Is Sustainable Capitalism an Oxymoron?

David Schweickart
Loyola University Chicago

Abstract
Is Joel Kovel right that it is either "the end of capitalism or the end of the world"? Or are Paul Hawken, Amory and Hunter Lovins right that we are on the brink of a "natural capitalism" that can usher in an ecological and social utopia, "a world where cities have become peaceful and serene because cars and buses are whisper quiet, vehicles exhaust only water vapor, and parks and greenways have replaced unneeded urban freeways... Living standards for all people have dramatically improved, particularly for the poor and those in developing countries. Involuntary unemployment no longer exists..." I argue that while Hunter-Lovins' have much to offer and Kovel overstates his case, a sustainable capitalism is highly unlikely. I sketch an alternative to both "natural capitalism" and Kovel's non-market socialism that is more promising than either.

Keywords
capitalism, socialism, sustainability, natural capitalism, exponential growth, ecological crisis, economic democracy

Marx says that revolutions are the locomotives of world history. But the situation may be quite different. Perhaps revolutions are not the train ride, but the human race grabbing for the emergency brake.
Walter Benjamin

The subtitle of Joel Kovel's The Enemy of Nature (originally published in 2002, revised edition 2007) states his thesis bluntly: The End of Capitalism or the End of the World? Kovel thinks we need a revolution—although he is fully cognizant as to how remote that prospect seems.

Growing numbers of people are beginning to realize that capitalism is the uncontrollable force driving our ecological crisis, only to become frozen in their tracks by the awesome implications of this insight (Kovel 2007:xi).

Paul Hawken, Amory Lovins and Hunter Lovins also think we need a revolution, but of a different sort than the one envisaged by Kovel. Their book,
Natural Capitalism (published in 1999), is subtitled Creating the Next Industrial Revolution. Then-President Clinton is reported to have called it one of the five most important books in the world today.

Hawken and the Lovins' agree with Kovel that the current model of capitalism is problematic. "Capitalism, as practiced, is a financially profitable, non-sustainable aberration in human development (Hawken, Lovins, and Lovins 1999:5)." But they do not see the problem as residing in capitalism itself. They distinguish among four kinds of capital, all necessary for production: human capital, financial capital, manufactured capital and natural capital. The problem with the current form of capitalism, they argue, is its radical mispricing of these factors. Current market prices woefully undervalue—and often do not value at all—the fourth factor: the natural resources and ecological systems "that make life possible and worth living on this planet (Ibid. 2)."

All economists, liberal, Left and Right, recognize that market transactions can involve "externalities"—costs (or benefits) not paid for by the transacting parties. All agree that there is a role for governments to play in rectifying these defects. The standard remedies involve taxation (for negative externalities) and subsidies (for positive externalities). More recently, "cap and trade" schemes for carbon emissions have been added to the list.

Hawken and the Lovins' argue that these remedies—properly applied—can work. The first step, they say, is to eliminate the perverse incentives now in place. They document the massive subsidies that governments currently provide for ecologically destructive behavior, e.g. highway construction and repair, which encourages suburban sprawl and the shift away from more efficient modes of transportation, agricultural subsidies that encourage soil degradation and wasteful use of water, subsidies to mining, oil, fishing and forest industries, etc.

Second step: impose resource and pollution taxes so as to reflect the true costs of "natural capital." Sweeten the pie by phasing out all taxes on labor—the payroll tax, which increases unemployment, and income taxes as well. The point is to level the playing field so that: more sustainable technologies and more energy-efficient processes can compete fairly with the destructive practices of "industrial capitalism." We might even want to go further, and subsidize—at least initially—the technologies that reduce the negative environmental impact of our production and consumption choices.

Natural Capitalism is chock full of examples of the shocking waste pervasive in our current system and of the existing technologies and procedures that could reduce our impact on the environment to a small fraction of what it is now. Many of these changes are already underway. Many more will follow if appropriate government policies are adopted. Hawken and the Lovins' envisage a bright future:

Imagine for a moment a world where cities have become peaceful and serene because cars and buses are whisper quiet, vehicles exhaust only water vapor, and parks and greenways have replaced unneeded urban freeways. OPEC has ceased to function because the price of oil has fallen to five dollars a barrel, but there are fewer buyers for it because cheaper and better ways now exist to get the services people once turned to oil to provide. Living standards for all people have dramatically improved, particularly for the poor and those in developing countries. Involuntary unemployment no longer exists, and income taxes have been largely eliminated. Houses, even low-income housing units, can pay part of their mortgage costs by the energy they produce. (Ibid. 1).

Such a future will come about if we harness the creative energy of capitalism and let the markets work.

Let us examine these two contrasting perspectives. Let us think first about ethics and energy. Consider the ethical commitments that underlie their respective analyses. Kovel cites Marx directly and with full approval:

From the standpoint of a higher form of society the private ownership of the globe by single individuals will appear quite as absurd as private ownership of one man by another. Even a whole society, a nation, or even all simultaneously existing societies taken together, are not the owners of the globe. They are only possessors, its usufructuaries, and like boni patres familias, they must hand it down to succeeding generations in an improved condition. ¹

Hawken and the Lovins' might not agree that private ownership is absurd, but they would certainly embrace the ethical clause: We "are only possessors [of the earth], its usufructuaries, and like boni patres familias, [we] must hand it down to succeeding generations in an improved condition." There is no real disagreement here about ethics.

Kovel, although cataloguing at length the environmental destruction taking place on our planet, says very little about energy policy, per se. He is confident that an "ecosocialist" movement, based on "ecosocialist" values, if victorious, will be able to solve our concrete problems.

Hawken and the Lovins have much to say about energy. They argue that vast amounts of energy are currently wasted—and that there is much profit to be made in reducing this waste. They are convinced that technologies already exist that, if properly implemented, could drastically reduce, and eventually eliminate, fossil fuel consumption—without relying on nuclear power. Many of these are already profitable. Others would be, if sensible governmental policies were put in place.

¹ Kovel, p. 268, citing Capital, v. 3.
Kovel would object here, not to the technologies per se or to the proposals for eliminating the vast amounts of energy wasted due to faulty building or production design, but to the Hawken-Lovins' faith that the "capitalist market" can be successfully employed to get us to the promised land.

In essence there are two fundamental differences between the "ecosocialism" of Kovel and the "natural capitalism" of Hawken-Lovins:

- Kovel is deeply distrustful of the profit motive. He does not think greed can serve the good. Hawken-Lovins' think that the profit motive can be harnessed so as to provide powerful incentives to develop sustainable sources of energy and to eliminate the energy waste so rampant today.
- Kovel is convinced that "grow or die" is an imperative of capitalism that renders "sustainable capitalism" impossible. Hawken and the Lovins' do not confront this argument directly, but appear to believe that either a) capitalism is compatible with a steady-state, non-growing economy or b) an economy can grow indefinitely without consuming more energy and natural resources than it can sustainably reproduce.

Let us examine the "grow or die" issue first.

Capitalism: Grow or Die?

Anti-capitalist ecologists always say this. In Kovel's (2007) words, "capital must expand without end in order to exist (p. 38)." But is this true? It would seem not to be. Individual small businesses sometimes survive for long periods of time. Marx's prediction that the "petty bourgeois" sector would disappear has turned out not to be true. (The tendency toward monopoly/oligopoly, which he correctly identified, has been offset by the continual rise of new entrepreneurial businesses.)

Capitalism itself has survived prolonged depressions—the Great One of 1929 lasted a decade. Periods of stagnation have been even more common—witness Japan throughout the 1990s. To be sure, capitalism incentivizes growth, but it is not at all clear that thwarted growth leads to death. We can point to lots of counterexamples.

It is not true either that the various ecological crises we are facing will bring about "the end of the world." Consider the recently-released Stern Review, commissioned by the British government, which has been applauded by environmentalists for its strong recommendation that urgent action be taken. If nothing is done, we risk "major disruption to economic and social activity, later in this century and the next, on a scale similar to those associated with the great wars and economic depression of the first half of the 20th century."

This is serious. Some sixty million people died in World War Two. The Stern Review estimates as many as two hundred million people could be permanently displaced by rising sea level and drought. But this is not "the end of the world." Even if the effects are far worse, resulting in billions of deaths, there would still be lots of us left. If three-quarters of the present population perished, that would still leave us with 1.6 billion people—the population of the planet in 1900.

I say this not to minimize the potentially horrific impact of relentless environmental destruction, but to caution against exaggeration. We are not talking about thermonuclear war—which could have extinguished us as a species. (It still might.) And we shouldn't lose sight of the fact that millions of people on the planet right now, caught up in savage civil wars or living beneath those US bombers currently devastating Iraq, are faced with conditions more terrible than anyone reading this article is likely to face in his or her lifetime due to environmental degradation. Nor will readers suffer more than most of the three billion people alive now who survive on less than $2/day.

We may not be facing the end of the world—but still, Kovel has a point. He may have overstated the case, but from an ecological point of view there is something, at least prima facie, crazy about capitalism. An ecological worldview tends to emphasize harmony, sustainability, moderation—rather like that of the ancient Greeks, for whom a constant striving for more was regarded as a mark of an unbalanced, deranged soul. Yet every capitalist enterprise is motivated to grow, and to grow without limit. For reasons of greed and fear.

---

4 Kovel (2007) is aware that he is being somewhat hyperbolic here, but not, he would argue, by much. "As capital keeps growing, the crisis grows, too: civilization and much of nature is doomed. Indeed it is not warranted to ask whether this will prove to be the way of our extinction as a species." (p. 159)


6 During one ten-day period in January 2008, some 100,000 lbs of explosives were dropped on a Baghdad neighborhood. For a vivid account, see Tom Engelhardt, "Bombs Away over Iraq," January 29, 2008, at Tomdispatch.com. Engelhardt points out that was the same quantity of explosives dropped by the German airforce on the ancient Basque city of Guernica in 1937, provoking an international outcry that included Pablo Picasso's famous depiction.
There is no mystery here. We all know how it works. Under conditions of constant or increasing returns to scale, expanding production brings increased profits, which accrue to the firm’s owners. For almost everyone, more money is better than less money—even if one wants to give much of it away to the charity of one’s choice. It is an idiosyncratic businessman, indeed, who does not want his business to grow. (Classical political economists used to invoke the law of diminishing returns to argue that successful businesses would be self-limiting in size—but no one makes that argument anymore.)

The fear factor is at least as important. Failure to take the steps that will, if successful, “grow the company,” puts the company at risk. The big fish tend to eat the little fish. Capitalist market competition is cut-throat competition.

(It is worth noting that not all competition is like this. Athletic competition typically is not. Losers don’t lose everything. Losing teams aren’t driven from the league. Indeed, steps are usually taken in professional sports, e.g., giving the teams with the worst records priority in drafting new players, to prevent the strong teams from getting even stronger at the expense of the weaker teams. No such corrective mechanisms exist in capitalist economies—apart from rather feeble anti-trust laws.)

There is a deeper structural issue that we must consider. It may well be the case that all capitalist firms want to grow—but wanting doesn’t make it so. Obviously many firms do not get what they want. Many firms fail.

The root problem with capitalism is not that individual firms are incentivized to grow, but that the economy as a whole must grow—not to survive, but to remain healthy. As we have noted, there have been significant periods in which capitalist economies have failed to grow but did not collapse. However, none of those periods—recession, stagnation, depression—can be regarded as happy times.

Why should it be the case that a capitalist economy must grow to be healthy? The answer to this question is rather peculiar. A capitalist economy must grow to be healthy because capitalism relies on private investors for its investment funds. These investors are free to invest or not as they see fit. (It is, after all, their money.) But this makes economic health dependent on “investor confidence,” dependent on, as Keynes put it, “the animal spirits” of the investors. If investors do not foresee a healthy return on their investments, commensurate with the risks they are taking, then they won’t invest. Or they’ll invest abroad.

But if investors don’t invest domestically, their pessimism becomes a self-fulfilling prophecy. Lack of investment translates into layoffs, first in the construction industry, machine-tool industries and the countless others dependent on orders for capital goods, and then, since layoffs lead to a decline in consumer-goods consumption, in other sectors as well. Aggregate demand drops further; the economy slides toward recession.

As we all know, a slumping economy is not just bad for capitalist investors; it is bad for almost everyone. Unemployment rises, which adds stress to almost all workers, even those who retain their jobs. Government revenues fall, adding pressure to cut both government employment and government services. Indeed, public funds for environmental programs are jeopardized—as mainstream economists are quick to point out, impatient as they are with “anti-growth” ecologists. Growth is necessary, they insist, to give us the means to clean up the messes we have made. (It might be noted that in some ways recessions are good for the environment. People consume less, waste less. CO2 emissions dropped drastically in the US during the Great Depression and even more dramatically in Russia during its post-Communist collapse. But no political movement anywhere is going to come to power promising to confront the environmental crisis by engineering a depression.—nor can a party be expected to remain in power if its policies provoke one.)

So we see: a healthy capitalism requires a steady expansion of consumption. If sales decline, investors lose confidence—as well they should. To be sure, some profitable investments can be made in a slumping economy (defined in the business press—correctly—as a declining rate of growth, or worse, a negative rate of growth), but far fewer investors are willing to play a zero-sum or negative-sum game than will play the positive-sum game that investors play in an expanding economy. (Environmentalists and others often point out that GDP growth is not an accurate indicator of human happiness or human development—which is certainly true—but these critics rarely, if ever, point out that GDP growth is precisely what is important to investors, who must, at all costs, be kept happy.)

For a capitalist economy to remain healthy, sales must be kept up. Which means that a healthy capitalism requires what would doubtless strike a visitor from another planet (or from a pre-capitalist society) as exceedingly strange—a massive, privately-financed effort to persuade people to consume what they might otherwise find unnecessary. Advertising is but the tip of the iceberg.

John Kenneth Galbraith’s account, articulated more than forty years ago, remains apt.

\[7\] For a recent survey of alternative indices—Human Development Index, Index of Sustainable Economic Welfare (ISEW), Genuine Progress Indicator (GPI), Index of Social Health, and the Happy Planet Index—and their relationship to GDP, see James Gustave Speth, The Bridge at the Edge of the World: Capitalism, the Environment, and Crisis from Crisis to Sustainability (Yale University Press, 2008), pp. 138-142. I’m pleased to report that Speth, Dean of Yale University’s School of Forestry and Environmental Studies, who served as Jimmy Carter’s White House environmental advisor and as head of the United Nation’s largest agency on international development, has come to essentially the same conclusion this paper purports to demonstrate.
The control or management of demand is, in fact, a vast and rapidly growing industry in itself. It embraces a huge network of communications, a great array of merchandising and selling organizations, nearly the entire advertising industry, numerous ancillary research, training and other related services and much more. In everyday parlance this great machine, and the demanding and varied talents that it employs, are said to be engaged in selling goods. In less ambiguous language, it means that it is engaged in the management of those who buy goods (Galbraith 1967:200).

Government also has a key role to play. Governments must be prepared to go into debt to stimulate the economy when an economy slows down. “Fiscal responsibility” goes out the window, no matter how conservative the government, when people stop buying—as well it should. Those recent checks sent to all US taxpayers, courtesy of President Bush and a Democratic Congress, aimed at containing the spreading financial storm triggered by the sub-prime mortgage debacle, should remind us all how vitally a capitalist economy depends on what so many environmentalists and other social critics deride as “consumerism.”

The problem is not simply “growth.” A healthy capitalism depends, not simply on ever-increasing consumption, but on a steady rate of growth. When the growth rate declines, investors pull back. But a steady rate of growth, so essential to healthy capitalism, implies exponential growth, and exponential growth, to anyone with mathematical sensibilities, is deeply disturbing. If an economy grows 3 percent/year—i.e., the U.S. average growth rate during the twentieth century—consumption doubles every twenty-four years—which translates into a 16-fold increase in consumption over the course of a century. (Of course we did not have steady growth during the twentieth century. On the contrary, we had many ups and downs, among them a Great Depression—and fascism, World War II, etc. Still, the average rate of growth for the century was 3 percent/year, giving us a 16-fold increase in inflation-adjusted GDP.)

Needless to say, exponential growth tends to stress the environment. Even a much lower growth rate, say the 1.2 percent/year that the Stern Report assumes, entails a doubling of global consumption every sixty years. As Kenneth Boulding (himself an economist) has noted, “Only a madman or an economist thinks exponential growth can go on forever in a finite world.”

We don’t have to imagine “forever.” Simply note that if our economy were to continue to grow at 3 percent/year throughout the twenty-first century, we will be consuming sixteen times more in 2100 than we are now. Not sixteen percent more. Sixteen times more.

Objection

There is an important rejoinder to be made to this argument. Growth need not add to resource depletion or pollution. GDP is a quantitative figure that doesn’t pretend to correlate with general well-being. An oil spill that puts lots of people to work cleaning it up enhances GDP; when harried couples eat out more often, no longer having time to cook at home, GDP goes up. By the same logic, if unemployed people are put to work planting trees, GDP goes up. If there is a shift from capital-intensive factory farming to labor-intensive organic farming in such a way that the market value of the latter exceeds the market value of the former, GDP goes up.

Consider the effect of a green tax—say raising the gasoline tax from its current forty cents to $4/gallon (a third of what is needed to capture the externalities involved, according to Lester Brown’s 2008 latest calculation (p. 268))—bringing the pump price up to $7/gallon. In and of itself, this need not affect overall spending (i.e., GDP) at all. People would presumably drive less—which is the point of the tax. Their overall expenditures on gasoline likely would go up, which means they could consume less of other things. But their total expenditures would not be affected. Of course their cutback in consumption elsewhere would trigger layoffs in those industries, and hence a decrease in overall demand. But the government could counter that effect by using the gasoline-tax revenues in such a way as to compensate. If they are used to employ people engaged in environmentally constructive work (either directly or by awarding contracts to private businesses engaged in environment-enhancing endeavors), then overall demand will not be impaired, and society will be better off.

Consider a variation on this model—the one suggested by Hawken and the Lovins' and heartily endorsed by (conservative) economist, Gregory Mankiw (head of George W. Bush’s Council of Economic Advisors for a number of years). Instead of the government involving itself directly in employing people to restore the environment, suppose it just cuts income taxes instead, by precisely the amount that it would garner from the gasoline tax. Here’s Mankiw’s assessment:

Cutting income taxes while increasing gasoline taxes would lead to more rapid economic growth, less traffic congestion, safer roads and reduced risk of global warming—all without jeopardizing long-term fiscal solvency. This may be the closest thing to a free lunch that economics has to offer (Quoted by Brown (2008), p. 270).

Reply to the Objection

How should we evaluate this rejoinder? The reader will recall that in evaluating the Hawken-Lovins' case for “natural capitalism,” I pointed out that they
do not confront the “grow or die” argument directly, but that they must believe that either a) capitalism is compatible with a steady-state, non-growing economy or b) an economy can grow indefinitely without consuming more energy and natural resources than it can sustainably reproduce. My argument thus far has been directed at a). The rejoinder claims b).

Notice the assumption tucked away in the Mankiw endorsement of a heavy gasoline tax paired with an income tax cut. If we are to have our cake and eat it too, it must be assumed that the negative effect on the environment of the “more rapid economic growth” he asserts will be forthcoming will be more than offset by the decrease in carbon emissions resulting in the gasoline tax.

Is he wrong? I can’t say that he is. But it should be noted that we are no longer talking economic science anymore. We are talking about faith—the economists’ faith that exponential growth can go on forever in a finite world.

Is this a rational faith? One is reminded of Pascal’s Wager. Blaise Pascal (1623-1662) was a mathematician-philosopher deeply concerned with the question of God’s existence. His argument is simple. Does God exist? Maybe yes, maybe no. What is the rational response to this hugely important, highly contentious question? Pascal’s answer: do what any good mathematician would do—calculate expected gains and losses. Consider: If you bet yes, that God exists, and are right, and live your life accordingly, the rewards are infinite—an eternity in heaven. If you bet no, and are wrong—how much will you lose? In fact very little. The time you will have spent going to church or in prayer. Feelings of guilt from time to time. The gains you might have obtained from taking advantage of certain situations in ways that an existing God might disapprove. But if you bet no and are wrong? An eternity of hellfire. An open and shut case, no: the possibility of infinite happiness set against a life that may or may not prove to be a bit happier now and infinite horror afterwards.

Can exponential growth go on forever: (or at least for a long, long time)? If we decide to stick with capitalism, betting that it can—well, here’s the Pascalian kicker: we can be almost certain it won’t make us happier—at least not those of us who are doing most of the consuming and polluting right now. There is a large literature on happiness. We know that increased consumption, once we get beyond a certain point, does not translate into increased happiness. Bill McKibben cites some of the evidence:

Compared to 1950, the average American family now owns twice as many cars, uses 21 times as much plastic, and travels 25 times farther by air. Gross Domestic Product has tripled since 1950 in the US. We obviously eat more calories. And yet—the satisfaction meter seems not to have budged. More Americans say their marriages are unhappy, their jobs are hideous, and they don’t like the place where they live. The number who, all things considered, say they are “very happy” with their lives has slid steadily over that period. … In the United Kingdom per capita gross domestic product grew 66 per cent between 1973 and 2001, and yet people’s satisfaction with their lives changed not a whit. Nor did it budge in Japan, despite a fivefold increase in income in the postwar years.

Thus, if we put our trust in a regulated capitalism, and it delivers the wise governance and technological innovation that keep the economy growing steadily without inducing environmental havoc, the expected gain is slight at best. But if we place our faith in capitalism and are wrong? Not hellfire or the end of the world—but massive planetary misery.

This Pascalian argument has been a bit too quick. There are some implicit assumptions that need to be examined. Growth may not make those of us in the “developed” world any happier, but what about the bottom half of humanity? What about the 1.2 billion who live on less than a dollar a day? Would not steady growth make them happier?

Certainly growth of a certain kind would increase well-being in large parts of the planet—increased access to healthy food, clean water, effective waste disposal, health care, education, and to employment. But do we have any good reason to think that capitalism growth will provide these things? Certainly the historical record suggests the contrary. Angus Maddison’s (1995) careful studies show that the gap between rich countries and poor countries has steadily widened from 3 to 1 in 1820 to 70 to 1, in 1990, and still more since then. Immanuel Wallerstein (1995) goes so far as to argue that the basic well-being of the lower half of humanity is significantly worse now than it was five hundred years ago. (To be sure people live longer now and there are many more of us, but compare the life of a median-income person today, living in a desolate, crime-ridden, drug-infested slum in one of the Third World’s mega-cities with a peasant living in an intact community five centuries ago (p. 115 ff.).)

One can still hope that things will change, but the evidence in support of such hope is meager. Indeed, capitalism’s desperate drive to grow is deeply implicated in the persistence of global poverty. The argument is straightforward. As Marx and Keynes have emphasized, capitalist stability is constantly threatened by the specter of overproduction (deficient effective demand), leading to economic crises unlike those of any preceding epoch, deriving not from scarcity caused by war, pestilence or bad weather, but from the expansionary dynamic of the system. Too much leads to too little. If more goods are produced than people of the inclination or money to buy, prices fall, workers are laid off, demand slumps further—recession.

Hence capitalist economies must continually seek new markets, at home and also abroad. But poor-country domestic industry and agriculture cannot compete with their rich-country counterparts, and there are no forces intrinsic to capitalism that insures that people displaced by more productive technology will find employment elsewhere. So poverty increases. (The phenomenon of free trade devastating poor-country economies is as old as capitalism itself. Marx (1967) quotes from the Governor-General's report of 1834–35 on the effects of British textile imports on domestic cloth production in their crown-jewel colony: "The misery hardly finds parallel in the history of commerce. The bones of the cotton weavers are bleaching the plains of India." (p. 406))

Of course there have been many, many schemes proposed to address the stark fact that globalization and free trade, 160 years after Marx and Engels issued their Manifesto, has left eighty percent of so of the world’s population deeply mired in poverty, some 47 percent subsisting on less than $2/day (purchasing power parity). None of these have put much of a dent in the global disparity, nor are they likely too. I have argued this point in more detail elsewhere. Let me simply note here that to counter that Pascalian argument, one must assume that the capitalist growth one bets on must not only be sustainable but must trickle down substantially to the bottom segments of humanity.

Given the historical record to date, and the structural features of capitalism causally implicated in this record, a bet on capitalism would be, surely, a very long shot.

An Alternative?

There is an even deeper assumption built into my Pascalian argument. Pascal's wager is not just about belief. It is about restructuring one's life. My Pascalian wager is also about restructuring. But if there is no viable alternative to capitalism, then what? We might as well assume that growth can go on forever in a finite world. A belief that allows for hope is surely better than one that counsels despair.

Can we conceive of an economic alternative to capitalism that is a) economically viable, b) not dependent on growth for its stability, yet c) conducive to the entrepreneurial innovation we will need to get through the current crisis? It will probably come as a surprise to many readers, but the answer is clearly yes. In my view theoretical analysis, well supported by empirical evidence, strongly supports the thesis that a truly democratic economy could satisfy the above criteria. Let me sketch the basic institutions of a democratic economy, one that retains competitive markets, but extends democracy to both the workplace and to the financial system. (Needless to say, I will have to paint with a broad brush. In practice a democratic economy would be more complex than what I present here.)

Democratized Work

Imagine an economy as technologically developed as our own in which each workplace is run as a democratically. Suppose businesses are regarded as communities, not legal entities that can be bought and sold. Management is appointed by a worker council elected by the workforce, one-person, one-vote—just as, in some localities today, city managers are appointed by an elected city council. These enterprises compete with one another in the market.

Such enterprises can be expected to be efficient. Workers do not receive wages but a specified share of the firms' profit. Hence everyone has a direct, tangible financial stake in the company's financial well-being. Everyone is motivated, not only to work efficiently, but to monitor co-workers—thus reducing the need for external supervision. It is not surprising, then, that empirical studies that compare democratic firms to comparable capitalist firms consistently find the former performing at least as well as the latter, and often better.

But there is something interesting. Although democratic and capitalist firms are both motivated to produce efficiently and to satisfy consumer desires, they are strikingly different in their orientation toward growth. Under conditions of constant returns to scale, capitalist firms expand, whereas democratic firms do not. For capitalist firms aim at maximizing total profits, whereas democratic firms aim (roughly) at maximizing profit-per-worker. That is to say, if the owners of a capitalist firm can make $X under present conditions, they can make $2X by doubling the size of their operation. But if a democratic firm doubles its size, it doubles its workforce, leaving its per-capita income unchanged.

This is an enormously important structural difference, with implications that go well beyond environmental concerns. Let us focus on those that bear on the question at hand.

One implication: democratic competition is less intense than capitalist competition. Firms compete for market share, but not for market dominance.

---


11 For more details and a fuller presentation of the arguments to be set out in this section, see my After Capitalism. Lanham, MD: Rowman and Littlefield. 2002. A more extensive treatment of essentially the same model, oriented more toward professional philosophers and economists, can be found in my Against Capitalism. Cambridge: Cambridge University Press. 1993.

12 See my After Capitalism, Chapter Three for references.
This means that democratic firms—when competing with other democratic firms—do not face the same “grow or die” imperative that capitalist firms face. Neither greed nor fear works the same way. However greedy workers may be, they cannot increase their incomes by expanding, unless economies of scale are significant. At the same time, they do not have to worry much about being driven out of business by a more innovative or efficient rival. They have more time to adjust, to copy whatever successful innovation their rival has introduced. (Non-profit institutions are similar to democratic firms in this regard. Successful universities, for example, do not keep expanding. They compete for students, but they do not drive their competitors out of business. When educational innovations occur, they are not used to dominate their competitors. Innovations tend to spread, administrators coming under pressure to adopt “best practices.”)

A second implication: When innovation brings about a productivity gain, workers are free to choose leisure over increased consumption. This option is virtually non-existent in a capitalist firm. Owners do not increase their profits by allowing their workforce to work less. To the contrary, increases in productivity often lead to workers working more or harder than before—since productivity-enhancing innovations often put their jobs at risk. As economist Juliet Schor (1992) has documented, per capita consumption doubled in the United States since post-World War Two, while the number of hours of work—for those who had work—went up, not down. Suppose, sixty years ago we in the US, happy with our standard of living (which was the envy of the world) had opted to take our productivity gains in leisure instead increased consumption:

We could now produce our 1948 standard of living (measured in terms of marketed goods and services) in less than half the time it took that year. We actually could have chosen the four-hour day. Or a working year of six months. Or, every worker in the United States could now be taking every other year off from work—with pay [emphasis here] (p. 2)

We should remember that 1948 was not the Dark Ages. Families had washing machines, refrigerators, cars (not as many as today, but there were more buses and trams), telephones, record players, TVs (admittedly black and white), typewriters. There were lots of movie theaters, bowling alleys, community swimming pools. True, people didn’t have cell phones or CDs or PCs or DVDs, but life was hardly uncomfortable. (I’m thinking here of middle-class life. Life for poor people was miserable—as it still is.)

If excess consumption (consumerism) is a serious environmental threat, and if market competition is essential to an efficiently functioning economy, then it is vital to have an system that offers non-consumption incentives to its businesses. Increased leisure is a readily available option in a democratic firm. But not in a capitalist firm. (As Marx so vividly documented in Capital, the struggle over the length of the working day has been on-going from the inception of capitalism. The struggle for shorter hours, more vacation time, more leisure has always been resisted by capital—and for good reason. All else equal, firms do not make more money by giving workers more time off.)

It follows that, unlike a capitalist economy, an economy of democratic firms can be innovative, but non-growing (in terms of consumption). Workers may well be content to live on steady incomes, choosing to take the benefits of innovation as leisure rather than increased consumption. Of course this choice is not guaranteed by the democratic structure. An environmental consciousness—or at least a consciousness as to what actually makes people happy—matters. But such a consciousness does not conflict with the structural imperatives of a democratic economy, as it does with the imperatives of a healthy capitalism.

The reader will notice that the alternative to capitalism being sketched here might seem to be more in line with the “natural capitalism” of Hawken-Lovins’ than with the ecossalism of Kovel. As indicated above, Kovel disagrees with Hawken, Lovins and Lovins as to the utility of the profit motive. The “Economic Democracy” that I am sketching here embraces market competition. However, it should be noted that “profit” under Economic Democracy is conceptually distinct from capitalist profit. In both cases the desire for profit motivates production. In both cases, profit is defined as the difference between sales revenue and costs. But in a capitalist firm, labor is a cost; in a democratic firm, it is not. In a democratic firm profit is the difference between sales revenues and non-labor costs. Profit is the residual that goes to the workers as income. This difference accounts for fundamental motivational differences. Workers are incentivized to use their non-labor materials efficiently and to marshal their work-time effectively, but they have no interest in relentless expansion, no interest in replacing skilled labor by unskilled, no interest in driving down the “cost” of labor. Nor do they have the slightest interest in moving their facilities abroad, where labor costs are lower and environmental regulations less strict.

Democratized Investment

I have said that Economic Democracy democratizes both the workplace and the financial markets. Thus far we have considered the democratization of work. Enterprises are regarded as communities, not entities to be bought or sold. Let us turn our attention now to finance.
Capitalist financial institutions, for all their ever-increasing, mind-boggling complexity, exist for one fundamental purpose: to mobilize the private savings of individuals and make them available to individuals wanting to start new businesses, or to existing enterprises wanting to expand production, upgrade their technologies, introduce new products, etc.

Suppose we decide not to rely on the private savings of private individuals for investment. Suppose we don't want to be hostage to the "animal spirits" of investors. A substitute mechanism for generating capital investment is readily available: taxation. For technical reasons, the most appropriate tax is a flat rate tax on the value of each enterprise's capital assets. (This tax is a surrogate interest rate—the charge enterprises and entrepreneurs pay for their use of capital. It can also be thought of as a "leasing fee," the charge workers in a democratic enterprise must pay for the capital assets they employ.)

These tax revenues will fund the bulk of the new investment our society decides to undertake, both private and public. How will they be allocated? There are various possibilities. The most transparent, and in many ways the fairest is to allocate these revenues to regions and communities on a per capita basis. That is to say, if region A has X percent of the nation's population, it gets X percent of the investment funds. These funds are then distributed to local and regional investment banks—public banks—charged with loaning them out to individuals and enterprises needing funds to start up, upgrade or expand business operations. Loan applications are judged in terms of projected profitability, employment creation, and, if the community so desires, environment enhancement. Bank managers are public officials, charged with allocating effectively the funds entrusted to them. Since all records are open to public inspection, the task of monitoring their performance should not be unduly difficult.

This democratization of investment has two consequences of importance to environmental sustainability. First, and most importantly, economic stability and economic health, regional as well as national, no longer depend on economic growth, since investment no longer depends on the "animal spirits" of investors. Every year funds flow into each region. If there is insufficient demand for these funds, they can be rebated to the taxpayers, thus keeping up effective demand. If the problem persists, the capital-assets tax rate can be cut. There is no longer any danger of investors deciding not to invest or to move their funds abroad. The investment fund is tax-generated. All of it stays in-country.

The second important consequence: every year regions receive funds that can be used as they see fit, so long as they involve capital expenditure. This means that every year funds are available that can be used for environmental experimentation—for the construction of local mass transit or bike paths or community gardens, whatever. Communities can learn from the experiences of other communities what works and what doesn't. Funds are available for "public entrepreneurial projects" that might otherwise be difficult to come by. With democratic finance, regions do not compete for capital as they do under capitalism. Capital flows in each year as a matter of right. Regions do not have to entice businesses to their areas by offering subsidies, tax holidays, lax environmental regulations, etc., as they commonly do under capitalism.

The "natural capitalists" might object at this point. They are eager to harness the entrepreneurial spirit to ecological ends. They like to point out the many opportunities that currently exist to make good by doing good—more energy efficient manufacturing, green buildings, leasing rather than selling (to promote recycling), efficient water management, organic agriculture—the list goes on. They may be right—although it is striking, when one surveys the concrete proposals for dealing with environmental issues being put forth in the flood of books now on the market, how large a role almost all assign to local and national governments. No serious thinker thinks laissez-faire will save us.13

Be that as it may, a good case can be made for maintaining an entrepreneurial capitalist sector in a democratic economy. We need entrepreneurs (capitalist or socialist) to respond to the environment-enhancing incentives put in place. Workplaces in the capitalist sector will not (by definition) be democratic, but given the fact that these capitalist enterprises must compete with democratic enterprises for qualified workers, abuses are unlikely. Indeed, most capitalist firms will likely set up some participatory structures to keep morale high (though they are not required to do so.)

Where would private entrepreneurs get their capital? From private sources, if they want, but also from the public banks. There is no reason to restrict the loans these banks make to democratic firms only. However, to prevent an entrepreneurial firm from becoming permanent, external capitalist firm, paying dividends forever to passive shareholders, a simple provision can be enacted. To set up a capitalist firm, (i.e., one in which workers who do not elect the firms management), a firm must obtain a license, which is good for a finite period of time, say twenty or thirty years. When the license expires, the enterprise must be sold to the state and turned over to its workers to run democratically. (Its originators may sell it earlier, to the state or to private individuals.

---

but it remains a private firm only for the number of years specified on the initial license.

I have argued at length in both Against Capitalism and After Capitalism that such an "economic democracy" would work, and would be more ecologically sustainable than even best-case forms of capitalism. It would also be far more egalitarian than capitalism and far more democratic. It could be a full-employment economy with the government serving as an employer-of-last-resort. It could (therefore) be a society without domestic poverty.\textsuperscript{14}

There is one final feature that should be explicated. The economic democracy I advocate practices "socialist protectionism." It practices "free trade" with countries of comparable levels of development and comparable environmental regulations, but it blocks both wage and environmental competition by imposing tariffs on goods coming from countries with low wages and or weak environmental standards, so that the price to consumers of an imported commodity is what it would be if the exporting country paid comparable wages and had comparable environmental regulations. (Economic Democracy embraces competition based on efficiency and consumer satisfaction, but not "race-to-the-bottom" competition.)

The tariff is the "protectionist" par. of socialist protectionism. The "socialist" part is the rebating of the collected tariffs to the countries that produced the items upon which the tariffs were levied. These funds are targeted to governmental or non-governmental agencies that are working to improve labor and environmental conditions in that country.

One further note: Our Economic Democracy relinquishes all claims to "intellectual property rights" with regard to poor countries, and with regard to all publicly-funded environmental research. Since workers do not face the threat of low-wage competition from poor countries, and since the per-capita benefits from squeezing poor people are slight, they can be expected to generous with their intellectual "property."

Conclusion

I have argued that Kovel, although excessively apocalyptic and too dismissive of market competition, is essentially right. A sustainable capitalism is an oxy-

\textsuperscript{14} Genuine full employment is impossible under capitalism, since unemployment is the essential disciplinary stick to keep the workforce in line. Democratic firms do not need this stick, since the conflict between the interests of owners and the interests of workers that lies at the heart of every capitalist enterprise—more work for less money/less work for more money—does not exist in a democratic firm. Domestic poverty is also essential to a healthy capitalism, since unemployment, to be disciplinarily effective, must be degrading.

moron—if "sustainable" means more than the survival of the human species, with perhaps a relatively small global middle class continuing to live in relative comfort and affluence behind whatever walls are necessary to keep out the desperate multitude. Our species cannot flourish under capitalism.

I have also argued that Hawken, the Lovins' and other "natural capitalists," while doing excellent work in proposing creative solutions to concrete problems, have not confronted two fundamental questions: Does a healthy capitalism require a steady rate of growth? Can exponential growth go on forever in a finite world? I have argued that the answer to the first question is "yes," but that it is foolish to the point of irrational to base one's hope for the future on a positive answer to the latter.

I am inclined to say that too many environmentalists aren't "ecological" enough. An ecological consciousness entails an awareness of the interconnectedness of things. The fact of the matter is, the massive environmental problems we face are not unrelated to other social problems: national and global unemployment, national and global poverty, political dominance by an immensely wealthy capitalist class that undercuts genuinely democratic governance, an increasingly harried and increasingly insecure "middle class" that finds its opportunities for self-, family- and community-enhancing leisure time ever more restricted.\textsuperscript{15}

We need to recognize that institutional reforms are possible that address, simultaneously, all of these problems, including the environmental ones—and that these reforms must take us "beyond capitalism." Of course I am not the only one who believes this. All the "watermelons" do (the derisive term the anti-environmental right applies to those who are "green on the outside, red on the inside.") But so does at least one Nobel laureate in economics. Let me call your attention to a little noted, almost offhanded, remark made by Amartya Sen in this 1999 treatise, Development as Freedom—a work based on, interestingly enough, a series of presentations given to the World Bank.

The solutions to these problems—inequality (especially that of grinding poverty in a world of unprecedented prosperity) and of public goods (that is, goods people share together, such as the environment) will almost certainly call for institutions that take us beyond the capitalist market economy (Sen 1999:267).

I think we are in position now to see what those institutions might be.

\textsuperscript{15} Hawken and the Lovins are not guilty of this charge. Hawken, for example, in his most recent book, explicitly links the fate of the environmental movement with that of the social justice movement. \textit{Cf.} \textit{Blessed Unrest: How the Largest Movement in the World Came into Being and Why No One Saw it Coming}, Viking 2007.
Coda

My argument is not meant to imply that nothing can be done so long as global capitalism dominates our world, or that all our efforts should be directed at delegitimating this deeply destructive yet deeply-rooted system. Kovel is right that people can become “frozen in their tracks by the awesome implications of the insight” that capitalism must go.

But as the proponents of Natural Capitalism make clear, there are many things that can be done right now—things which are good in and of themselves, things, the struggle for which help to develop further an environmental consciousness—fertile ground for the “watermelon consciousness” that must ultimately prevail if our species is to flourish.

My argument should make it clear, moreover, that neither “the market” nor “the corporation” nor “the entrepreneur” is the fundamental structural barrier to ecological and social sanity. A sensible socialism will be an “ecosocialism.” It will also be a market socialism. Corporations need not be abolished. They should be democratized. Entrepreneurs ought not to be scorned. Entrepreneurial creativity—properly incentivized—has a vital role to play in getting us to a rational, sustainable, human social order.

There are intelligent people on the Left who disagree with the conciliatory approach I seem to be taking here. Radical physicist-environmental researcher, Denis Rancourt (2007) insists that reformism avoids root causes, it does not challenge the relevant power structures, it entices us into collaboration, it seduces us into personal consumption responsibility as a substitute for effective political action, it turns our attention toward learning about atmospheric chemistry rather than about the relevant major human-controlled planetary forces, and it gives us something we relate to (the weather) rather than sensitizing us to real world problems and all the exploited people outside of our class rather than creating meaningful occasions for empathy and solidarity.

I think this is wrong—although I feel the force of the argument. To be sure, one should be wary of environmental initiatives funded by major corporations (of which there are now many)—but being wary does not imply automatic rejection. It is here that having a concrete, viable alternative in mind is helpful in evaluating which initiatives to support and which to reject. We must keep in mind that should we get to Economic Democracy, our democratic corporations will face many of the same hard issues that rapacious capitalist corporations now face, e.g., how to produce efficiently, minimizing waste, how to shift from a reliance on oil, how to recycle effectively, etc. The more we learn now, the better—including what does not work and why not.

Will we get there? One can take heart from Paul Hawken’s latest book, mentioned above. The subtitle lifts the spirit: How the Largest Movement in the World Came into Being and Why No One Saw it Coming. Hawken argues that three great currents have begun to converge: organizations concerned with environmental issues, those with social justice and those with preserving indigenous cultures. His data base points to the existence at least a million organizations involving tens of millions of people. There exists enormous discontent with the existing world order, and the discontented are organizing. There is enormous distrust of corporations. There is a deep suspicion, especially now that global financial markets are in turmoil, that the masters of the universe are not as smart as so many thought they were. Clearly the global economic order is in the midst of a legitimation crisis. Might this crisis open up some space for thinking the unthinkable, i.e., that there exists a viable, desirable, sustainable economic perhaps within reach? If so, where might this thinking take us?

Bibliography


**Abstracting & Indexing**

**Subscription rates**
The subscription price for the print edition plus online access of Volume 9 (2009, 4 issues) is EUR 263 / USD 387 for institutions and EUR 82 / USD 121 for individuals. For institutional customers, it is also possible to subscribe to only access at EUR 237 / USD 348. All prices are exclusive of VAT (not applicable outside the EU) but inclusive of shipping & handling. Please check our website at brill.nl/pgod.
Subscriptions to this journal are accepted for complete volumes only and take effect with the first issue of the year.

**Claims**
Claims for missing issues will be met, free of charge, if made within three months of dispatch for European customers and five months for customers outside Europe.

**Online access**
For details on how to gain online access, please refer to the last page of this issue or check brill.nl/pgod.

**Subscription orders, payments, claims and customer service**
BRILL, c/o Turpin Distribution, Stratton Business Park, Pegasus Drive, Biggleswade, Bedfordshire SG18 8TQ, United Kingdom, tel. +44 (0)1767 604854, fax +44 (0)1767 601640, e-mail brill@turpin-distribution.com.

**Back volumes**
Back volumes of the last two years are available from BRILL. Please contact our customer service as indicated above.

For back volumes or issues older than 2 years, please contact Periodicals Service Company (PSC), 11 Main Street, Germantown, NY 12526, USA. E-mail psc@periodicals.com or visit PSC’s web site www.periodicals.com.

© 2009 by Koninklijke Brill NV, Leiden, The Netherlands
Koninklijke Brill NV incorporates the imprints BRILL, Martinus Nijhoff Publishers and VSP

All rights reserved. No part of this publication may be reproduced, translated, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of the publishers.

Authorization to photocopy items for internal or personal use is granted by the publisher provided that the appropriate fees are paid directly to Copyright Clearance Center, 222 Rosewood Drive, Suite 910, Danvers MA 01923, USA. Fees are subject to change.
Printed in the Netherlands (on acid-free paper).

Visit our web site at brill.nl