets as arenas of exchange can be combined with non-capitalist schemes of ownership in means of production. This allows maintaining the benefits of markets (decentralized problem solving, dissipation of power) without incorporating the drawbacks of massive capital accumulation. For sure, such a "sustainable and desirable non-growing market economy" will look different. The fundamental point is that a non-growing economy needs business forms which allow for stagnation at the enterprise level. The major difference between a growth-based capitalist and a non-growth market economy therefore will be that (large-scale) stock-companies no longer are acceptable, and that collective forms of ownership like co-operations will play a larger role: stock companies are intrinsically growth-demanding and hence incompatible with non-growing market economies, whereas co-operations can be organized in a micro-level steady state. Finally, it is argued that despite the reduction of growth pressure on the micro-level, still ecological macro-limits are needed. Ideally, these are implemented as caps, and respective certificates are distributed on a per capita base.

The sketch of an alternative system necessarily had to be very rough. It is understood that concrete ideas have to be developed to put some "flesh to the bones". From a purely scientific point, another very interesting follow-up question is how the development on the micro-level as described works together with the outlined cap system on the macro-level. Indeed, non-growth macro-models with micro-foundation so far seem to be missing despite their relevance.

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In the optimal case on a global level, which of course raises the question of feasible implementation. But eco-taxes or environmental regulations need global implementation and enforcement, so again the argument is not only challenging for cap and trade.

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