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Limits to Profit? A conceptual framework for understanding profit and sustainability

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**Limits to Profit?
A conceptual framework for
understanding profit and
sustainability**

by Jennifer B. Hinton

**Post- Growth
Economics Network**

Limits to Profit? A conceptual framework for understanding profit and sustainability

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Abstract

This article seeks to unpack how the generation of profit impacts social and ecological sustainability. It begins by framing profit as not necessarily sustainable or exploitative. Social and ecological inputs and impacts are necessary for economic processes and when social and ecological stakeholders are not compensated for their contributions to the process, they can be considered unpaid inputs and, thus, sources of profit. This often overlaps with exploitation of stakeholders, which occurs when one party financially benefits at the expense of another party. The paper examines how profit is generated by several common types of profit-seeking strategies. In doing so, a conceptual framework is developed that clarifies how profit-seeking strategies generate profit from four basic sources: efficiency gains; willing and informed contributions from social stakeholders; exploitation of social stakeholders; and exploitation of nature. The fact that there are a bounded number of sources of benign profit (and that there are limits to those sources) indicates that there are limits to profit. It also indicates that much of the profit generated today comes at the expense of people and nature, which helps explain the global sustainability crisis. This reveals some inherent perils of a profit-driven economy and implies that businesses in a sustainable economy should not pursue profit as an end. Thus, the paper adds clarity to the social and ecological sources and limits of profit. It also gives guidance for how profit should be treated in a sustainable economy.

Keywords: Profit, Sustainable economy, Sustainable business, Tradeoffs, Exploitation, Value creation

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1. Introduction

To what extent are there tradeoffs between profit and social-ecological sustainability? Both neoclassical and ecological economics fail to adequately explain the generation of profit, even though it is a dominant driving force in capitalist economies (Pirgmaier, 2018, pp. 109–117). Conventional approaches to business often take for granted that profit is necessary and desirable because it rewards owners for taking the risk of investment and so it keeps investment flowing, which creates jobs and innovation and generally leads to higher levels of welfare (Jones, 2018; e.g., Knight, 1921; Krugman & Wells, 2018; A. Smith, 2009). Likewise, it is often claimed in sustainable business literature that the pursuit of profit can be balanced alongside protecting people and the planet (the so-called ‘triple bottom line’ of people, planet, and profit), with the assumption that tradeoffs between profit and sustainability are negligible (Isil & Hernke, 2017). Yet, there is little evidence that win-win-win situations are ubiquitous (Lodsgård & Aagaard, 2017) and there is a plethora of evidence of businesses profiting from harm to various stakeholders and ecosystems (Filgueiras Sauerbronn et al., 2018; Peet et al., 2011; Satz, 2010; Trucost, 2013).

However, it is clear that not all financial surplus is exploitative. The case of a not-for-profit charity shop is a good example of this. A charity shop that pays its employees a living wage might still make a profit, but this comes from the combination of their goods being donated and their customers’ willingness to pay a premium because they know the profit will be used for the shop’s social benefit mission (e.g., to help people in need). Another example of non-exploitative profit is when better production techniques increase the efficiency of production, generating some profit in the process. Therefore, profit is not always exploitative, nor is it always sustainable, but the analytical tools for understanding when and how profit is exploitative need to be sharpened.

Eco-Marxian approaches can shed some light on the potential tradeoffs between profit, on the one hand, and social and ecological concerns, on the other hand. Eco-Marxian scholars posit that surplus value comes from nature, workers’ labor, and the reproductive labor upon which workers depend (e.g., Magdoff & Foster, 2011; Moore, 2014). These studies claim that if these forms of labor and nature were fully paid for, then there would be no overall profit in the economy (Pirgmaier, 2018, p. 115). The key for a better understanding of the tradeoffs between sustainability and profit on the level of a business or a market, then, is to look for the sources of profit.

This conceptual paper demystifies the links between profit and social-ecological sustainability by examining the concrete processes through which profit is generated, with a focus on how diverse types of business strategies derive profit from a finite number of sources. I develop a conceptual framework of the technological, social, and ecological sources of profit in three steps: 1) synthesizing insights from eco-Marxian value theory, life-cycle analysis methods, and Satz’s theory of noxious markets to conceptualize how value, profit, and exploitation relate to social-ecological sustainability; 2) examining widely used profit-seeking strategies from this perspective; and 3) offering a conceptual framework for assessing whether profit-seeking strategies are exploitative or not, according to the source of the profit they generate.

This conceptualization of the social and ecological sources of profit exposes, clarifies, and helps explain some of the root causes of global patterns exploitation and sustainability crises. It also offers a clear and concrete way of identifying the sources of profit, by focusing on widespread generic types of profit-seeking strategies. Lastly, it points towards the limits to

profit and how profit might be approached in a sustainable economy. As such, this paper provides a better basis for more effective discussions, theorizing, analysis, and practice when it comes to profit and social-ecological sustainability.

2. Conceptualizing Value, Profit, and Exploitation from Sustainability Perspective

As a starting point, I define a state of social-ecological sustainability as one in which every human's needs are met within the limits of the planet's biosphere, and without compromising the ability of future generations to meet their needs (based on the Brundtland Commission definition (World Commission on Environment and Development, 1987)). Thus, social and ecological justice are central to sustainability. Before delving into the tensions between sustainability and profit, it is important to clarify what profit is. Because profit is surplus value, this requires an exploration of value.

2.1 What is value?

An eco-Marxian perspective highlights that the notion of economic value is normative and, as such, represents a set of priorities, social norms, beliefs, and an underlying logic (e.g., the logic of capitalism) (Pirgmaier, 2021). Money is inherently a store of *exchange-value*, meaning that its value is derived from its ability to be exchanged for something else (Magdoff & Foster, 2011, pp. 41–46). This is in contrast to *use-value*, a type of value that is derived from the direct use of a good or service (Ibid) – for instance food has high use-value because it provides the nutrition on which our bodies depend.

While use-value is transhistorical, the prioritization of money as an end (i.e., the prioritization of exchange-value) is a more historically-specific phenomenon (Pirgmaier, 2021, pp. 5–6). All societies throughout time have derived value from using things, like eating food, but only some societies have prioritized money as an end in their economies and are thus organized, at least in part, according to an exchange-based notion of value. This means that different economic systems can be organized according to different understandings of value and that economic institutions will be organized in ways that prioritize use-value or exchange-value, or seek some sort of balance of the two. This is important for the discussion of sustainability and profit, because profit is a form of exchange-value.

Notions of value are very much connected to ideas about success – a successful person or organization creates a lot of value. In a system in which money is used as a metric of success, value is primarily viewed in terms of exchange-value and, as such, money is pursued as an end (Magdoff & Foster, 2011). Capitalist economies define and measure value and success largely in monetary terms; for example, a country with a high Gross Domestic Product is usually considered 'developed' and a 'successful' business is profitable (Ibid). Here, I define a capitalist economy as a market economy in which businesses are operated for private profit (Oxford Dictionary, 2020a). When profit is a measure of success, as in capitalist economies, it tends to be pursued as an end by businesses (Magdoff & Foster, 2011, pp. 41–46).

2.2 What is profit?

Money, exchange-value, and use-value are tightly woven together (Harvey, 2015). And all three are tightly connected to labor and nature, through economic transactions (Magdoff & Foster, 2011). As surplus money, this means that profit is also tightly connected to labor and nature. At first, this seems like a complex and abstract issue, but it can be broken down into more concrete pieces by thinking about how profit is generated.

There are several kinds of profit discussed in economics. For the purposes of this exploration, I use accounting profit, which refers to the financial surplus that is the difference

between costs and revenue². Therefore, the only ways to generate profit are to decrease costs (while maintaining revenues) or to increase revenues (while maintaining expenses), or a combination of the two. Revenue comes from selling goods or services on the market. The costs of production include business expenses such as wages, machinery, retail or warehouse space, debt repayments, and taxes.

The equation of profit is simple. The profit a business makes from selling its goods and services is the price of the item less the cost of producing that item³, multiplied by the total number of items sold. Therefore, increasing the revenue per item will add to the profit, all other things equal. The same goes for decreasing the cost of producing an item. If there is already a profit per item sold, then the absolute amount of profit can also be increased by selling more items.

This break-down of profit leads to a couple of key insights. First, there are three broad categories of profit-seeking strategies: increasing revenue per item; decreasing cost per item; and increasing the number of units sold. All profit-seeking strategies fit into at least one of these categories. Second, there are specific opportunities for generating profit in the process of making and selling products and these opportunities involve exchanges with people and/or nature. Thus, one should look at these social and ecological exchanges when trying to evaluate the social and ecological implications of profit-making.

For instance, when a business pays money (e.g., for wages, equipment, or taxes), it can be an opportunity for that actor to generate profit by paying less and thus cutting costs (whether through negotiation, deception, or coercion, as will be discussed in Section 2.3). When a business receives a payment, it is generally an opportunity for them to generate profit by increasing the price and/or increasing the number of items sold. There are also opportunities for profit between the financial flows if prices are kept steady and the economic actors make their processes more efficient, whether due to labor productivity (e.g., more efficient techniques) or due to resource efficiency (e.g., getting more use out of the same amount of resources). This means that the sources of profit are limited to the factors and actors involved in the production and exchange of items.

There are technological and ecological factors and a range of social actors involved in the economic process. The social and ecological implications of economic activity can be thought of in terms of both inputs and impacts. Inputs include materials, energy, and labor. Impacts include the various consequences of the economic process on nature, workers, consumers, specific local communities, society at large, and other actors in the value chain. These stakeholder categories come from the Social Life Cycle Assessment methodology (UNEP, 2020), which is used to identify the social impacts of a product throughout its life-cycle, with my own addition of nature as a stakeholder. Here, it is important to note that whenever the environment is harmed, it has negative impacts on local communities and society (either in the short or long-term).

Most opportunities for profit are directly related to social and ecological inputs as well as potentially harmful impacts on people and planet (Pirgmaier, 2018, p. 117). Certain tradeoffs between profit, on the one hand, and social and ecological concerns, on the other, are clear⁴—for instance, tradeoffs between the income for employees and the income for owners. Companies only have a finite amount of total revenue, so a decision must be made about how much of that revenue should go to paying employees and how much profit remains to be

² This can be further broken down into residual profit, which is the profit that remains after reinvestment, but such a level of detail is not necessary for this analysis, as the reinvestment of profit also has social and ecological impacts.

³ The terms 'item' and 'unit' here are used to refer to both goods and services.

⁴ Although there are also important tradeoffs between social and ecological concerns, they are beyond the focus of this paper.

reinvested or given to owners. The same sort of decisions must be made about how much to invest in pollution prevention measures, such as cleaner processing technology and disposal methods, and how much profit remains. Likewise, community engagement, improving health and safety conditions for workers, and paying taxes all involve costs for businesses. Higher costs mean less profit. These are the tradeoffs that are not often taken into consideration in the sustainability or sustainable business literature, perhaps because profit is often seen as necessary and desirable.

When stakeholders are not compensated for their contributions to the economic process, then they can be considered unpaid social and ecological inputs (Pirgmaier, 2018). As Moore (2014, p. 300) points out, the more profit is composed of unpaid inputs versus paid inputs, the higher the rate of profit. If the land-owner paid the local community for the negative impacts of intensive logging, for instance, the profit would decrease and may even disappear, making the logging unprofitable.

2.3 Exploitation

Since there are often tradeoffs between profit, on the one hand, and social and ecological concerns, on the other, exploitation is an important concept in understanding profit in relation to sustainability. For the purposes of this paper, exploitation refers to a situation in which financial value for some specific stakeholder(s) is produced at the financial or non-financial expense of other stakeholders. In order for such exploitation to happen, there is a power differential that favors the value-recipient. This parallels Satz's (2010) idea that "noxious markets" are characterized by producing harmful outcomes for individuals and societies, and are based on asymmetries in knowledge, agency, and vulnerability. The harm, benefits, and power asymmetries involved in exploitation relate to the standing of the relevant parties before, during, and after an exchange, in terms of being better or worse off (Ibid). Exploitation can happen via force, indoctrination, manipulation, or deception (Ibid). As Parrique (2019, pp. 266–267) points out, social-ecological exploitation is structural and institutionalized, meaning that actors in the supply-chain, from consumers to salespersons to managers of factories, do not have to have the intention of being exploitative in order to participate in exploitation.

If everyone in an economy is pursuing and competing for profit as an end and success is defined in monetary terms, then everything (or everyone) that is not money or cannot generate money is inherently less valuable. That is what allows for exploitation to happen in the name of profit. From a capitalist economic lens, profit is more valuable than a social or ecological stakeholder's wellbeing, unless they can make more profit by increasing stakeholders' wellbeing. Wild ecosystems and people living subsistence lifestyles do not generate money, so they are not worth much, according to a capitalist definition of value. Wild ecosystems can be put to better use by monetizing and commoditizing them and subsistence lifestyles should be converted into consumer lifestyles, in order to make money and 'create value'. That is the logic of capitalism and its prioritization of exchange-value.

In this way, profit-driven exploitation often generates exchange-value for relatively powerful actors by negatively affecting the exploited stakeholder's ability to meet their needs via use-value. Think for instance of an underpaid employee who must sacrifice time with their family in order to work overtime hours to earn a living wage. If the employee were making a living wage, they would not have to work so much. It is because they are underpaid in order to produce profit for the business owners, that they must sacrifice the use-value of family time for the exchange-value of a wage for themselves and the exchange-value of profit for owners.

It is important to note that the type and amount of harm done by economic interactions can vary widely, ranging from low to high levels of harm on a spectrum (Satz, 2010). Satz (2010, pp. 94–96) defines harm as violating a person's minimal levels of wellbeing and agency,

on the level of the individual, or undermining social frameworks that allow individuals to interact as equals, on the level of society. When it comes to nature, it is important to note that there is also a spectrum of harm. This spectrum ranges from meeting human needs in a way that allows both humans and ecosystems to thrive, such as permaculture practices, all the way to causing extreme harm to nature in order to support unnecessary consumption, such as the massive environmental impacts of private jets. Although there is no objective cut-off line for when human use of nature goes from benign to exploitative, it is clear that there is a spectrum and that sustainability requires us to try to stay on the benign side of that spectrum as much as possible while still meeting human needs.

3. Common Profit-Seeking Strategies and Social and Ecological Exploitation

When and how does profit come from social and ecological exploitation? In order to answer this question, one must gain an understanding of the process of how profit is sought and generated in different instances, in relation to social and ecological factors. This implies following the money and the social and ecological inputs and impacts in economic transactions. As noted above, there are only three basic ways of generating profit: increasing revenue per item, increasing sales, and/or decreasing costs. The simplicity of the profit equation offers a way to conceptually break profit down by looking at the kinds of strategies that companies use to try to generate profit in those three ways. I use the term ‘profit-seeking strategy’ to refer to businesses’ tactical use of methods and practices towards the goal of generating profit.

An examination of common strategies can help us identify the sources of profit. Larger patterns of social and ecological harm are driven by some typical and widespread profit-seeking strategies that happen across industries, including advertising, planned obsolescence (designing products to become obsolete), wage suppression, union busting, influencing policy, and mergers and acquisitions (Hinton, 2020). Many of these same strategies are used across industries throughout the global economy.

Below, I identify and examine types of business strategies that are commonly used to generate profit, categorized by whether they derive surplus from increasing revenue per item, cutting costs, or increasing total sales. I have focused on covering a broad range of common types of profit-seeking strategies, regardless of whether they are legal, illegal, or in a legal grey zone.

This exploration of business literature and practices is not comprehensive, but gives a better understanding of the potential sustainability tradeoffs and limits to profit. I was looking specifically for: strategies used across diverse sectors and geographies; strategies that might derive profit in non-exploitative ways; and strategies that might derive profit in exploitative ways. The brief description of each type of strategy highlights some of the most obvious social and ecological impacts that have been associated with it, with a focus on whether the strategy is likely to do direct harm to the stakeholders listed above. The purpose of the exploration is to inform a way of thinking about the social and ecological implications of profit.

It is worth noting that companies do not use these types of strategies one at a time or in isolation. A business will usually use several types of strategies simultaneously; for instance, keeping wages low, marking up prices, and advertising to sell more products. Therefore, the profit of such a company cannot be said to come from any one strategy, but rather a dynamic combination of strategies.

3.1 Increasing Revenue per Item

3.1.1 *Marking up prices*

As one study points out, pricing can be ‘one of the most powerful levers for driving profitable growth’ (Deloitte, n.d.). Yet pricing is often a very complicated decision for business

managers to make (Indounas, 2006). There are many different pricing strategies, from at-cost pricing to predatory pricing, from freemiums to pay-what-you-want. Many pricing strategies involve marking up prices. The strategy of marking up prices adds a profit margin to the price of an item, which generates surplus financial value by increasing the revenue per item.

Marking up prices to produce a profit comes at the expense of the consumer, but this is not always exploitative. For instance, when there is price transparency (when the buyer knows how much money it cost to make the item and how much the mark-up is and freely decides to buy the item anyway), marking up prices does not exploit the consumer (as in the hypothetical case of a charity shop). In such a situation, the consumer is willingly paying more to contribute to the company's profit (Jung et al., 2020). However, price mark-ups often come at the expense of an uninformed consumer; as has been documented in fashion (Jung et al., 2020), taxi rides (Balafoutas et al., 2017), health care (Brown, 2019), and a plethora of other products and services⁵, precisely because it makes sense to keep information about costs and price mark-ups from the consumer when seeking profit. In a context of high consumer uncertainty or ignorance of costs and pricing, markups are exploitative to some extent because the company generates a profit because uninformed (or underinformed) consumers unknowingly overpaid for the item (i.e., Satz's asymmetries of knowledge). This is often the case, but the level of exploitation is relatively low as long as the product in question is not essential for basic wellbeing (e.g., food or medicine), or all potential customers can at least afford the mark-up.

However, marking up prices might entail social harm by reducing the accessibility of goods for low- and middle-income households, if it is a basic necessity and there is a high level of inequality or average incomes are low (Satz, 2010). A well-documented case is medications that have been priced artificially high in order to generate profits for pharmaceutical company owners, reducing access to medicine for low-income households in places where healthcare systems do not help with these costs (Smith, 2016). In places where healthcare systems do cover pharmaceutical expenses, the price mark-ups (and, thus, the company's profit) are paid for by tax-payers. Even if customers in such a situation were to have full knowledge of the production costs (which is not usually the case), they are not in a position to refrain from buying these products because they are basic necessities. In such cases, there is an element of coercion of stakeholders, whether the patients or the healthcare system, by a powerful business and the degree of exploitation is high, which relates to Satz's asymmetries of agency and vulnerability, as well as harm to individuals' wellbeing. There are also wider social impacts in terms of the risk of loss of trust in basic social institutions, like businesses and markets. *Figure 1* illustrates the potential sources of profit for marking up prices. The dotted lines indicate that, depending on how the strategy is implemented, the profit might be derived from the sources depicted in the ovals. As will be shown, the links are clearer and more definite in some other types of profit-seeking strategies.

⁵ This is more likely in credence goods – where customers have to believe what an expert tells the – as Balafoutas et al. (2017) point out.



Figure 1: Potential sources of profit generated by marking up prices

3.1.2 Price-fixing, collusion, and cartels

Marking up prices can generate higher profits, but there is a risk that market competition might drive artificially high prices downwards. As such, profit-seeking firms also have an incentive to collude if they can, because collusion is generally more profitable than competition (Krugman & Wells, 2018, p. 420). In a market where a high percentage of market share is held by a few large firms, there is the risk for an increased tendency to collude rather than compete (Foster, 2014). This is because these few dominant players stand to generate more sales and profit if they can fix the prices at an artificially high level (or limit the quantities to be produced) and stay out of each other's way (i.e., price-fixing cartels)⁶. One meta-analysis found over 800 documented observations of cartel overcharging (from 1770- 2004), which were overcharging at a mean value of 29% more than the benchmark price, with international cartels overcharging 14% more than national cartels, harming buyers in both low- and high-income regions (Connor & Bolotova, 2006).

Collusions and cartels are sometimes an illegal strategy, but this is often a legal grey zone, as is market concentration (and monopolies), because it is difficult to define a cut-off point and price-fixing agreements are often made informally (Krugman & Wells, 2018, p. 240). Price leadership can often be a form of tacit collusion; a strategy in which supposed competitors go along with the profitable prices defined by one firm rather than offering lower prices to compete in the market (Ibid).

As with mark ups, the use of patents to keep prices high can be especially destructive in the pharmaceutical industry, in which patients, governments, and other value chain actors, such as insurance companies, are forced to pay high prices for life-saving medicine (Fox, 2017; Krugman & Wells, 2018). One of the ways branded pharmaceutical companies prevent competition is through "pay for delay" agreements, in which a brand drug company pays a generic company not to launch a version of their medicine (Federal Trade Commission, n.d.). The Federal Trade Commission in the United States estimates that these agreements cost American consumers and taxpayers \$3.5 billion in higher medical expenses each year, resulting in harm to consumers, communities, and society (Ibid). Like price-gouging, if high levels of price-fixing via collusion, cartels, and patents are allowed, there is a risk of a widespread loss of trust in social institutions like businesses, markets, and government. *Figure 2* depicts the

⁶ This can be particularly insidious when it involves the use of state funds, as in the cases of bid-rigging (when cartels fix prices for public tenders), which made up about 1/3 of the cartels studied in one meta-analysis (Connor & Bolotova, 2006).

sources of profit for this type of strategy, note that the lines from the strategy to the source are solid rather than dotted lines, indicating more certainty about the source of profit.



Figure 2: Sources of profit for price-fixing, collusion, and cartels

3.2 Increasing Sales

There are a vast number of sales strategies, including increasing demand by advertising, providing products that are designed to be frequently replaced or discarded after use (i.e., planned obsolescence), or selling goods that are short-lived because quality and durability are compromised by cost-cutting.

Increasing sales can involve social harm when companies use manipulative or misleading advertising⁷ or some form of planned obsolescence⁸. Research shows that people around the world are increasingly subjected to advertising (Story, 2007) and that advertising can be quite manipulative (Schor, 2004). There's an entire field of study of consumer psychology that focuses just on how to best tap into the consumer's mind⁹. Some scholars argue that the amount of advertising that the average person is exposed to everyday has changed peoples' primary identity from that of an active community member or citizen to that of a passive consumer, which entails personal and societal harm (e.g., Dulrud, 2017; Schuurman, 2007).

Planned obsolescence requires people to spend more of their money on products that needlessly become outdated (Cooper, 2004, 2005). Both manipulative advertising and planned obsolescence also put producing firms in a position of having much more direct power over the consumers than vice versa and can break down trust in social institutions. The increases in production, distribution, use, and disposal driven by advertising and planned obsolescence entail environmental damage in the forms of extraction of natural resources and pollution. *Figure 3* depicts the sources of profit from planned obsolescence.

⁷ For the purposes of this paper, advertising refers to all paid-for publicity that makes people aware of a product or service, with the intention of persuading them to do buy that product or service (based on a combination of new and old definitions mentioned in 'The Advertising Handbook' (Brierley, 2005)). This type includes many specific strategies such as re-branding, creating brand loyalty, and strategic product placement.

⁸ Planned obsolescence refers to consumer goods being designed to break down or seem outdated earlier than necessary in order to persuade consumers to buy more products and services (Guiltinan, 2009).

⁹ See, for instance, the *Journal of Consumer Psychology*.

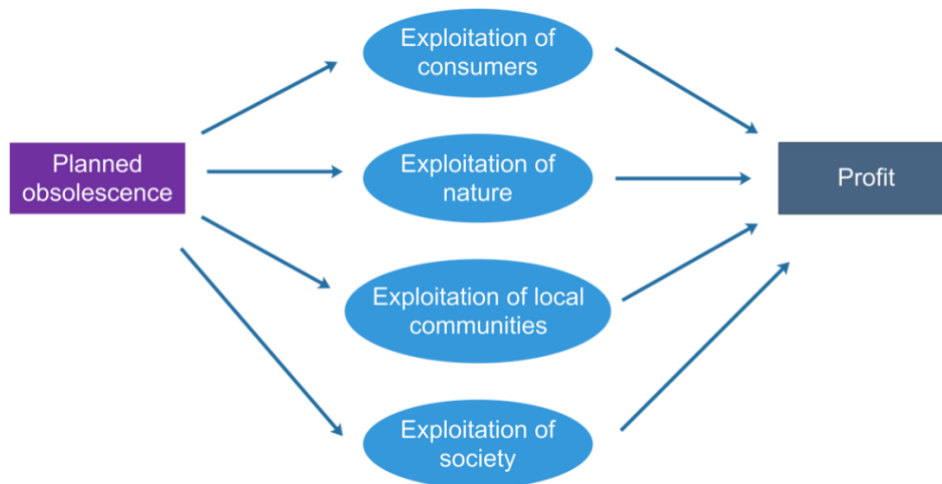


Figure 3: Sources of profit for planned obsolescence

It should be noted that halting and reversing the current levels of social-ecological harm requires an overall global decrease in the consumption of goods and services (Parrique et al., 2019). Therefore, seeking to expand sales of products and services with all of their ecological inputs and impacts does not align with sustainability, unless it is to expand access to deprived communities – even in the case of extending access to such communities, it is only sustainable if there is a decreased number of sales in overconsuming communities. Therefore, from a sustainability perspective, the category of strategies aimed at increasing sales should always be scrutinized critically.

3.3 Cutting Costs

3.3.1 Increasing productivity and efficiency

Costs can be cut by increasing the efficient use of resources or different kinds of inputs, often through technology. It can also be achieved by increasing labor productivity, through more efficient techniques; for instance, changing the way that workers pick strawberries in a field. Automation is increasingly used to perform tasks that employees would otherwise perform, which increases both types of efficiency. Labor productivity gains from automation can result in fewer jobs and, thus, contribute to unemployment unless those jobs are compensated for elsewhere in the economy (EOP, 2016). Likewise, more efficient techniques may be harmful to employees, for instance if workers are required to perform quick, repetitive motions for a whole work shift (*Figure 4*). However, in terms of direct inputs and impacts, increasing productivity generally derives profit from efficiency gains (*Figure 4*).

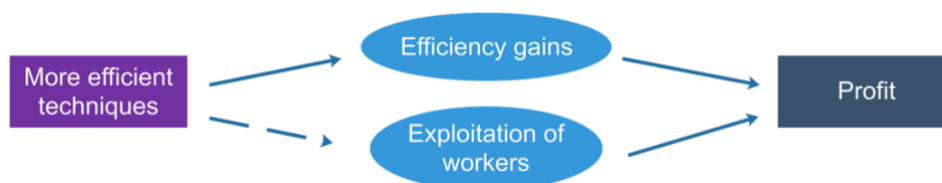


Figure 4: Sources of profit derived by more efficient techniques

3.3.2 Decreasing material resource costs

Another strategy that firms employ to cut costs is to decrease material resource costs. This includes using cheaper inputs, buying in bulk, and decreasing inventory. These strategies are often socially and environmentally benign and the profit is derived from efficiency gains.

Buying in bulk can have environmental impacts, depending on the type of product (*Figure 5*). If it is food, buying in bulk can sometimes lead to food waste, for instance in the

hospitality industries. But the direct risk for environmental harm from buying in bulk is minimal.



Figure 5: Sources of profit from buying in bulk

Likewise, the strategy of using cheaper inputs can be benign or exploitative, depending on why the inputs are cheaper. Profit from cheaper inputs might come at the expense of the consumer receiving a dangerous product or a product that breaks more easily, because cheaper inputs often mean lower-quality inputs. If products break more easily, this also has negative environmental impacts due to the disposal of broken products. Cheap inputs can become a problem for society at large when public works, bridges, roads, and buildings for example, contain cheaper materials made of a poor quality (knowingly or unknowingly) (Midler, 2011).

3.3.3 Keeping labor costs low

A similar strategy for generating profit is to keep labor costs low (Magdoff & Foster, 2011). This includes lowering wages, outsourcing or offshoring jobs to geographies where wages are lower, hiring disadvantaged people (e.g., undocumented immigrants) who are willing to accept lower wages due to their vulnerable situation, and maintaining wages at a steady rate despite a rise in the cost of living. The International Labor Organization has stated the world economy is characterized by wage stagnation, which attests to how widespread this type of cost-cutting strategy is (ILO, 2016, p. 85). Labor's share of GDP has been decreasing worldwide since 1990 (Fuentes-Nieva & Galasso, 2014, p. 73). This kind of strategy clearly derives profit at the expense of workers and their families¹⁰, but it also affects local communities and society at large, due to a loss of jobs in domestic market and exploitation of low wage labor and low working standards abroad.

Cutting labor costs can include hiring workers into zero-hour contracts or contracting short-term workers in order to avoid paying for benefits that come with a long-term employment contract, as is common in the so-called 'gig economy' (De Stefano, 2015; Friedman, 2014). Staff of the transnational corporation, Google, staged a walk-out at the London headquarters in 2019, in order to protest this practice and to stand in solidarity with the exploited contract workers hired by Google (Wong, 2019).

¹⁰ It is important to note that any time workers are directly impacted, there are also indirect impacts on the people in their families and communities who do the unpaid work that supports them and makes it possible for them to engage in wage labor (i.e., so called 'women's work') (Gibson-Graham et al., 2013).



Figure 6: Sources of profit from suppressing wages and benefits

Even when workers are on long-term contracts with benefits, employers often have the upper hand. Unions are typically seen as a way for workers to use collective bargaining to balance the power dynamics between employers and employees. However, union-busting is another effective profit-seeking strategy (Logan, 2004). Large companies, such as Amazon, Walmart, and Verizon have all been documented in their use of union-busting to keep their labor costs low and maintain (or increase) their profitability (Feingold, 2013; Menegus, 2018; Sainato, 2019).

Of course, the most vulnerable workers are affected the worst. For instance, labor contractors around the world are known to charge recruitment fees and then retain migrant workers' passports (LeBaron & Howard, 2015, p. 55), in effect indenturing them. In fact, forced labor, human trafficking, and slavery have become a widespread, endemic feature of the global economy, in everything from shrimp to cheese, clothing, care, domestic, and sex work (Ibid). As mentioned earlier, this also harms the families and local communities from which these migrant workers come. And the inequality caused by wage suppression and stagnation, especially in a context in which profit is privately distributed to owners, is bad for society as a whole. As Wilkinson & Pickett (2010) point out, inequality has wide-ranging and long-lasting negative effects on society.

3.3.4 Influencing policy for profit

Another important and prominent way that businesses seek profit is by influencing policy-making in ways that will directly cut their costs, give them additional income, or allow them to use other profit-seeking strategies more easily (Chen et al., 2010). This includes lobbying for business-friendly tax breaks, subsidies, and regulations; lobbying against costly taxes and regulations; and revolving doors. Revolving doors refers to the situation in which companies are able to get one of their associates into a policy-making position, and the door revolves when that associate comes back to an employed position in the company after their short political stint (Blanes i Vidal et al., 2012).

These strategies have many socially and ecologically damaging effects. For instance, the political process is manipulated and public resources are sacrificed (forgone tax income and public money that goes to private companies, further contributing to inequality) (Esteban & Ray, 2006; Fuentes-Nieva & Galasso, 2014; Rowland, 2013). Companies can avoid illegal behavior by changing policies to ensure that exploitative practices are legal or that fines for exploitative behavior are small enough that they can be more than compensated for by profits reaped from that behavior. This may result in exploitation of workers, especially in cases where labor regulations are fought by lobbyists or workers' rights to collective bargaining are undermined or where lobbying is done to keep the minimum wage low. This overlaps with collusion, as lobbying with a coalition of companies often reaps higher returns (Alexander et al., 2009, p. 428).

Influencing policy for profit may also damage the biosphere, for instance, through allowing more environmentally harmful economic activities (such as the de-regulation of mining, fracking, and drilling for fossil fuels), or the relaxing of environmental protection laws. More resources give a company more lobbying power, which can in turn yield more access to resources (e.g., subsidies, tax cuts, lack of regulation) (Esteban & Ray, 2006; Fuentes-Nieva & Galasso, 2014). This is a vicious cycle that affects society at large. This type of strategy has global effects, because cities, states, and nations have become engaged in a ‘race to the bottom’, competing to offer better tax holidays, tax exemptions, and special economic zones to attract companies¹¹. In this way, influencing policy for profit can lead to a state of political capture (Fuentes-Nieva & Galasso, 2014) and over time it can decrease the level of trust citizens have in their political institutions, leading to political unrest.

Although all actors should have a voice in a democratic political process, for the reasons above, it is questionable whether profit-seeking businesses should be able to lobby for or against policies that enable them to more easily generate profit at the expense of the environment, workers, consumers, local communities, other value chain actors, or society at large.

3.3.5 Disregarding taxes and policies

The last and most clearly harmful type of strategy in this brief overview is that of engaging in illegal, illicit, or legally questionable behavior, by disregarding laws, regulations, and taxes in order to generate profit. Breaking the law can be very profitable. In fact, in some cases, companies prefer to break the law and pay fines, because they can make more profit in that way than by obeying the laws (e.g., Dong, 2007). This points to a contradiction (and tradeoffs) between profit-seeking and social and ecological sustainability, which will be discussed in Section 5.3. The social and ecological harm done by this type of strategy can be extreme.

The use of tax havens is a profit-seeking strategy that has gained much attention in sustainability literature (e.g., Galaz et al., 2018). Corporate dividends as a percentage of corporate profits have been on the rise in the last 4- 5 decades (around the world) - up to 50% or more in many places (Bapuji et al., 2018, p. 992). The use of tax havens and the share of profits reported through shell companies in tax havens has continued to rise since the 1980s; an estimated amount equivalent to 10% of world GDP is held in global tax havens (Alstadsæter et al., 2018). As a result, the loss of taxes to governments is estimated to be at least US\$190 billion (Binder, 2016). As tax avoidance rises, inequality increases, which in turn makes tax evasion acceptable and rampant (Christie & Holzner, 2006; Jong-sung & Khagram, 2005). In other words, tax avoidance and inequality form a vicious cycle. This lack of tax revenue for states then affects the amount of protection the government can provide to its people and nature. If companies are able to disregard taxes and regulations without any major consequences, this can have detrimental effects on social trust.

¹¹ Fuentes-Nieva & Galasso (2014, p. 84) report: ‘In 1990, only a small minority of developing countries offered tax incentives for foreign investment; by 2001 most of them did. The number of free trade zones offering preferential tax arrangements to investors has soared in the world’s poorest countries. In 1980, only one out of 48 sub-Saharan African countries had a free trade zone; by 2005, this had grown to 17 countries; and the race continues. In 2012, Sierra Leone’s tax incentives for just six firms were equivalent to 59 percent of the country’s entire budget, and more than eight times its spending on health and seven times its spending on education. In 2008/09, the Rwandan government authorized tax exemptions that could have been used to double health and education spending.’

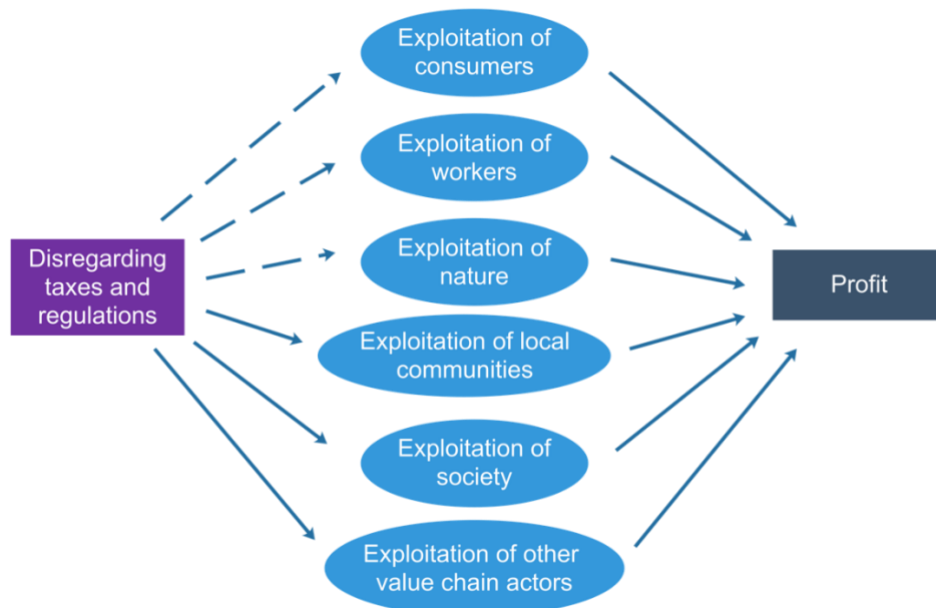


Figure 7: Sources of profit from disregarding taxes and regulations

4. Framework for Understanding the Social and Ecological Sources of Profit

The conceptual framework that emerges from this exploration can be used to guide the collection of empirical data about businesses and markets, but it is also meant to ground the discussion of how profit relates to social and ecological sustainability in everyday practice and empirical evidence.

The generation of profit does not simply have social and ecological side effects, as the matter is often framed. Rather, when it is not derived from efficiency, profit is derived from nature, workers, consumers, other value chain actors, local communities, and society at large¹². This can happen in an exploitative or a non-exploitative way. For social stakeholders, this depends on the extent to which they are aware that they are contributing to profit and are willing to make that contribution without manipulation and coercion. For nature as a stakeholder, this depends on the extent to which the impacts erode resilience and prevent ecological regeneration.

For instance, a strategy does not harm consumers when they are willing and able to pay extra, or workers when they are willing and able to work for less, *and* they are informed that they are making this contribution to profit, as well as to what extent. ‘Willing and able’ is the operative phrase here, which implies that these stakeholders have a choice (or agency as Satz frames it). When stakeholders do not have a choice, it cannot be said that they are willing and able.

The (intended) use of the profit also matters. Profit that is used for private financial gain inherently has more exploitative potential than profit that is used for social benefit or ecological conservation. This also overlaps with the issue of stakeholders being willing to contribute to profit. For instance, informed consumers or workers might be more willing to contribute to profit when they know it will be used for social benefit rather than enriching business owners.

¹² This includes the unpaid care work provides the underlying basis for all paid work, production, sales, and accumulation of wealth.



Figure 8: Potential sources of profit

Figure 8 illustrates how this way of thinking about profit-seeking strategies translates into a conceptual framework that clarifies the potential sources of profit: efficiency gains; willing and informed contributions from social stakeholders; exploitation of stakeholders; and exploitation of nature. This framework is intended to provide the basis for deeper and more concrete explorations of the relationship between profit and sustainability, by looking at how different strategies derive profit from a finite set of different sources. As such, it can be used to qualitatively assess the (un)sustainability of particular strategies, businesses, and markets. There might be sources that I have not found in my study, which can be added in future research.

5. Discussion

5.1 Strategies often derive profit from exploitation

Something that became immediately apparent in the process of developing this framework is that there are only two benign sources of profit: efficiency and willing and informed contributions. Most of the common strategies that I examined entail exploitation or a risk thereof. Furthermore, the most clearly benign strategies, like buying in bulk or decreasing inventory, are quite limited. If these were the only strategies used to generate profit, the economy might be quite sustainable. However, it would also not be a very profitable economy because here are clear limits to the gains that can be achieved by those strategies. A business can only decrease its inventory, buy in bulk, or improve workers' techniques so much. Whether or not there are clear limits to resource efficiency is a topic of a lively ongoing debate between sustainability scholars, but the second law of thermodynamics and the lack of evidence of decoupling economic activity from environmental impact on the aggregate scale (Parrique et al., 2019; Georgescu-Roegen, 1971) imply limits to resource efficiency, as well.

These strategies also have definite limits in terms of how much profit they can deliver and for how long. In most cases, these strategies would only provide a temporary boost in profits and/or cannot be done frequently (e.g., changing out old equipment for more energy-efficient equipment, or decreasing the inventory to allow for a smaller warehouse). In the end, companies seeking to sustain or grow profits will use other types of strategies¹³.

More questionable strategies, like lobbying for tax breaks and acquiring competitors, can deliver great gains in profits for a long time if successful. In fact, one study found that

¹³ There is an important difference between a company decreasing the amount of resources per unit of production and decreasing its *total* environmental impact. Addressing the global environmental crises requires a large decrease in total environmental impact. So far there is no evidence that this can happen without an overall decrease in production and consumption (Parrique et al., 2019).

investments in lobbying for a certain tax policy in the US reaped a 22,000% return on investment, a return of 220USD for every 1USD invested (Alexander et al., 2009, p. 404).

This is not a coincidence. It is because profit is often *derived from* the exploitation. In many cases, the higher the level of harm a strategy entails, the more profitable it is. For instance, it can be much more profitable for a company to coerce slaves to peel shrimp than to pay them a fair wage, ensure safe working conditions, and offer them employment benefits. Free labor can be very profitable (ILO, 2014). Aside from just sub-standard wages, the International Labour Organisation estimates that 150 billion dollars of profit are made from the forced labor of 21 million men, women and children, each year (ILO, 2014). Likewise, it can be more profitable to influence policy away from a regulation that requires major investments in environmental and human safety equipment than to actually have to make those investments and maintain that equipment. It is often more profitable to invest in lobbying to change tax policies¹⁴ or to hide profit in complicated layers of shell companies than to pay the taxes.

5.2 Market dynamics increase the pressure for exploitative strategies

In seeking financial gain, highly profit-motivated actors tend to gravitate to exploitative practices as a way of cutting costs and/or increasing revenue. In a market of actors competing for financial gain, there is a race to the bottom, as those that use the most profitable (and most exploitative) strategies become the largest, most powerful actors (Foster, 2014). This puts pressure on other actors to also use dubious strategies, in order to stay in the market. LeBaron & Howard (2015, p. 37) give an overview of how this race to the bottom plays out:

‘In order to meet their obligations, stay afloat financially, and weather the efforts of retailers and processors to lower costs, producers and suppliers often subcontract labour and other low value-adding business activities... (f)or example, farmers, who rarely have the labour capacity to harvest time-sensitive crops, may hire large numbers of workers through agencies for short periods of time.’

The companies that can cut costs the most (albeit through exploitation) can also offer their products at the lowest price. This is exacerbated by the inequality inherent in a profit-driven economy, as a growing number of consumers cannot afford to buy the more expensive, less exploitative products, even if they want to, due to the stagnation of wages and the increasing cost of living. Therefore, in an economy driven by cutting costs and maximizing income (for both producers and consumers), companies that can offer the cheapest products and services by cutting costs (albeit in exploitative ways) are able to gain a larger share of the market, as consumers favor low prices¹⁵. This then feeds into market concentration dynamics, wherein profit-seeking investors tend to invest in the most profitable companies with the largest market share (Penrose, 2009). Furthermore, investment in certain strategies can create lock-ins and path dependencies – as supply chains, trade routes, and policies are shaped by these strategies.

¹⁴ For example, corporations that invested 282.7 million USD in lobbying for a tax benefit received 62.5 billion USD in tax benefits, a return of 220USD for every 1USD invested or 22,000% (Alexander et al., 2009, p. 404). Alberta, Canada, gave oil and gas companies 2 billion dollars in subsidies in 2018 (Buck, 2019). Facebook has been lobbying against data privacy laws, because selling data is how they make a profit (Cadwalladr & Campbell, 2019).

¹⁵ With the exception of status and luxury goods. Those types of goods and services often entail different kinds of profit-seeking strategies, some of which might be exploitative. One can think of the forced labor in conflict zones for the extraction of diamonds, for instance (Reddy et al., 2005). Here, customers expect diamonds to be expensive and are willing to pay high prices, but some companies can generate even more surplus from highly-exploitative strategies.

5.3 Implications for the profit-driven economy

This conundrum reveals a deeper issue than the lack of proper regulation of market activities. It is a systemic peril of the profit-driven economy that exploitation is usually more profitable than non-exploitation. It is not via flukes, mishaps, or evil intentions that businesses are driving sustainability problems, but rather businesses are acting rationally in a system that defines profit-seeking as rational behavior and profitability as success.

This is a key inherent contradiction of the idea of sustainable capitalism: the need for the relentless generation and pursuit of profit and, at the same time, the need to constrain the generation and pursuit of profit to protect social and ecological wellbeing. Government regulations and policies are meant to deter or prevent companies from using unsustainable strategies (Dong, 2007). However, the drive for profit which is the centerpiece of the capitalist economy motivates companies to innovate around those policies in order to generate profit, either by going beyond one's own legal jurisdiction or by influencing policy-making itself. Some simply opt to pay the fees for breaking the law because they will still make a profit even after the fees are paid (Ibid). In other words, the regulatory approach is not working because constraining the profitability of a profit-driven system is riddled with contradictions. Companies in such a system can always argue that they are just doing what they are meant to: pursuing profit (Gladwin, 2011). They are supposed to make as much money as possible because the capitalist way of organizing the economy is based on the assumption from neoclassical economics that the stability of the system (i.e., jobs, income, consumption) relies on profit-driven business owners making a return on their investments (Jones, 2018; Krugman & Wells, 2018; Smith, 2009). Using this logic, they can legitimately argue that the benefits outweigh the costs. In other words, the social norms, beliefs, goals, notion of value, and legal structures of a profit-driven economic system, like capitalism, do not align with the aims of sustainability.

This is why these strategies (and the exploitation they entail) are so ubiquitous. It is not just a few market failures here or there, but rather exploitative strategies characterize much of the economy, and drive the global sustainability crises of the 21st century. Currently, much of the sustainability literature dealing with business and profit tends to focus on impacts. However, focusing on profit-seeking strategies and the sources from which they derive profit better allows for identifying and preventing exploitation rather than mitigating its impacts.

6. Conclusion

The analysis and framework presented in this paper is intended to contribute to a deeper discussion about the relationship between profit and sustainability. Most sustainable business approaches do not deal with the tradeoffs between profit, people, and planet (Isil & Hernke, 2017), so it is important that the field of ecological economics engages with these tradeoffs in a more concrete and coherent way. By taking the discussion beyond either assuming that all profit is exploitative or taking for granted that tradeoffs are negligible, this paper provides the basis for discussions in the ecological economics community about the limits and tradeoffs of profit, in relation to social-ecological sustainability.

The main insight gained from developing this framework is that there are only so many ways of generating profit and that strategies derive profit from a limited number of sources, including the exploitation of various stakeholders. In seeking financial gain, profit-driven actors tend to gravitate to exploitative practices in order to cut costs and increase revenue as much as possible. And in a profit-driven system, they can justify doing so, because they are expected to employ strategies that generate profit. This reveals some inherent contradictions and perils of a profit-driven economy when it comes to the role of regulation.

With a clearer understanding of how sustainability problems arise, there is a better chance of resolving or transforming them. Understanding how profit is generated from a finite

set of sources via common types of business strategies can help researchers, policy-makers, and practitioners more clearly identify and anticipate challenges to, and opportunities for, different sustainability interventions.

This analysis clarifies the role of profit in sustainable economies. The fact that there are so few benign sources of profit indicates that there are limits to profit and, as such, a sustainable economy is not profit-driven; nor does it measure and define business success and value creation in terms of profit. In essence, money should be seen as a means rather than an end.

This understanding of the limits to the pursuit and generation of profit should be complemented by clarity around the purpose, distribution, and use of profit. There are also systemic consequences in terms of whether profit is invested in social benefit or accumulated by private owners (Hinton, 2020). When thinking about profit, we must ask what kind of value it creates, for whom, and from which sources.

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