

Fit for purpose? Clarifying the critical role of profit for sustainability

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Abstract

This conceptual article contributes to the post-growth strand of political ecology literature, which seeks to find sustainable ways of organizing the economy that do not require economic growth. It explores the idea that transitioning to post-growth societies requires a transition in the relationship-to-profit of business. I first conceptualize relationship-to-profit as the intersection of purpose, investment, and ownership of firms. Specifically, for-profit business structures entail a financial gain purpose, private ownership, and unlimited returns on investment; whereas not-for-profit business structures have a social benefit purpose, collective ownership, and limited returns on investment. I then outline ideal types of for-profit and not-for-profit economies, based on the differences between these two kinds of relationship-to-profit. The first ideal type shows how the for-profit business structure drives consumerism, economic growth, and ecological harm, as well as inequality and political capture, preventing post-growth transitions. These dynamics might be slowed down by businesses that seek to balance private financial gain with social benefit (known as dual-purpose businesses). The second ideal type describes the dynamics that might be expected in an economy consisting of not-for-profit businesses, which have a legal mandate to pursue only social benefit. This analysis explains how transitioning from for-profit to not-for-profit forms of business might change some of the most problematic dynamics of the economy, allowing for post-growth transformations. A brief discussion of the possible shortcomings of a not-for-profit economy is also offered.

Keywords: Not-for-profit business, nonprofit enterprise, for-profit business, relationship-to-profit, post-growth, degrowth, economic growth, sustainability, sustainable economy

Résumé

Cet article conceptuel contribue au volet post-croissance de la littérature en écologie politique, qui cherche à trouver des moyens durables d'organiser l'économie qui ne nécessitent pas de croissance économique. Il explore l'idée que la transition vers des sociétés post-croissance nécessite une transition dans la relation au profit des entreprises. J'ai d'abord conceptualisé la relation au profit comme l'intersection du «sens du but», de l'investissement et de la propriété des entreprises. Plus précisément, les structures commerciales à but lucratif impliquent un objectif de gain financier, la propriété privée et un retour sur investissement illimité; tandis que les structures commerciales à but non lucratif ont un objectif d'avantages sociaux, de propriété collective et de retours sur investissement limités. J'expose ensuite les types idéaux d'économies à but lucratif et sans but lucratif, en fonction des différences entre ces deux types de relation au profit. Le premier type idéal montre comment la structure commerciale à but lucratif stimule le consumérisme, la croissance économique et les dommages à l'environnement. En outre, il crée des inégalités et la capture par les intérêts politiques, empêchant les transitions post-croissance. Cette dynamique pourrait être ralentie par les entreprises qui cherchent à équilibrer les gains financiers privés et les avantages sociaux (appelés «entreprises à double usage»). Le deuxième type idéal décrit la dynamique qui peut être attendue dans une économie composée d'entreprises à but non lucratif, qui ont un mandat légal de rechercher uniquement des avantages sociaux. Cette analyse

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explique comment le passage de formes commerciales à but lucratif à des organisations à but non lucratif pourrait changer certaines des dynamiques les plus problématiques de l'économie, permettant des transformations post-croissance. Une brève discussion des lacunes possibles d'une économie à but non lucratif est également proposée.

Mots-clés: entreprise sans but lucratif, entreprise à but non lucratif, entreprise à but lucratif, relation avec le profit, post-croissance, décroissance, croissance économique, durabilité, économie durable

Resumen

Este artículo conceptual contribuye al debate sobre post-crecimiento en ecología política, un debate que trata de hallar modos sostenibles para la organización de la economía que no necesiten crecimiento económico. El artículo explora la idea según la cual la efectiva transición hacia una sociedad post-crecimiento requiere una transición en la relación-al-lucro de las compañías de negocios. Primero, conceptualizo la relación-al-lucro como la intersección de la razón de ser u objetivo de la compañía, el modelo de inversión que sigue y su estructura de propiedad. Concretamente, las estructuras con ánimo de lucro conllevan una razón de ser ligada al beneficio financiero, una estructura de propiedad privada, y retornos de inversión ilimitados; mientras tanto, las compañías sin ánimo de lucro tienen una razón de ser ligada al beneficio social, la propiedad colectiva, y limitados retornos de inversión. Después, propongo ideales tipo de economías con y sin ánimo de lucro, basados en las diferencias entre esos dos tipos de relación-al-lucro. El primer ideal tipo muestra como una economía basada en compañías con ánimo de lucro conlleva consumismo, crecimiento económico y daño ambiental, así como desigualdad y captura del proceso político, lo que impide una transición hacia economías post-crecimiento. Estas dinámicas podrían verse ralentizadas por la existencia de negocios que traten de equilibrar el beneficio financiero con el social (los llamados negocios de doble-objetivo). El segundo ideal tipo describe las dinámicas que pueden esperarse de una economía constituida por compañías de negocios sin ánimo de lucro, es decir compañías que tengan por mandato legal buscar únicamente el beneficio social. Este análisis explica cómo, al pasar de una razón de ser ligada al lucro, a una sin ánimo de lucro, las compañías podrían cambiar algunas de las dinámicas más problemáticas de la economía, permitiendo una transformación hacia el post-crecimiento. Finalmente, propongo una breve discusión sobre las limitaciones posibles de una economía sin ánimo de lucro.

Palabras clave: compañías sin ánimo de lucro; empresas sin ánimo de lucro; compañías con ánimo de lucro; relación al lucro; post-crecimiento; decrecimiento; crecimiento económico; sostenibilidad; economía sostenible

1. Introduction: the overlooked possibility of a not-for-profit market economy

Given the magnitude of the global ecological crisis, it has become clear that aggregate economic activity must decrease in order to minimize environmental pressures (Parrique *et al.* 2019). Yet, this downsizing of the global economy must happen alongside the fulfillment of human needs. How can the economy be organized in ways that allow for the fulfillment of every person's needs while also fitting within the ecological limits of the planet? Political ecology research has an essential role to play in analyzing the power relations that maintain and drive the dominant growth-based economic system, as well as developing alternative pathways that promote social and environmental justice (e.g. Hornborg 2017; Paulson 2017; Trainer 2019).

Growth-critical scholars have identified profits, competition, and capital accumulation as important drivers of economic growth and inequality (Magdoff and Foster 2011; Richters and Siemoneit 2017). When companies seek to maximize profit, they tend to expand production and prompt more consumption through advertising and, in this way, profit-seeking drives economic growth and environmental damage (Jackson 2017: 109, 140; Kallis 2018; Varey 2010). Global market concentration and competition among transnational corporations exacerbates this destructive growth dynamic (Foster 2014; Korten 2001). As such, these scholars point to the need for businesses to move away from profit-maximization. However, there is not a clear articulation of the structures that might be keeping these dynamics in place. Paech (2014) mentions private equity-based investment driving the need for businesses to generate profit, which in turn drives economic growth. Paech also mentions that alternative corporate forms like cooperatives, foundations, and non-profit organizations can diminish structurally-driven expectations for profit, and thus also assuage the growth imperative (*Ibid*). However, he leaves his audience wondering how and why this might be the case.

If the profit-driven nature of firms is an important driver of economic growth, environmental damage, and inequality, then post-growth² research should dedicate some analysis to how non-profit-driven types of business might change the dynamics of the market.³ Upon searching for literature that gives a more in-depth analysis of business from a post-growth perspective, I found Bocken and Short (2016), Gebauer (2018), Johannisova *et al.* (2013), Khmara and Kronenberg (2018), Schaeffer *et al.* (2015) and Upward and Jones (2016). Yet, all of these approaches take for granted the orthodox economic assumptions that:

- firms are financially self-interested actors;
- firms are (or must be) privately owned; and
- making money is the main aim of business.

The underlying assumption is that the market is necessarily driven by profit.

There is, however, a body of literature that explores not-for-profit forms of business.⁴ These types of business exist only to deliver social benefit, have no private owners, and must use all financial surplus for social benefit (Roeger *et al.* 2012; Salamon and Anheier 1997; Salamon *et al.* 2013).⁵ They have another kind of relationship to profit, which entails a different approach to purpose, investment, and ownership. Bridging the scholarship on not-for-profit business and post-growth transformations, Maclurcan and I (Hinton and Maclurcan 2016; Hinton and Maclurcan 2017) have argued that a market of not-for-profit businesses might better allow for a post-growth economy because there would be a better circulation of wealth and no systemic pressure to produce and consume more in order to deliver profit to owners.

This article explores whether transitions to post-growth societies require a parallel transition to not-for-profit forms of business. In the analysis below, I will offer a conceptualization of the distinction between for-profit and not-for-profit forms of business as 'relationship-to-profit.' I will then describe and compare two ideal types of economies based on the difference in the relationship-to-profit of business.⁶ In doing so, I use a systems analysis approach to identify and describe key feedback loops that drive the behavior of the economy. The first ideal type is that of a *for-profit* economy, composed of for-profit businesses. Driven by financial gain, they strive to deliver unlimited returns on equity-based investment to private owners who have financial rights to profit. The second ideal type is a *not-for-profit* economy in which all businesses aim to achieve social benefit, have no private owners, and must direct all profit to their social benefit mission. I will be discussing the implications of relationship-to-profit for economic growth, economic equality, and environmental integrity, and give evidence to support why these claims are plausible. In doing so, this article builds bridges between different, but synergistic, fields of study including: political ecology, post-growth economics, Eco-Marxian scholarship, organizational theory, sustainable business literature, and nonprofit studies.

² I use the term 'post-growth' rather than 'degrowth' because I see the latter as a subset of a larger post-growth perspective, which includes growth-critical scholarship that is not necessarily associated with the degrowth movement, such as Tim Jackson's *Prosperity without growth* (2009); Kate Raworth's *Doughnut economics* (2017); and Peter Victor's *Managing without growth* (2008), as well as much eco-Marxian literature.

³ I define 'market' as the meeting of people for the purpose of selling and buying goods and services (Oxford Dictionary online, market entry).

⁴ I define 'business' as an entity that sells goods or services, in line with the Oxford Dictionary's definition as "a commercial operation or company" with commerce being defined as "the activity of buying and selling" (Oxford Dictionary online, business entry and commerce entry).

⁵ Johannisova *et al.* (2013) refer to Salamon *et al.*'s work, but choose not to focus on the legal distinction between for-profit and not-for-profit – instead favoring 'not-for-profit' and 'not-only-for-profit' business (the latter is still for-profit in legal terms). In grouping not-for-profit and not-only-for-profit companies together, they ignore the legal differences between these organizational forms, which either allow for or do not allow for the pursuit and distribution of profit for the enrichment of private owners – a distinction which I argue in this article has critical ramifications for the aggregate economy.

⁶ The terms 'organizational form', 'legal type', 'profit-orientation', 'regulatory form', 'legal category', 'organizational type', and 'organization orientation' have also been used by authors in various fields to refer to the distinction between for-profit and not-for-profit firms.

2. Conceptualizing 'relationship-to-profit'

To better understand how the 'relationship-to-profit' of companies might impact sustainability issues, we first need a broader conceptualization of the firm that allows for the inclusion of not-for-profit types of business. It is commonly assumed that all businesses are for-profit, but there is a growing body of research about the role of enterprising nonprofits and social enterprises as a relatively new kind of actor in the market. This research has shown that not-for-profit businesses exist and can be found in diverse geographies and sectors of the economy (e.g. Borzaga and Tortia 2007; James and Rose-Ackerman 1986; Roeger *et al.* 2012 and Salamon *et al.* 2013).

Not-for-profit (hereafter NFP) businesses differ from their for-profit (FP) counterparts in that they have a social benefit purpose (which can include environmental missions) and all of their profit⁷ must be used to achieve their mission. This means that there can be no private distribution of profit – known as the 'non-distribution constraint' (ICNL 2013).

Maclurcan and I (Hinton and Maclurcan 2016; Hinton and Maclurcan 2017) distinguish between not-for-profit *businesses* and traditional not-for-profit organizations in that NFP businesses generate more than half of their revenue through the sale of goods and services and seek to be financially self-sufficient through trade; while traditional not-for-profit organizations rely mostly or wholly on philanthropy, grants, and donations. Some examples of NFP businesses mentioned in Hinton and Maclurcan (2017) include: Wikispeed (a car manufacturing company in the U.S); Zenman Energy (a solar power plant designer in the U.S); Glas Cymru (a water works company in Wales); and BRAC (a large organization that operates banks, food processing plants, renewable energy infrastructure, professional print and copy shops, and department stores in order to fund educational programs and provide healthcare services to rural populations in Bangladesh).⁸ Based on this definition, the term 'NFP business' can include a wide variety of firms, such as mutual insurance companies, commercial foundations, state-owned companies, commercial associations, credit unions, many social enterprises, and nonprofits that do business (Borzaga and Tortia 2007; Hinton and Maclurcan 2016).⁹

Thus, relationship-to-profit refers to the difference between not-for-profit and for-profit firms, and can be conceptualized as the nexus between three key elements of any business: purpose, investment, and ownership (Figure 1).

Purpose

In legal terms, the purpose of a business can be: financial gain for owners, social benefit, or both financial gain for owners and social benefit¹⁰ (Reiser and Dean 2017). Because NFP businesses are such a new actor in

⁷ Profit here refers to the financial surplus that remains from total revenues after business expenses have been paid. This is what accountants and micro-economists call 'total profit', 'accounting profit', 'operating profit' or 'net income', which is the surplus revenue left over after variable costs and fixed costs (including product inputs, payroll, debts, rent, and utility payments) have been covered (Boyte-White 2018). This is the surplus from which dividends to owners are distributed. It only refers to explicit costs and excludes opportunity costs. There is a common misunderstanding that employees are paid from profits. This is only true in the case of bonuses and dividends, but wages and salaries are considered business expenses and are thus accounted for before profit is calculated.

⁸ For more examples, see Hinton and Maclurcan (2016: 34-68).

⁹ Consumer cooperatives can also be considered NFP businesses. Their social benefit purpose is to provide accessible, high-quality products to their customers and any profit they make goes back into their mission. If they distribute some of the profit to their customers at the end of the year, it is better characterized as a refund on some of the purchases the customers have made, rather than a dividend. Members of a consumer cooperative will not take more money out of their cooperative than they pay in. Worker cooperatives, however, would fit better into the for-profit category, because they are allowed to privately distribute profit to the worker-owners and, unlike consumers, the workers are expected to take more money out of the business than they put in, which can lead to private inurement. Producer cooperatives might be FP or NFP, depending on whether their producer-members are FP or NFP firms themselves. A dairy producer cooperative, for instance, might be made up of for-profit dairy businesses or NFP dairy businesses.

¹⁰ There can be a lot of diversity in the way a business articulates its purpose, but all purposes would fit into one of these two categories. The purpose of providing livelihoods or earning a living is inherent in all businesses, whether for-profit or not-for-profit. The NFP framework allows for a living wage for employees but not passive income for owners, whereas the FP framework allows for both.

the economy, it is only recently that scholars even began thinking about the legal purpose of business. Traditionally, it has been assumed that all firms exist to deliver returns to investors (e.g. Walker 2017). Any business that delivers profit to owners or intends to do so, whether in the short- or long-term, is legally considered as having a financial gain purpose and is, thus, for-profit¹¹ (Salamon 2010). For-profit legal frameworks allow for the purpose of private financial gain. This is not to say that all for-profit firms see profit as their main aim, but they all have the right to. As such, a number of for-profit companies do see financial gain as their main purpose – their bottom line.

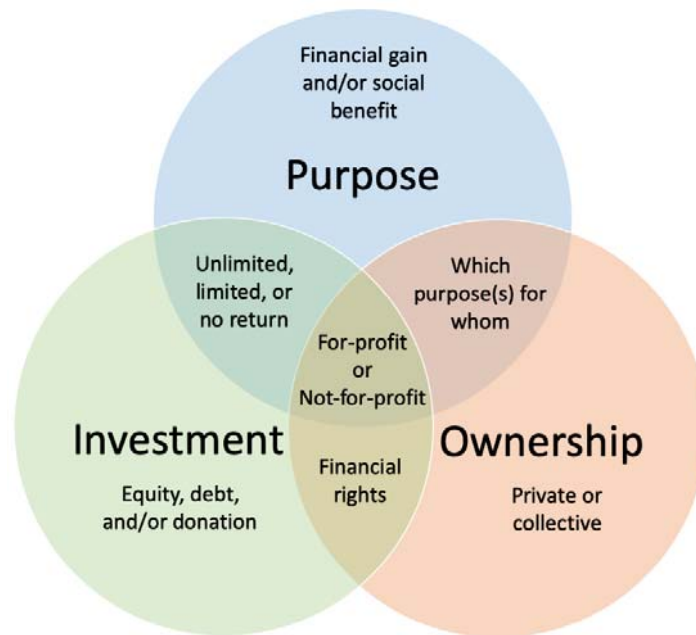


Figure 1: Relationship-to-profit of business.

In contrast, NFPs can only have a social benefit purpose and must direct any profit into achieving social benefit (ICNL 2013; Salamon 2010). This constraint is in place to ensure that the social mission is not disrupted by the pursuit of private wealth. In legal terms, NFP businesses can only use profit as a *means* to achieving social benefit, while for-profit businesses can pursue profit as an end in itself. When it comes to legal frameworks, social benefit is defined by local laws or policies, but around the world these definitions tend to include a wide variety of goals (Salamon *et al.* 2013), such as providing: healthcare, rehabilitative support, professional training, childcare, education, a place for community gatherings, healthy or sustainable products, as well as protecting animals and wilderness.

Investment

Investment is another important aspect of relationship-to-profit. There are three broad categories of investment in business: equity-based (e.g. shares)¹², debt-based (e.g. loans and bonds), and donation-based

¹¹ Some FP businesses act in a more profit-hungry way than their peers, but this study seeks to better understand the effects of relationship-to-profit on the sustainability of the economy, so these differences in strategy are ignored.

¹² The term 'equity' here refers to the monetary value of ownership shares in a firm. This can refer to any kind of shares of ownership, including in a publicly traded company, a worker cooperative, a partnership, or family-owned business. A not-for-profit entity can hold equity in a business.

investment (e.g. subsidies, grants and philanthropy) (Ojong 2015).¹³ For-profit frameworks allow for all three kinds of investment. Not-for-profit businesses can only take debt- and donation-based investments, but due to the non-distribution constraint, they cannot accept equity-based investment (Reiser and Dean 2017).

This has important consequences for how a business uses its resources, in terms of whether financial returns on investment are unlimited, limited, or non-existent. Donation-based investment has no returns. Debt-based investment involves returns limited to the percentage of interest on the debt and there are no further returns after the principal and interest have been repaid. Equity-based investment, on the other hand, has no limits. In theory, a for-profit business could pay dividends as a return on investment to its owners at as high a sum as its managers deem viable, for as long as it operates.

The different kinds of investment are tied to the purpose of the business. Equity-based investment in for-profit companies is in service of the purpose of delivering financial gain to owners – that is why it is unlimited. Debt-based investment can be in service of the purpose of financial gain for lenders or in service of the purpose of social benefit, depending on how it is done. Donation-based investment is typically done in service of a social benefit purpose – that is why there is no expectation of a return. In fact, it is exactly because investment is tied to purpose that NFPs cannot take equity-based investment. If they could offer unlimited returns to private owners, then they would, at least in part, be serving the purpose of private financial gain.

Ownership

When it comes to ownership, for-profit frameworks involve private ownership by individuals or by other companies, in which equity gives owners the right to take money and assets out of the business, known as 'financial rights' (Palmiter 2003).¹⁴ This is clearly in service of the financial gain purpose. Not-for-profit frameworks are more accurately described as having a form of collective ownership, wherein individuals (such as managers) can have control rights, but no financial rights.¹⁵ Here I use Stein's definition that collective ownership is the situation in which "all rights are vested in an undivided collectivity", whereas private ownership is a situation in which "divided rights are vested in individuals" (1976: 299).¹⁶ Collective ownership then means that managers have control rights (the right to make decisions on behalf of the organization) but not financial rights. In private ownership, however, there are private financial rights, and so the control rights and financial rights often overlap (e.g. a manager owning shares or an owner making management decisions). This lack of private financial rights in NFP business relates to the fact that no profit can be privately distributed because the firm exists to deliver social benefit, not financial gain (James and Rose-Ackerman 1986). Table 1 shows the key differences between for-profit and not-for-profit.

Let us articulate the three aspects together (Figure 2). Every business starts with a legal *purpose*, which can be financial gain and/or social benefit. The entrepreneurs decide whether to use a for-profit or not-for-profit framework¹⁷, which determines the form of *ownership*. The relationship-to-profit of the legal framework determines the kinds of *investment* the business can take and the ways in which it can use its financial surplus after operating expenses are paid. If it is FP, it can distribute the profit to owners, reinvest it in the business, or use it for social benefit; whereas if it is NFP, it can only reinvest the profit or use it for social benefit. Of course,

¹³ Ojong (2015) also refers to membership fees as its own category. Many companies pre-sell their goods and services in order to raise capital, but this is just another form of debt-based investment because the business has an obligation to pay the investor back in the form of products or services in the future (such as a year-long membership).

¹⁴ These rights have also been called rights to surplus/profit (e.g. Grossman and Hart 1986). Such rights usually include the rights to transfer and liquidate the equity (Palmiter 2003).

¹⁵ Not-for-profits can own other NFPs, but a FP can never own an NFP. On the other hand, an NFP can own an FP subsidiary that delivers all of its profit to the NFP owner(s), which then must use those resources for their social benefit mission.

¹⁶ Although some scholars conceptualize NFPs as having no ownership (e.g. Young 1982). I chose to use the concept of collective ownership. This definition includes both financial rights and control rights, the latter of which are important for envisioning alternative economic systems. If I were to choose the concept of no ownership, then I would be restricting the definition of ownership to financial rights.

¹⁷ Important to note here is that entrepreneurs are not always aware of their legal framework options and sometimes choose the most familiar or convenient framework, regardless of whether it best aligns with their intentions for the business (Hillman *et al.* 2018).

decision-making, leadership, and strategies vary from firm to firm, but the differences in relationship-to-profit guide and constrain business strategies and behavior.

Relationship-to-profit	For-profit	Not-for-profit
Purpose	Financial gain for owners and possibly social benefit	Social benefit
Investment	Equity-, debt-, or donation- based with private financial rights	Debt- or donation-based with no private financial rights
Ownership	Private	Collective

Table 1: The three key differences in relationship-to-profit.

The guiding and constraining principles of the NFP framework (i.e. having a core social benefit mission, no private financial rights, paying limited or no returns on investment, and having to use all surplus for social benefit. means there is good reason to explore how these features might create different system dynamics than the for-profit economy, especially with regards to political ecology issues like economic growth, inequality, and environmental impact.

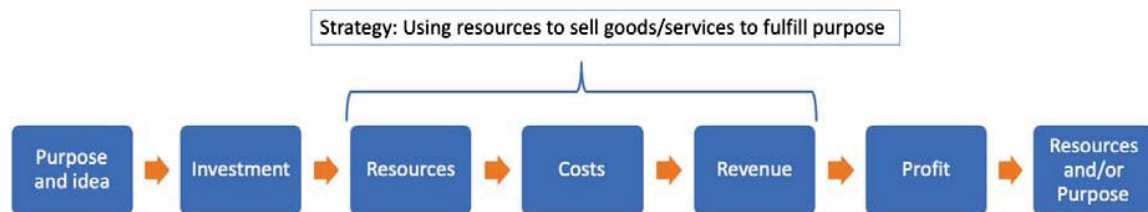


Figure 2: Purpose, investment, and profit in business.

3. The sustainability implications of a for-profit economy

This section analyzes three problematic reinforcing feedback loops that could be expected in a for-profit economy: consumerism, inequality, and political capture.¹⁸ I limit this analysis to the minimal number of variables needed to explain the most direct links between the relationship-to-profit of business and the sustainability issues listed above.

Consumerism and growth

It is often assumed that profit-seeking leads to economic growth through investment in production and innovation (e.g. Jones 2018; Krugman and Wells 2018). In such an economy, entrepreneurs strive to generate profit (propelled by the so-called *profit motive*, so as to reinvest it in production and innovation.¹⁹ Profit can be increased in three main ways, by: increasing revenue per item, decreasing costs per item, or increasing the number of items sold. High levels of growth, profitability, cashflow, revenue, and market share are considered signs of a successful for-profit business, and that is what managers and owners seek (Penrose and Pitelis 2009).

¹⁸ These issues were outlined to some extent in Hinton and Maclurcan (2016: 78-99; 109-114). This article offers a deeper analysis, with a clearer conceptualization of relationship-to-profit and the way in which purpose, ownership, and investment interact to shape the economy's dynamics.

¹⁹ This analysis is meant to stay at a generalizable level, so 'production' refers to any variety of goods and services.

Profit is also seen as the financial reward for taking the risks of investment (Knight 1921). The more sales that are made, the more profit will be generated, and a greater return on investment will be delivered to owners (in the short-, medium-, or long-term).²⁰

The more money the owners receive, the more money they are willing and able to invest in firms, with the expectation of a return on investment (Krugman and Wells 2018). One report of a survey of over 2,000 American millionaires found that the current net worth of individuals (at the time of the survey) corresponded with the amount of wealth they aspired to have amassed in the future - higher net-worth individuals aspired to have more total wealth than lower net-worth individuals (UBS 2015). The study also describes this constant seeking of more wealth as a treadmill that rich individuals feel they cannot dismount, due to costly lifestyles, feelings of financial insecurity, and social pressure (*Ibid*). Another effect of more profit, aside from increased dividends going to owners, is that managers will reinvest more money in firms' production in order to generate even more sales and profit (Penrose and Pitelis 2009). Figure 3 illustrates this feedback loop of the profit-motive leading to more investment, production (and innovation, sales, profit and dividends, which in turn increases the profit motive.^{21,22}

If there were no demand for products, however, then investment and innovation would not necessarily boost sales. So, businesses use advertising in order to attract customers (Brierley 2005; Varey 2010). It follows that one can expect that more advertising will lead to more sales, which translates into rising GDP (i.e. economic growth, Jackson 2017).

All production, use, and disposal of goods and services entails some degree of environmental impact, as researchers in the fields of ecological economics (Daly 1996), ecological Marxism (Magdoff and Foster 2011), bioeconomics (Georgescu-Roegen 1971) and degrowth (Hickel and Kallis 2019) have described.²³ Therefore, more production and sales entail increased environmental impact. Figure 4 illustrates advertising's effect on demand and the impacts of production and sales on environmental damage.

Planned obsolescence is another prominent profit-seeking strategy that many companies use to sell more items, which has an important impact on economic growth and the environment (Guiltinan 2009; Jackson 2017). Planned obsolescence refers to consumer goods being designed to break down or seem outdated earlier than necessary in order to prompt consumers to buy new products and services (Guiltinan 2009).

Examples of products that are commonly designed to become obsolete include so-called 'fast fashion', textbooks, lightbulbs, many single-use or disposable products, and electronic products like printers, laptops and mobile phones.²⁴ The more planned obsolescence there is in the economy, the more people buy products and services to replace those that have become obsolete (Cooper 2004, 2005; Guiltinan 2009; Kuppelwieser *et al.* 2019). The further sales there are due to short product-life and perceived obsolescence, the more harm is done to the biosphere, through production and disposal (Pope 2010; Rivera and Lallmahomed 2016). Also, increased sales reap greater amounts of profit, which leads to larger dividends going to owners. Managers will also tend to invest in more advertising and planned obsolescence to deliver profits if they have proven to be successful

²⁰ 'Owners' include anyone holding equity in the business, such as partners and shareholders.

²¹ If you are unfamiliar with causal loop diagrams, it is important to note that + refers to a positive causation between two variables (i.e. more of X causes more of Y, or less of X causes less of Y than what would have otherwise been the case), and - indicates a negative causation (i.e. more of X causes less of Y, or less of X causes more of Y). 'R' indicates a reinforcing feedback loop, wherein the variables continue to grow or to decline, typically at an increasingly rapid rate. 'B' indicates a balancing feedback loop, which creates goal-seeking behavior in an effort to maintain a desired level of a certain variable. I will use orange to designate new variables and causal connections as I build up to a more complex diagram of the system.

²² In this article's diagrams, 'Production' refers to production of existing goods and services, but also the innovation and offer of new ones. 'Sales' can also be interpreted as consumption.

²³ Firmly grounded in a post-growth perspective and using the precautionary principle of ecological economics, this analysis takes the assumption that absolute, long-term decoupling of economic activity from environmental pressures on the global scale can only happen to a limited extent, so an increase in the sale of goods and services will always have more environmental impact (Daly 1996; Jackson 2017; Parrique *et al.* 2019).

²⁴ The fact that planned obsolescence is an increasing problem in the global economy is evidenced by the growth of consumer movements, like the international 'Right to Repair' movement, and even national laws to counter planned obsolescence, as in France (Khaleeli 2015).

strategies. On the aggregate level of the economy, there will be an increase of all of these variables as long as they successfully satisfy the purpose of the market: to deliver returns on investment.

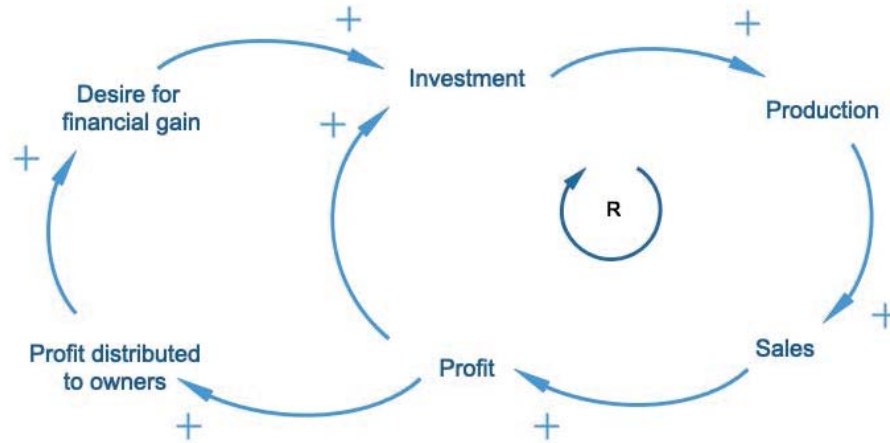


Figure 3: Feedback of financial gain purpose, investment, and production

In summary, economic growth and profitability depend to a large degree on maintaining and spreading the culture of consumerism²⁵ (Schor 2004). If the above chain of logic is correct, then profit-motivated investment drives three main reinforcing feedback loops that contribute to consumerism; the loops of production, advertising, and planned obsolescence (depicted in Figure 5). In these ways, profit-seeking companies drive growth in sales and economic output (measured as profit and GDP) which in turn drives environmental damage. Without significant balancing factors, reinforcing feedback dynamics like these result in patterns of exponential growth over time. These system dynamics can be seen empirically in the exponential growth of economic activity, consumption of resources, and ecological damage over the last century or so. This is what Steffen *et al.* (2015) call the 'Great Acceleration.'²⁶

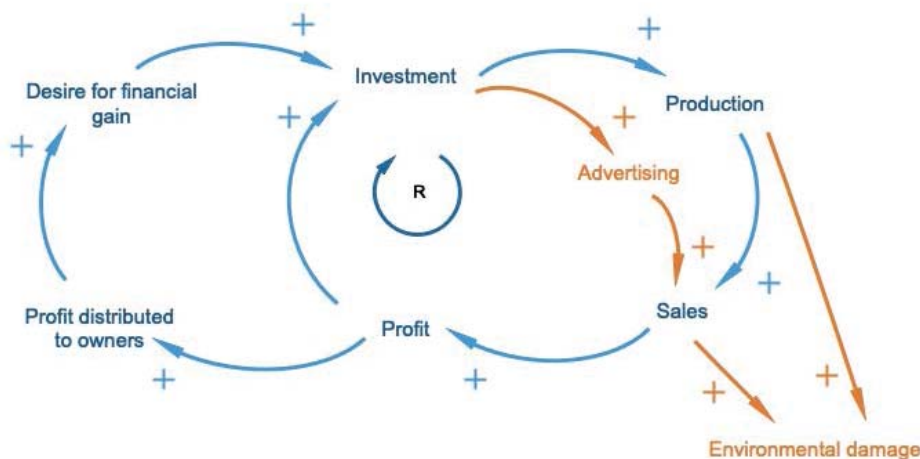


Figure 4: Advertising fuels demand and environmental damage.

²⁵ Consumerism is defined as "the preoccupation of society with the acquisition of consumer goods" (based on Merriam-Webster's entry for 'consumerism', 2019).

²⁶ Aside from the environmental impacts of consumerism, there are also high social costs, such as the weakening of social ties, low self-esteem, and a general decline of wellbeing (Dittmar *et al.* 2014; Kasser and Kanner 2004).

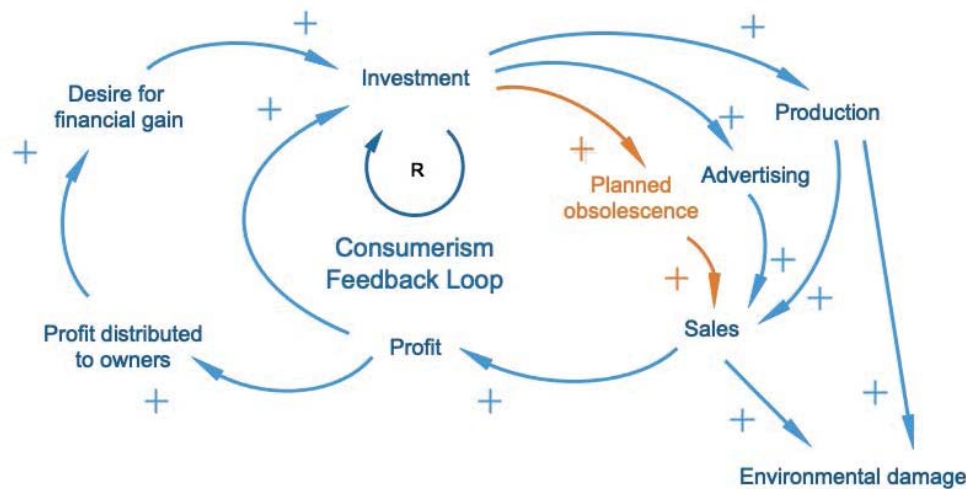


Figure 5: Feedback loop of consumerism.

Inequality

Although economic inequality and environmental problems are often treated as separate issues, eco-Marxian literature is quick to point out that both issues are a result of the way in which the global economy is currently organized (e.g. Magdoff and Foster 2011). The following section shows how, in addition to driving economic growth and ecological deterioration, the for-profit economy also exacerbates inequality (Hinton and Maclurcan 2016). Three different reinforcing loops contribute to growing levels of inequality in this for-profit ideal type of economy. The first is the loop of private accumulation of profit; the second is market concentration; and the third is the stagnation of wages.

In orthodox economic theory, the long-term stability of for-profit markets relies on owners reinvesting most or all of their returns back into production, which should create more jobs and income for workers. This would still be bad for the biosphere, but it would at least not systematically create inequality. However, this is not what happens in reality. Owners' desire for financial gain drives them to reinvest enough profit to make more money, but it also compels them to save and accumulate a large portion of their income. For instance, one study found that high net-worth individuals save 27% of their wealth as cash and bank deposits and about 17% of their income is invested in real estate (often seen as a form of saving) (Capgemini 2018). Of the amount invested in equities (31%) and fixed income (16%) (*Ibid*), only a relatively small amount goes to investment in businesses via initial public offerings or further stock issuance, whereas most of it goes into financial speculation rather than production (Lazonick, 2018: 119). Over time, these owners are able to accumulate wealth, which enables them to buy even more shares in the same or other businesses and, thus, accumulate even more money²⁷ (Hinton and Maclurcan 2016). Furthermore, the richer a person is, the higher the rates of return on capital they will receive, because the super-rich can afford sophisticated wealth management services (Picketty 2014).

These dynamics of accumulation and concentration are evidenced by the fact that, in the past three decades in the US, dividends have increased as a proportion of corporate profits (Lazonick 2018: 117). It is also clear in income tax data. For those in the richest tax brackets in the US in 2012 (those with annual incomes of

²⁷ In the year 2012 in the US, for the 99% of tax filers with incomes of less than US\$500,000, more than about 75% of their income came from salaries and wages, whereas salaries and wages only made up 38% of total income for taxpayers with incomes between US\$1 and US\$5 million, and only 18% of income for taxpayers with incomes above US\$10 million (Austin and Williams 2015).

US\$5 million or more) capital gains²⁸ were the largest source of income, closely followed by business income²⁹, interest, and dividends (Austin and Williams 2015). This trend is also reflected in the UN's International Labor Organization (ILO) and OECD statistics, showing that larger profit shares in high-income economies have often not led to more investment (ILO 2016).

In short, owners invest to get more out than they put in. Over time, successful investors do not have to invest more, because the shares they already own naturally increase their wealth by a certain amount every year, so they can accumulate money whether they reinvest or not. This strengthens the power of the reinforcing feedback loop of wealth accumulation (as shown in Figure 6). The economist Thomas Hungerford found this process operating in the US., where capital gains and dividends through business ownership have been the greatest contributing factor to inequality (Hungerford 2011). There is no reason to think this would not be one of the most significant contributors to inequality in other countries as well (for instance, the burgeoning billionaires in Europe, Australia, China, Brazil, and India).

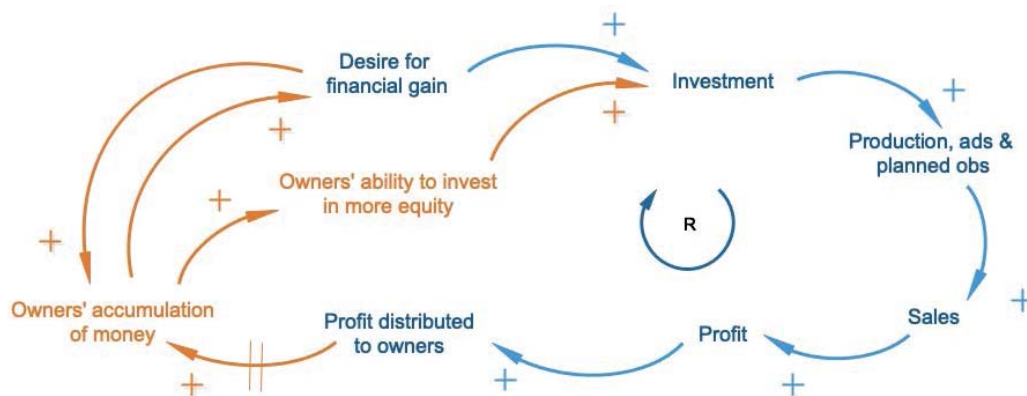


Figure 6: Feedback loops of accumulation and concentration of wealth. Two dashed lines across an arrow indicates a delayed causation; a causal relationship that takes more time to play out than the other relationships in the diagram.

Although competition is often thought to be one of the best ways to keep businesses from growing out of proportion, there is an incentive for for-profit firms to grow big enough to not have to worry so much about competition. Becoming large ensures survival and ongoing financial gain for owners. This growth-imperative can easily lead to the concentration of market share in the hands of a relatively small number of firms³⁰ (Foster 2014). Larger firms also have significant advantages in the market. They are better able to profit from economies of scale³¹ and mergers and acquisitions of other companies, have high visibility to both consumers and investors, and more investment due to greater levels of (perceived) profitability (Penrose and Pitelis 2009).

Big companies have more resources to improve the reach and quality of their marketing. Brand visibility and familiarity can be enhanced via advertising, the shopping environment, product packaging, product placement (including shelf-visibility, which has been linked to increasing impulsive shopping – Flamand *et al.* 2016), and on-the-spot promotion. All of these tactics make the brand more salient in consumers' minds (so-

²⁸ 'Capital gains' refers to profit made from the sell or trade of assets, such as stocks, bonds, and property.

²⁹ 'Business income' refers to income gained from owning a business or being a sole proprietor.

³⁰ Penrose and Pentelis (2009). point out that there are two different ways to measure industrial or market concentration: inequality of size distribution (that is, how many firms are small compared to large in the market - a relative measure) or absolute concentration (how much of the total production, employment or assets is concentrated in just a few firms). I prefer absolute concentration as measured by total production and assets, as the number of small firms can be misleading when it comes to the concentration of wealth and power among a few giant firms.

³¹ Economies of scale refers to how large firms are often able to save costs due to efficiency gains.

called "brand awareness" (Aaker 1996), increasing brand loyalty and influencing consumer decision-making during the shopping experience (Huang and Sarigöllü 2012). Because consumers often buy products that they already know (Huang and Sarigöllü 2012; Penrose and Pitelis 2009), it means that large companies will have a significant competitive advantage in capturing market share. Increased market share can also have a positive effect on further investment, because companies that have captured a large share of the market are perceived as more steadily profitable by investors.

Not only are large firms typically more cost-efficient, powerful, and visible, but they can also create barriers to entry for smaller firms. These barriers include the power of large firms over technology, raw materials, special relationships with distributors, and the ability to threaten price wars (Penrose and Pitelis 2009). In this climate, it becomes ever-more difficult for smaller firms to compete and it is often in their interest to sell out to big firms (*Ibid*).

Over time, without significant balancing factors, such a market will become increasingly concentrated (as shown in Figure 7³²). The higher the concentration of the market, the more severe the effects of these feedback loops are. These dynamics might explain the empirical evidence of the consolidation of the market in the hands of fewer and fewer transnational firms, in most sectors of the global economy (e.g. Bajgar 2019; Brancaccio *et al.* 2018; Folke *et al.* 2019). The *OECD Employment Outlook 2018* describes it as "winner-takes-most" dynamics: "the process through which the most productive firms capture an overwhelming share of the market" (OECD 2018: 60). Especially notable is the trend in transnational mega-mergers and acquisitions, in which two extremely large multinational companies merge (such as Bayer's acquisition of Monsanto and Nestlé's partial acquisition of L'Oréal in recent years). In a profit-seeking system, these mega-corporations are perceived as successful, despite the unsustainable dynamics that led them to that 'success' and allow them to maintain it. Therefore, rather than being a key *cause* of economic growth, market concentration (along with growth) is an *outcome* of the for-profit economy.

The high levels of market concentration are accompanied by the concentration of ownership, as seen in the global data provided by Brancaccio *et al.* (2018) and Vitali *et al.* (2011); as well as the concentration of wealth among a relatively small number of owners, as seen in the global data presented by Fuentes-Nieva and Galasso (2014) and Alejo Vázquez Pimental *et al.* (2018). In other words, the richest owners own the biggest companies, which are taking an ever-larger share of the market, making the richest owners even richer.³³ This is what Karl Marx called the attraction of capital to capital (Foster 2014). If the above chain of logic is correct, then it is no coincidence that the majority owners of the largest and oldest companies in the world are also among the richest people in the world, as Kroll and Dolan show (2019).

As owners accumulate more wealth, inequality will rise unless workers' wages increase enough to let them save at least at the same rate as the owners. However, because labor is a key factor of production for most companies, it is also a key cost. That is why keeping wages low is seen as a cost-cutting strategy for companies pursuing profit (Schnaiberg *et al.* 2002). When their goal is to generate returns on investment, it is rational for companies to keep the wages of their employees as low as they can. This can be seen in the fact that wages in middle- and low-income brackets have been declining or stagnating over the last few decades in many OECD countries (OECD 2018. and the International Labour Organization says that 'wage stagnation characterizes the global economy as a whole' (ILO 2016: 85).

Of course, wage suppression might be limited in places with strong trade unions or with strongly-enforced minimum wage policies. Yet, it is also in the interest of profit-seeking owners to discourage union membership (known as union busting. (Logan 2006; Royle 2008; Schnaiberg *et al.* 2002). And high-skilled workers often have more success in negotiating better wages than low- and medium-skilled workers, who are more easily seen by companies as replaceable. Globally, the high-skilled labor share of total global income

³² Note that this causal loop diagram is different from the diagram of the for-profit ideal type that has been developed in preceding figures and that will be further developed in the following figures.

³³ Perhaps these mechanisms of concentration would not happen if everyone started on an even playing field. However, the only way that could happen is if everyone were an owner and even then, some investments would be more profitable than others, which would result in inequalities that lead to these dynamics over time (assuming investment is guided by profitability).

increased from 1995 - 2009, while that of middle- and low-skilled labor decreased during that same period (Dao *et al.* 2017). Low- and middle-skilled labor composed the vast majority of hours worked in both emerging and advanced economies, during that time (*Ibid.*).

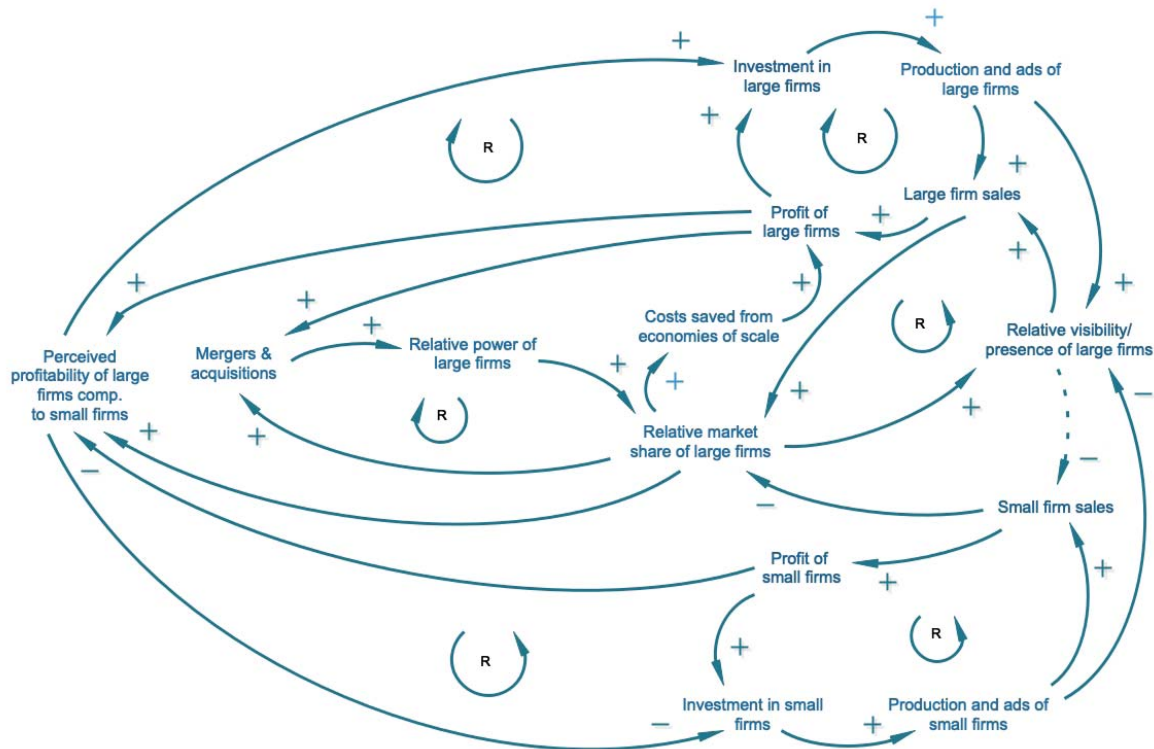


Figure 7: For-profit market concentration dynamics.

This situation, of increasing profits going to owners in parallel with stagnating wages, is common to most countries (ILO 2016). Globally, labor's share of income has declined in seven of the ten major industries tracked by the IMF: manufacturing, transportation, mining, health services, trade, financial services, construction, and utilities (Dao *et al.* 2017). It has only increased in real estate, agriculture, and accommodation (*Ibid.*). According to mainstream economic thinking, competition between firms in the market is supposed to keep wages high and prices low enough to maintain a fairly stable economy, but due to the market concentration dynamics of the for-profit economy, this is not happening. As inequality rises, those in higher income brackets have reason to be even more profit-motivated, in order to avoid the risk of falling into lower income brackets, in which people are struggling much more to make ends meet (Wilkinson and Pickett 2009; UBS 2015). Figure 8 illustrates the dual feedback loops of wage suppression and wealth accumulation that drive inequality.

Economic growth is often seen as the solution to poverty and inequality because it will provide more jobs (e.g. World Bank 2016). However, the growth rate of the economy needs to be exceptionally high in order to create enough jobs to counterbalance the inequality dynamics of the system (Magdoff and Foster 2011: 57-58). And that kind of economic growth comes at a very high environmental cost.

Furthermore, economic growth does not always result in more jobs, because automation can often increase profits by boosting efficiency and saving money on labor costs. Data collected by the OECD reflects that this is indeed what is happening in much of the global economy (OECD 2018). Wages are growing at a slower rate than production, because a growing amount of that production is being done by automation rather

than workers (*Ibid*: 49). This can lead to a situation in which there are fewer jobs in the labor market for working class households, even in a growing economy (Rotman 2013).³⁴

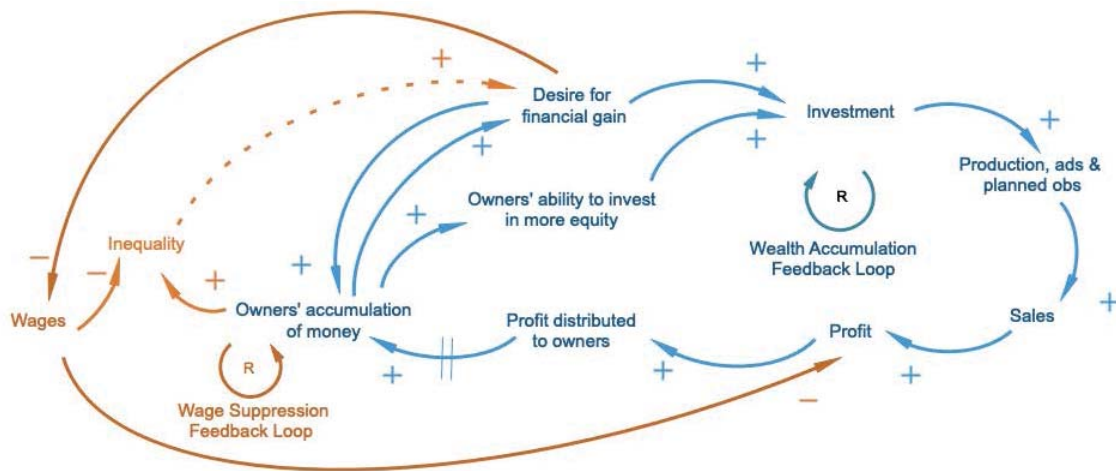


Figure 8: Inequality feedback loops.

Political capture

The above analysis implies a need for redistributive policies to balance out these negative consequences. However, the redistribution of wealth (via taxes, for example) is at odds with the purpose of for-profit business to achieve financial gain. Therefore, the wealthiest firms and individuals have an incentive to use their power and influence to push for subsidies, lower taxes, and against environmental and labor-related regulations that would cost their firms money (Schnaiberg *et al.* 2002). And in an increasingly globalized economy with high levels of market concentration, they do just that, which in turn results in greater inequality, and another vicious feedback loop (Phillips 2017).

In their 2014 report *Working for the few: political capture and economic inequality*, Fuentes-Nieva and Galasso refer to this kind of illegitimate influence on policy-making as "political capture" and describe how inequality has been leading to more political capture on the international stage (Fuentes-Nieva and Galasso 2014). The billions of dollars-worth of lobbying that is done on behalf of corporations can alter the agenda, priorities, and problem-solving capacities of a government (Cave *et al.* 2015; Drutman 2015), and more profitable firms lobby more (Sadrieh and Annavarjula 2005). Firms involved in lobbying and other forms of political influence have annual revenue nearly four times higher, employee sizes over three times larger, and annual assets worth nearly twice as much as non-politically active firms in the US (Kerr *et al.* 2014). These are a small proportion of firms (between 6 and 10 percent, *Ibid*) with a large influence, which in turn gives them added advantages in the market. Companies and industries can also have disproportionate influence on policy-making via campaign contributions. For instance, the richest voters have a higher degree of influence on policy-making than middle- and low-income voters (Bartels 2008; Gilens 2012; Gilens and Page 2014). Some firms even participate in 'revolving doors', which refers to the act of placing industry associates in policy-making (or policy-advising) positions (Vidal *et al.* 2012). This, in effect, allows an industry to regulate itself.³⁵

³⁴ Increasing levels of household debt among low- and middle-income earners exacerbate these dynamics and might undermine the economy in the long-term by inhibiting the levels of consumption needed to keep the economy growing (Berisha and Meszaros 2018).

³⁵ An extreme example of political capture happens in the form of Investor-State Dispute Settlements, which are written into trade agreements, like the TransPacific Partnership and the North American Free Trade Agreement, in which businesses can sue governments in private arbitration courts if they feel that a policy is having a negative impact on their profits (BEUC

High net-worth companies and individuals can also use threats to move elsewhere in order to influence policy in their favor. Examples of this include a large hedge fund threatening to leave Connecticut in response to a planned surcharge on investment services (Fitch 2017) and wealthy French residents threatening to move their money in response to the proposal for a 75% wealth tax (Alderman 2012). Powerful companies and owners increasingly keep their money in tax havens to avoid paying taxes (Fuentes-Nieva and Galasso 2014). In maintaining the wealth of the richest and keeping money from going to support the safety nets that governments provide for their most vulnerable residents, tax havens further increase inequality.³⁶

In these ways, profit-motivated political capture counteracts policies that might otherwise have a balancing effect on the unsustainable feedback loops of inequality and consumerism described above (Figure 9).

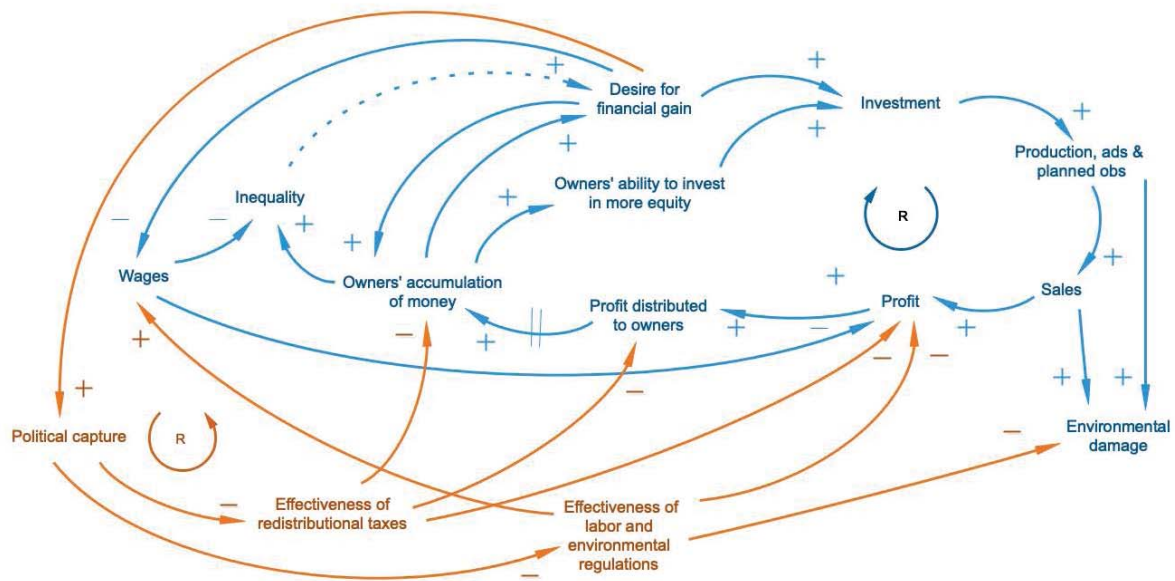


Figure 9: Feedback loops of political capture.

As this ideal type of the for-profit economy demonstrates, the purpose, investment, and ownership structures of business have system-wide consequences. I claim that the for-profit economy generates the following five patterns³⁷:

- 1) Profit-seeking both requires and drives growing levels of production and consumption (i.e. economic expansion) in order to deliver increasing returns on investment to private owners.³⁸
- 2) More consumption and production undermines the planet's biosphere.
- 3) Inequality results, as owners accumulate returns and wages are suppressed in order to cut business costs.

2014). These settlements have proven to be a very potent tool for industries and their leading firms to make sure that policies are not detrimental to their profits (Sinclair 2015).

³⁶ Work done by Galaz *et al.* (2018) also investigates the ecological damage that is indirectly related to tax havens.

³⁷ Schnaiberg *et al.* (2002) refer to some of these dynamics in their article, *The treadmill of production and the environmental state*.

³⁸ For-profit economies experiencing little or no growth are considered to be in recession. In such a situation, returns to owners decrease, wages are further suppressed to compensate for lost profits, tax income for the state decreases, and if this goes on long enough, jobs also disappear, which exacerbates inequality.

- 4) The goal of accumulating wealth encourages aggressive growth strategies among firms in order to reduce competition, which leads to increasing market concentration over time.
- 5) Owners' desire for financial gain in a context of inequality leads to political capture, which inhibits regulations and taxes that might otherwise reduce inequality and ecological damage.

If these points hold, then consumerism, economic growth, inequality, and the tendency to destroy the natural environment are inherent features of a for-profit economy. Therefore, poor social and ecological outcomes are not anomalies, market failures, or externalities that just need to be internalized in the for-profit economy. Rather, they are logical outcomes of profit-seeking strategies in a profit-driven economy. It is therefore difficult to imagine a socially and ecologically sustainable for-profit economy, because the very policies that could be used to make it sustainable are at odds with a key institution of the system: the desire for financial gain. Figure 10 highlights the problematic dynamics of this ideal type of economy.

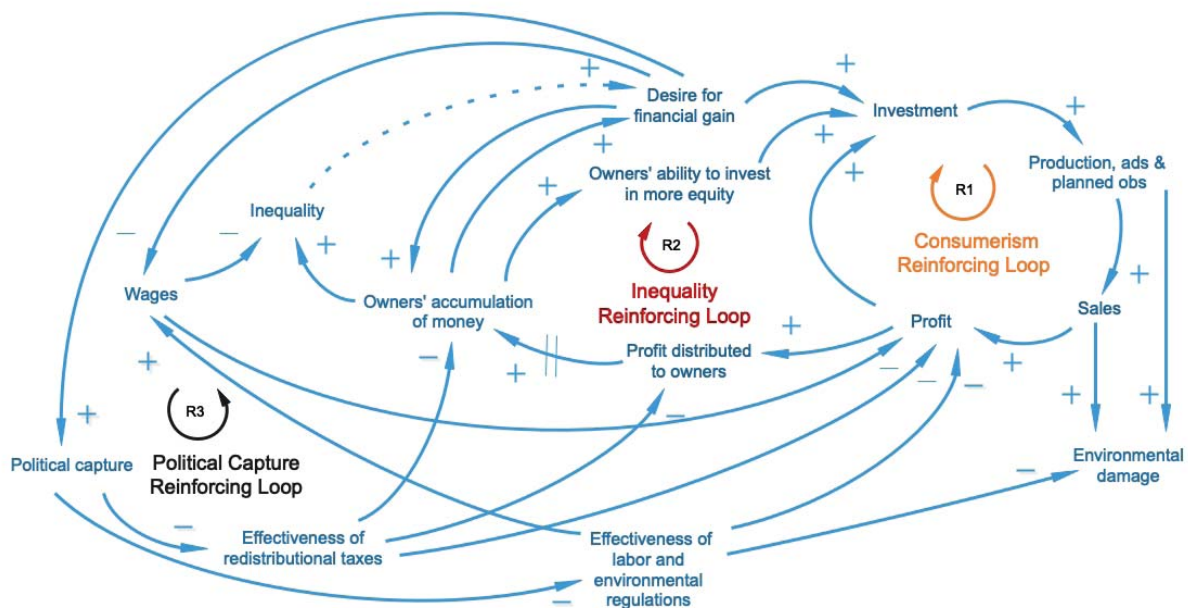


Figure 10: The three vicious cycles of the for-profit economy.

4. What about a dual-purpose economy?

In a growing response to inequality and ecological crises, many businesses are broadening their scope, by adding social and environmental goals to their profit-seeking purpose. Businesses can work toward social benefit goals either by using their resources to undertake socially beneficial activities themselves, or they can fund other organizations that focus on social benefit. This funding can come from the investment streams or profits of a business. The business can form a partnership with an NGO or charity that does socially beneficial work (Lodsgård and Aagaard 2017). Or they can undertake corporate social responsibility (CSR) schemes and corporate philanthropy (Kotler and Lee 2004). Some businesses add social and environmental accounting to their financial accounting, using tools such as those developed by Economy for the Common Good (2018) and B Corps (2018).

Others go so far as to use a dual-purpose legal framework, such as the Benefit Corporation in the US or the Community Interest Company limited by shares in the UK (Mair *et al.* 2006; Reiser and Dean 2017).³⁹ In these dual-purpose businesses (sometimes called 'hybrid businesses'), there are two main sources of motivation for investment: financial gain and social benefit (sometimes called the 'double dividend'). These firms are still for-profit, in terms of their legal framework, but have decided to operate with a dual purpose. As such, private owners have financial rights and can receive dividends from the firm's profit, but it is expected that some profit also goes to social benefit, or that some profit is foregone in order to achieve social benefit (Reiser and Dean 2017).

The businesses described above can be described as 'triple bottom line' companies that seek to balance "people, planet, and profit" (Elkington 1994). The scant literature that does address business from a post-growth perspective tends to take this triple bottom line approach (e.g. Bocken and Short 2016; Khmara and Kronenberg 2018; Schaeffer *et al.* 2015). The economic model of these businesses uses the same dynamics seen in the for-profit ideal type of economy, but slowed down by the socially- and environmentally-beneficial work being done, as well as the flow of that portion of profit into social benefit instead of into owners' hands. To the extent that social benefit is being pursued and achieved by hybrid businesses, we can expect to see balancing feedback loops that slow down the destructive dynamics of the for-profit economy, as shown in Figure 11.⁴⁰

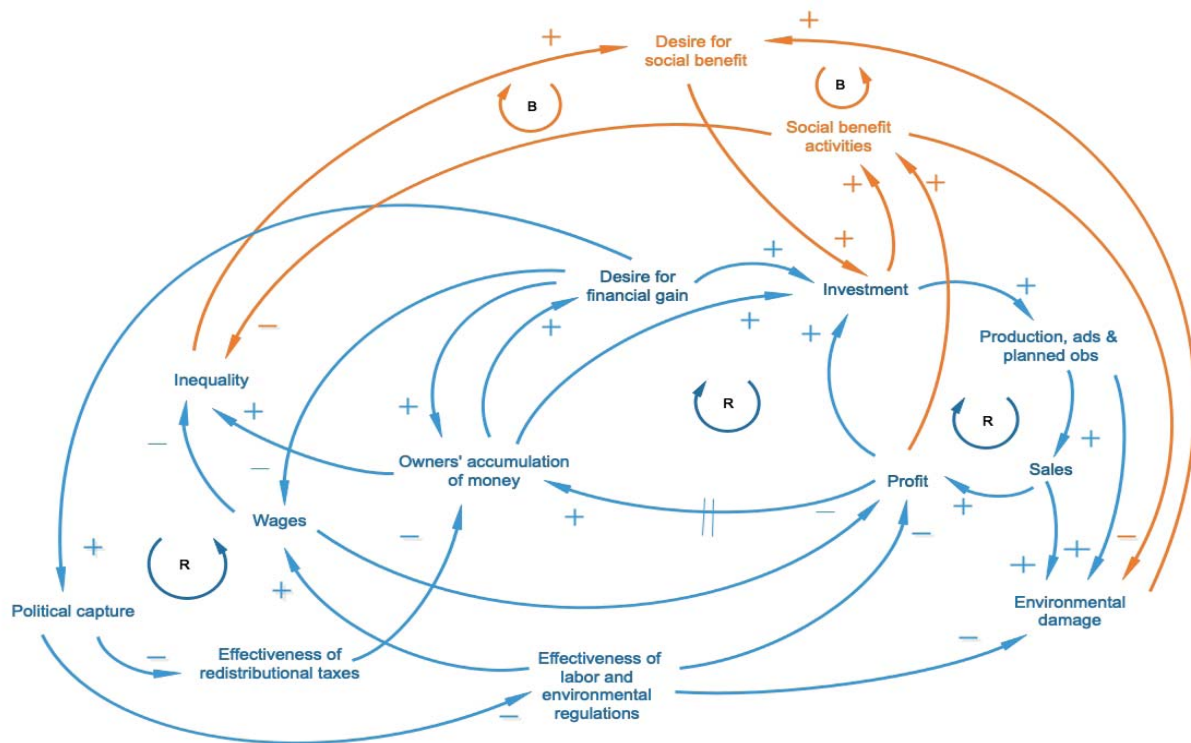


Figure 11: Key dynamics of the hybrid economy.

A large percentage of investment would have to be put into social benefit efforts in order to counteract the vicious cycles of consumerism, wage stagnation, and the concentration of wealth among owners that are

³⁹ Some such legal frameworks have a distribution cap, which means that only some stated percentage of the profit can be distributed to owners and the rest must be reinvested in the social purpose or back into the business.

⁴⁰ The dynamics of the for-profit economy have been simplified in this diagram in order to more clearly show the changes that come with the addition of social purpose.

features of a profit-seeking economy, much less to reverse inequality and regenerate ecosystems on a global scale (which is what is currently needed). For the same reasons that we see political capture in a for-profit economy, it is unlikely that most profit-motivated companies and their owners would want to make that kind of investment. This would explain why, despite a large-scale mobilization of businesses taking on social benefit missions over the past few decades, we continue to see worsening inequality in most of the world, in terms of interpersonal, inter-country, and intra-country inequality⁴¹ (Hickel 2017) and increasing rates of global environmental damage (Ekins *et al.* 2019).

Tradeoffs between social benefit and financial gain for owners are a constant part of decision-making in these firms. There is only so much revenue and profit that is generated each financial year for any given firm or market. It follows that transferring a higher percentage of the profit to owners means that a smaller percentage is available for social benefit, and vice-versa.⁴² Therefore, such companies want to invest enough in social benefit to pursue a dual purpose, but not enough to negatively impact their profits. Of course, some profit might be made up for by passing the social investment costs onto the consumer, by raising prices, or to workers, by reducing wages (Reinhardt *et al.* 2008). However, this means that consumers or workers are paying for social benefit, rather than reducing the accumulation of profit by owners. In such cases, the social benefit activities lack much of a counterbalancing effect, if any, on the inequality dynamics of the economy.

5. Not-for-profit business as a key element of post-growth transformations?

What might the dynamics of a not-for-profit economy, composed of businesses that exist only to deliver social benefit, look like?

Let us start with inequality. As mentioned earlier, private financial rights and equity-based investment are not permitted in the NFP legal framework. This would eliminate the loop of owners getting richer from unlimited returns on investment that drives many destructive system dynamics in the for-profit economy discussed above (Hinton and Maclurcan 2016). Additionally, there is no reason to think that the purpose, investment, and ownership structures of NFP orientation would incentivize businesses to suppress wages. Instead, the NFP framework encourages businesses to maintain fair wages. Empirical evidence shows that NFPs have better pay equity than FP counterparts (Ben-Ner *et al.* 2011; Leete 2000). There is better equality in an economy in which a large portion of businesses exist to help disadvantaged people, in which there is no incentive to suppress wages, and in which there are no private owners to take profits.

One potential source of inequality in such an economy is debt-based investment. However, the limited nature of returns on debt-based investment would lead to less inequality than the unlimited returns on the equity-based investment of the FP economy. Furthermore, all banks and lending institutions in this ideal type are not-for-profit, so most debts and interest are repaid to NFPs, which then put profit into social benefit. Therefore, debt-based investment in the NFP economy does not contribute to inequality as in the FP context, in which some portion of bank profits is paid to private owners and, propelled by the profit motive, some lenders charge exploitative interest rates. Yet, there is still a risk for debt-based investment from private individuals to create inequality in the NFP economy. Another potential source of inequality is wage suppression. Although there is not the same incentive to suppress wages as in FP forms of business, NFP frameworks do not necessarily ensure fair pay for labor.

There might also still be a tendency towards market concentration, as it could be natural to invest in larger, more visible NFP companies. However, market concentration in the NFP economy would likely not be the result of aggressive growth strategies in order to dominate the market. Indeed, there is some evidence of a tendency to cooperate among NFPs (Hinton and Maclurcan 2016: 156-158).

In terms of political capture, NFP firms might have a drive to grow larger or to lobby for subsidies or favorable policies in order to better achieve their missions, but there is no direct and obvious reason that they would want to stifle the effectiveness of redistributive taxes or labor and environmental regulations. Furthermore, not-for-profit businesses have three layers of accountability to ensure that they use their resources

⁴¹ With the exception of China and some of East Asia (Hickel 2017).

⁴² This has been referred to as "sacrificing profits in the social interest" (Elhauge 2005).

for generating social good: legal authorities, the tax agency, their board, their customers and beneficiaries, and the wider community (James and Rose-Ackerman 1986; Reiser and Dean 2017; Salamon 2010). Thus, they can be held accountable through social pressure, consumer preferences, and legal institutions (including the tax agency and justice system). Whereas many FP firms are explicitly started for a financial gain purpose, so it is difficult to hold them accountable for contributing to social and environmental wellbeing. This is particularly difficult to do when it comes to hybrid firms. How much social benefit versus private financial gain should be expected by the various stakeholders? What happens if different stakeholders' expectations do not match up (e.g. those of owners and beneficiaries)?

The NFP economy could potentially have the reinforcing feedback loop of consumerism, identified above. There is no reason to think that the NFP economy would necessarily lead to less consumerism. Yet, it does not have the same built-in pressure to sell more items in order to deliver profit to owners. For this reason, it is questionable whether planned obsolescence would be a trend in an NFP economy.

Another key difference is that there are balancing effects in the NFP economy due to the social benefit nature of these businesses (as shown in Figure 12). The greater the magnitude of social and ecological problems, the more a desire for social benefit motivates community members to invest in resolving these issues. For instance, if there is a high level of drug abuse, resources are invested into rehabilitation programs. If there is wild species' habitat destruction, resources are invested into protecting and rehabilitating ecosystems. As habitats recover and as drug abuse wanes, fewer resources are directed into these areas, because there is less of a need. In this way, money goes to where it is most needed in order to provide for social and ecological health, because there is no underlying goal to accumulate private wealth. Large parts of the market can become a social safety net for disadvantaged segments of the population (Hinton and Maclurcan 2016).

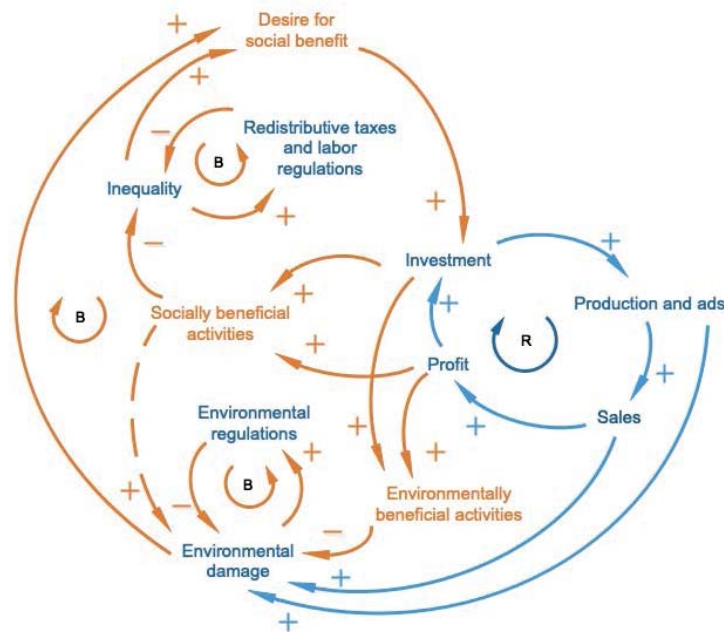


Figure 12: Key dynamics of the not-for-profit economy.

In this section of the analysis, I have argued that a not-for-profit 'ideal type' economy might include consumerism, but lacks the inequality and political capture feedback loops of the FP economy. It also generates the following four patterns:

- 1) The desire for social benefit promotes investment in businesses and organizations that use their activities and all of their profit for social and/or environmental missions.
- 2) There are relatively high levels of economic equality, due to the lack of private financial rights; more equal pay differentials; a large part of the economy doing social work that helps disadvantaged people; and the absence of political capture for private gain.
- 3) Redistributive taxes, environmental regulations, and labor-friendly regulations can be more effective in the absence of systemic political capture.
- 4) Investment is responsive to social and environmental problems and when there are fewer problems, there is less investment.

6. Discussion

What insights can be gained from comparing the ideal types presented above? One that emerges is that the NFP economy contrasts so starkly to the FP economy largely in terms of what it does *not* do. This has very important implications for post-growth transitions, when it comes to dealing with factors that keep the economy locked into growth-based pathways. The *absence* of destructive feedback loops in the NFP economy better allows for most policies and actions advocated by post-growth theorists, such as work time reduction, re-localization, alternative measures of wellbeing, redistributive policies, and resource and pollution caps. Let us take the example of a core post-growth intervention: the shift to less materially-intensive lifestyles, also called voluntary simplicity or down-shifting (Alexander 2015).

Despite environmentalists' call for more minimalist lifestyles for several decades (e.g. reduce, reuse, recycle), most businesses in the FP economy have continued to contribute to a culture of consumerism. One can imagine that if businesses in an NFP economy get the signal that consumerism is bad for people and planet, then they would not continue to push people to consume goods and services, just for the sake of increasing sales and profit. This would allow for a post-consumerist society to emerge. If needed, environmental regulations and taxes could also put pressure on firms to adjust their strategies, and on people to live more minimalist lifestyles, with a lot less resistance than in an FP economy. Figure 13 shows how the minimalist lifestyle intervention could fit within the NFP economy, generating yet another balancing effect on the system.

Likewise, the NFP ideal type allows for a non-growing or degrowing economy, whereas it is difficult to imagine a non-growing FP economy. Without the vicious cycle of consumerism driven by the profit motive, there could be space for people to meet more of their needs in non-monetary ways; for instance, through greater connection with their communities and nature, and having more time to themselves.⁴³

Higher levels of economic equality would mean there is greater ability to ensure that only socially-beneficial and ecologically-sustainable products and services are on the market. In an economy without a high level of pressure to consume for consumption's sake, people would likely not buy as many things (Kasser and Kanner 2004; Schor 2004) and in a context of more economic equality, individuals do not need to work as much to make ends meet.⁴⁴ This means that they can better afford to pay prices that cover socially-and environmentally-responsible production (which further ensures higher levels of equality, in a virtuous feedback loop).

In positioning investment, strategy, and profit in service of social benefit, rather than in service of private financial gain, NFP business *transforms* the mandate of business, as opposed to *broadening* it (as hybrid businesses do). When businesses are motivated to generate financial gain for owners, they can very easily run into situations in which their strategies sacrifice social and ecological wellbeing for profit. Broadening the aims of business does not address such tradeoffs, whereas transforming the aims of business to focus solely on social benefit can.

⁴³ When referring to meeting needs, I suggest Max-Neef *et al.*'s (1991) framework of needs and satisfiers, which conceptualizes satisfiers of needs as infinite and contextual, but identify nine universal needs that every person has, regardless of context: subsistence, affection, protection, understanding, participation, leisure, identity, freedom, and creativity. Money and consumption can help meet these needs only to a limited extent.

⁴⁴ These dynamics are outlined in more detail in Hinton and Maclurcan (2016: 170-181).

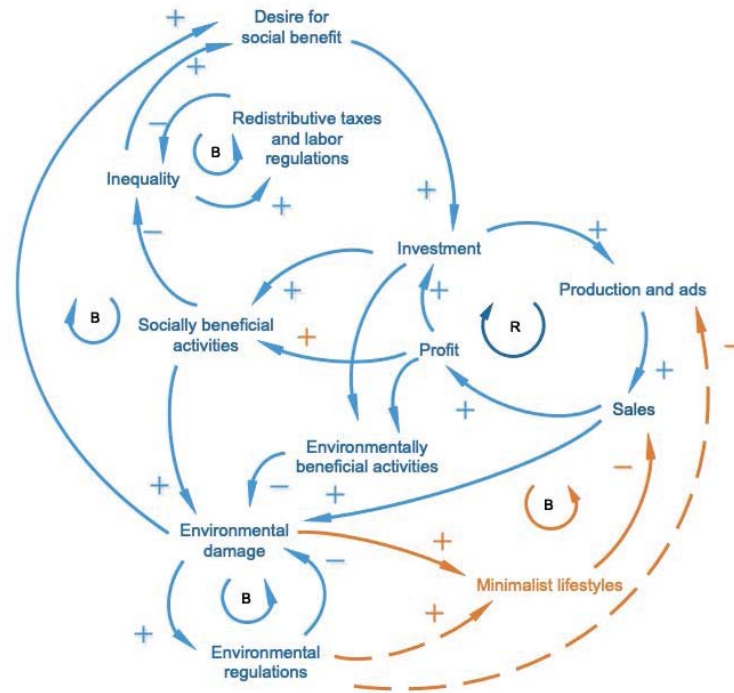


Figure 13: A not-for-profit economy with minimalist lifestyle interventions.

That said, the NFP economy is not perfect. It has the potential for consumerism, economic growth, market concentration, socially-focused activities that do environmental damage, and some level of inequality due to debt-based investment and the potential for high salaries (albeit much less than the inequality produced by the unlimited returns on investment and bonuses from profits that owners and managers can receive in the FP economy).

In this light, the NFP economy is best seen as necessary, but not sufficient, for a healthy post-growth economy. Many post-growth theorists advocate that businesses must be environmentally friendly, democratic, local, and small (e.g. Khmara and Kronenberg 2018; Latouche 2006; Liesen *et al.* 2015). Not-for-profit businesses tend to be smaller and more local than their FP counterparts (James and Rose-Ackerman 1986) but aren't *necessarily* local and small. Nor are they necessarily environmentally conscious and democratic. Therefore, a sustainable NFP economy would need strong institutions that push for environmental justice, re-localization, and democratic management of business. The ethos of NFP frameworks aligns with such initiatives.

7. Conclusions

The current economic system is quickly eroding the resilience of ecosystems, as well as the resilience of local biosphere stewardship, around the world. Common explanations for these global trends, such as market failures, externalities, weak regulation, and a lack of information, do not match the scale of the phenomena. If market failures and weak regulation are so widespread and leading to so much damage, there must be an underlying systemic problem. The main contribution of this article to the field of political ecology is a more clear, robust, and coherent explanation of the core economic structures and dynamics that give rise to global patterns of social and ecological exploitation. In this way, it responds to the need articulated in the book, *Global political ecology*, to "sort through the causes of environmental crises and clearly evaluate the kinds of political-economic transformations necessary for reaching ecological sanity" (Peet *et al.* 2011: xiii).

The above analysis shows that a number of unsustainable dynamics including consumerism, economic growth, ecological damage, economic inequality, and political capture, are driven by the for-profit nature of firms. Hybrid types of business might be able to slow down the destructive tendencies of the for-profit system, but do not stop them. However, a not-for-profit economy lacks such systemic tendencies toward consumerism, economic growth, inequality, and political capture. The latter type of economy would also likely be more compatible with sustainability interventions.

This article also clarifies that in post-growth economics, the microeconomics of business and the macroeconomics of economic growth cannot be treated separately. The macro-level phenomena of ecological degradation, economic growth, and economic inequality are heavily impacted by businesses' relationship-to-profit and business behavior is very much shaped by these macro trends, as political ecologists recognize. This is a major shift from the traditional ways of thinking about economies – even in heterodox schools of thought, such as ecological economics.

In conceptualizing relationship-to-profit and analyzing how this aspect of business plays out at a larger scale, this article clarifies the role of profit in post-growth transformations. Relationship-to-profit implies different sets of rights and obligations that guide and constrain business in legally enforceable ways. For-profit business structures do not require that managers and owners pursue profit as a main aim, however because they can, many actors do, and they are able to concentrate wealth and power in doing so. This can more easily result in a 'race to the bottom' in terms of ecological devastation and inequality. In such a system, the actors that do not aggressively pursue profit are at risk of being either outcompeted, or bought out. As such, it is the legal openness of for-profit frameworks to pursuing profit for unlimited private financial gain that is a key driver of problematic dynamics, and a key barrier to post-growth transformations.

In order to test some of the claims made in this analysis, there is a need to gather more knowledge about not-for-profit business, as an economic entity distinct from both for-profit business and donation-dependent nonprofit organizations. It is my hope that the conceptual models in this article inspire the formation of new research questions and data collection, as well as sparking discussion about the role of relationship-to-profit in generating and transforming current sustainability crises. There can be no departure from the growth-based economy without a change to this fundamental aspect of business.

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