

Sustainable development at tax-deductible costs or how to assure sustainable development by one's way of living*

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Abstract. *The purpose of this paper is to demonstrate that an imperative demand for an existence in harmony with Nature is created when the costs incurred for such an existence can be deducted from taxable income. All reasonable consumers who pay income taxes will then be driven to buy tax-deductible products. Producers will have to satisfy this demand. They will also have to justify their products' characteristics, which assure sustainable development and to identify the costs which are associated with these qualities. The consumer needs to know which percentage of the purchase price he paid corresponds with the environmental cost free quality of the merchandise, in order for him to deduct the consequent amount from his taxable income.*

The theory underlying the deductibility of costs of living from taxable income is based on the following three assumptions: The goal of development is constantly determined by the purchases of consumers. Currently, the only goal with which consumers spend their income seems to be the one of consuming more. The recurring ecological crises reveal that it is impossible to continue to consume more of limited resources without eventually exhausting them. One of the functions of the consumer in the economy is to maintain a way of living which assures sustainable development. The principle of efficiency of economy, according to which the efficient place to manage any cost is at the source of the revenues which costs sustain. This paper also presents a practical and feasible application of our ideas. The creation of a way of living qualifies as research if it is achieved within the context of a scientific project with the cooperation of, in particular, academic institutions. Such a project could be operated within the context of the UNECE 1998 Aarhus Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters, signed by Romania on 25 June 1998 and already ratified by this country on 11 July 2000. The application of our theory will lead consumers and producers to pursue an optimum efficiency in the use of resources absorbed in ways of living. Mankind will thus achieve a development that meanders unhindered within the natural limits of a lush Nature.

Key words: tax-deductible costs of living; income from natural resources; integrity of Nature; environmental cost free production; black market abolition.

JEL codes: From A to R or Z, ethical base of economy.

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Introduction

How to find a way out of recurring ecological impasses? Our search for an answer to this question began many years ago. Mankind has to live in harmony with Nature in order to stop the deterioration of the environment. This affirmation had already been a common truth when we began. How to motivate consumers to adopt ways of living in harmony with Nature became for us the experimental question.

From the beginning of our research, it was evident that consumers would be driven to buy exclusively products which assure sustainable development, the moment they could deduct from taxable income the money they spent on such products. Later on, the awareness arose that it is the consumer who determines the goal of development. This discovery revealed that, should consumers be enabled by law to manage their costs of living – i.e. to deduct them from their taxable income – they could choose a way of living compatible with the integrity of Nature. Our perception of the principle of efficiency of economy is one which gives an ethical base to economy, as it incites consumers and producers to optimize efficiency in sharing resources.

In order for this theory to be applied, we suggest that the ability of consumers to deduct from their taxable income their costs of living in harmony with Nature should be tested.

The project could take place within the context of the afore-mentioned Aarhus convention, which stipulates that theories and techniques which are not yet applied can be tried out.

The project would open a door towards preventing the recurrence of ecological crises and towards dealing with world poverty.

Definition of economic development

Joseph Schumpeter came up with the term in 1911 when he wrote “The Theory of Economic Development”⁽¹⁾. Since then, many definitions of this concept have been given⁽²⁾.

These definitions have in common their considering economic development as a process of making goods and services with the available factors of production, which are land, labour and capital. According to these definitions, economic development should improve living standards, per capita income or wealth and the products should improve well being without harming the environment.

Our perception of economic development is that of a process of supplying the goods and services people purchase every day and everywhere in order to improve their well being. Producers therefore supply only products that give consumers this feeling, thus satisfying an imperative demand of the consumer for such products.

Sustainable development demands ways of living, working and being that enable all people of the world to lead healthy, fulfilling, and economically secure lives without destroying the environment and without endangering the future welfare of people and the planet.”⁽³⁾

How to create an imperative demand for the products required for such ways of living, working and being?

The goal of development

The goal of economic development has not been defined at the onset of our research.

Goals have been set for development by whoever was in charge for progress in an area or a community⁽⁴⁾.

Development is a process. Thus it is a movement. It must therefore have a direction and a sense and, consequently, a goal.

To be able to assure that a goal is achieved, the force that controls the direction and sense in which a process moves must be determined.

The direction and sense in which the development of the economy moves are determined by the purchases of consumers.

The goal of the development of the economy is the goal consumers pursue.

This assertion raises the question of the goal with which consumers currently spend their income.

At present, consumers do not have any tool, technique, capacity or authority to manage their costs of living, in order to achieve a chosen goal for development. As a consequence, the only goal consumers can aspire at seems to be the one to consume more. A continuous increase in consumption is implicit in the macro-economic policy of maintaining growth in development.

It is nevertheless impossible to continue consuming more of limited resources without eventually exhausting them.

The increase in the consumption of the stocks of Nature began when commerce started. Since then, the use of resources has augmented, bringing mankind to the confines of Nature. The industrial revolution has catapulted the economy towards these boundaries. Ever since the industrial revolution began, a senseless economy has rushed towards the limits of Nature, as if in conquest of yet undiscovered territories. Economic development is still stagnating at these frontiers.

Increased consumption causes, in particular, recurrent crises like global warming, the hole in the ozone layer, acid rains, diseases in livestock, pollution and depletion of natural resources.

The rush to consume more explains also why parts of the world’s population are still living in increasing poverty, whilst people in industrialised countries improve continuously their well being. Since the industrialised world is more efficient in increasing its use of any stock, its consumption pattern persists in absorbing more than its fair share of the common reserves.

A consequence of pursuing the present goal of development is that the economy does not advance in a sustainable manner and that current ways of living cannot last.

Development seems to determine the ways of living of consumers.

How can the consumer decide to live a life which assures sustainable development?

The function of the consumer in the economy in connection with sustainable development

When consumers spend their income, they are free to choose the products they buy. By their purchases, they determine the direction and sense in which the economy moves. They are conscious that it is better to live in harmony with Nature than to eventually destroy Nature. Thus, they are interested to live in a way which assures sustainable development. This interest of consumers together with their freedom of choice and their skill in making purchases for the maintenance of ways of living make the consumer the economic agent suitable for assuming the function of maintaining ways of living that assure sustainable development.

The principle of efficiency of the economy in connection with sustainable development

“Efficiency is the ratio of the useful energy delivered by a dynamic system to the energy supplied to it.”⁽⁵⁾

By way of an example, efficiency is the quantity of raw materials and the amount of energy which are necessary to make a thousand pencils. Efficiency improves when more pencils are made with the same amounts of resources, or when the same number of pencils is made with fewer resources. Efficiency is an output/input ratio.

The efficiency of the economy is the quantities of goods and services that are produced with the natural resources.

We advance that the efficient place to manage costs that assure income is at the source of the revenues which these costs sustain. This principle anticipates that the people who earn the income manage the costs they incurred in order to generate it. Costs can be controlled, whilst income cannot, because the market sets the sales price and the amounts sold are determined by the demands of the consumer.

Producers demonstrate the value of this principle by optimizing the efficiency in using resources in economic processes. They control their costs of production by being able to decide on the purchases which keep their businesses gainful. Their gains depend on the difference between revenues from sales and costs of production and on the taxes they pay on resulting profits.

For many small producers, profits also make up the very income with which they live.

A producer is naturally inclined to keep his costs limited to maintaining a desired level of production with an optimum use of resources. He must pay for the raw materials and for the energy which are a part of his costs of production. The costs of natural resources therefore also determine his profits. As a consequence of his ability to control all his costs and in order for him to live better, the producer is as efficient as he can be in the use of natural resources.

As far as consumers are concerned, they earn the money

which cover their costs of living. They are at the source of their income and, therefore, well placed to manage these costs in order for them to achieve optimum efficiency in absorbing natural resources.

The ability to account for the costs of living as income assuring costs

Consumers will be able to manage costs of living when they can declare them as expenses which assure income. Costs that assure income are recognised by present law as payments that can be deducted from the taxable income they generate, as far as costs of production are concerned. Producers are allowed to deduct the costs of production from their revenues from sales, before paying taxes on the resulting profits, as these costs participated in the production of the goods and services that generated these revenues.

Money spent on anything that assures sustainable development creates income without costs to the environment. Environmental cost free income is higher than environmental cost burdened income. Money spent on environmental cost free products generates an increase in income and could therefore be deducted from the extra income, before taxes are paid.

Some consequences of the capacity to deduct costs of living from taxable income

The moment consumers can deduct costs of living from taxable income, there is an imperative demand for a way of living in harmony with Nature. All reasonable consumers who pay income taxes will then search for a resource efficient existence. Tax paying consumers live mainly in the developed and industrialised world. They consume most of the common natural resources. When these consumers adopt ways of living that assure sustainable development, their demand for the appropriate goods and services will be so overwhelming that a large majority of producers will do the research for a way to compete amongst them with products that use raw materials optimally. Producers will not sell products that do not have this quality. The offer to sell such products might even be evaluated ethically.

One of the ways consumers will manage their costs of living is by accounting for the sustainable quality of their ways of living. They will indicate the degree of resource efficiency and other sustainable qualities of the products they bought, when they present their costs of living as tax-deductible costs. This will oblige the producers to give proof that the qualities of the products they sell satisfy the requirements for sustainable development.

Ways of living that last can be created and assured scientifically by means of the information collected.

The money saved by inducing producers and consumers to behave in an environmental friendly way will outweigh the income taxes not levied from the consumer, in

return for his accounting for the environmental quality of the products he bought.

The power of a common demand for ways of living in harmony with Nature will pull producers away from meeting the currently allowed minimum levels of pollution. Such common demand will induce producers to rather compete in pursuing zero pollution.

The ability to deduct costs of living from taxable income brings about the sharing of the socio-economic power between the social power of the producer's income, which shapes society (Yang), and the economic power of the consumer's expense, which gives sense to development (Yin). A consequence of this sharing of power is that producers can still maximise profits, but only by producing goods and services that maintain sustainable development. A harmonious equilibrium between the social and the economic powers will then be achieved.

The money consumers spend composes a significant part of the monetary mass in the economy. Improvement in the efficiency of using natural resources absorbed by consumers will therefore allow the production of consumer goods with an almost exponential growth. Once the use of the natural resources has reached an optimum efficiency everywhere, everyone can share comparable levels of well being.

People, who share satisfaction, live in peace.

How to introduce this accounting practise into the economy?

Groups of employees, adequately informed about the project – and who work in the tourism sector, for instance – can incite their employers to create holidays which assure sustainable development in the most desired areas. Subsequently, contracts having such object can be agreed between them.

The money the employees spent on such holidays will be income for the tour operators. It will be environmental cost free income, since the money is spent on holidays that do not harm the environment. Environmental cost free income is, in the long run, higher than environmental cost burdened income. The funds employees make available to tour operators will therefore create an increase in the income of the latter. As these funds have been used to initiate sustainable holidays, they can be qualified as research costs. The law allows tour operators to deduct research costs from the income these costs generate.

The tour operators pay the wages and salaries of their employees with the revenues from sales. A part of employees' remunerations is therefore paid with the environmental cost free income the tour operators made from the holidays they created for their employees. The moneys the employees spent on these vacations generate, as a consequence, also environmental cost free income for themselves.

It is possible to calculate the percentage of the salaries and wages of employees, which is paid by the companies

with income that leaves the environment in perfect state. This percentage is equal with the proportion of the income of the company which is composed of environmental cost free revenues. As they participate in their employer's research, the employees should also be allowed to deduct, as research costs, the money they spent on these vacations. The maximum amount of money they should be able to deduct would have to correspond to the proportion of their salaries that comes from the environmental cost free part of the income of their company.

The law should allow everyone to deduct such research costs from the income they generate.

The work involved in research that has as object to generate income cannot be restricted to research done by producers. Such a restriction is clearly not in the interest of Mankind, this theory elucidates. Efforts made and work involved in the preservation of the environment should be recognized and encouraged. Research and development should therefore be an incentive for all.

The Aarhus convention recognizes the need to incite everyone to search for solutions to the recurring environmental problems. Consumers can generate environmental cost free income for following generations by their ways of living. They should therefore, by concept, also be allowed to deduct costs incurred to search for Nature respecting ways of living, as research costs from their environmental cost free income.

Tourism is an important sector of the economy in the Gross National Products of many countries. Leisure time activities need pristine Nature as working capital. Nature is threatened by current development. Professionals of this sector create ways of living during leisure time. Tourism is therefore the sector of the economy that is the most apt and the quickest to show whether the accounting technique we propose is a key to sustainable development.

One condition for making the application of this accounting practise feasible is the participation of employees and their companies in research. The purpose of these investigations will be to verify scientifically whether the ability to deduct costs of living from taxable income creates an imperative demand for goods and services that sustain development.

In order to assure scientific bases to the research, we invite academic institutions to participate. Besides collaborating to the creation of an information system and to subsequent activities of a research programme, they could be involved in measuring the impacts of leisure time activities on the environment and on the economy and thus on general well being.

As mentioned before, the project could be operated within the context of the Aarhus Convention. Its implementation is specified under point 8 (*"Strengthening the partnership with NGOs, in the process of elaboration and enforcement of public policies within the field"*), of chapter 18 (*"Policy upon the environmental protection"*) of the Government's Programme of Romania⁽⁷⁾.

More generalised applications of our theory are possible within the context of this Convention.

It must, for instance, be possible to invite employees of all the suppliers of the regions most coveted by tourists, to demand the creation of ways of living that assure sustainable development, within the context of a research project. Local producers will be interested to participate in the project, as they are conscious that the revenues from their businesses will last for as long as the environment remains intact. They realise that they can leave their endeavours as inheritance to future generations. The economy of the Carpathian Mountains with all its water basins, the economy of the borders of the Danube River and of the Black Sea coast could be developed in this way.

Measurements will demonstrate whether:

- i) the development of the economy in the research area is guaranteeing future generations that they can also draw income from the use of natural resources,
- ii) the well being of the inhabitants of this area improves without diminishing the well being of residents of other regions or countries,
- iii) the state of the environment recovers,
- iv) the efficiency in using resources increases.

The selected area will become the centre of research by means of the measurements that will be taken and by the feedback that will be collected from the researchers who participate in the project. The region will attract investments.

In a second stage of the project, employees from other sectors of the economy – for example the food and other consumer goods industries – could be motivated to incite their employers to produce environmental cost free products also for them.

Industry in larger regions, like provinces or countries can then progress in a sustainable way. Romania would have meanwhile become the cradle of a human and ethical development.

In a foreseeable future, seven years for instance, measurements will demonstrate whether a way of living in harmony with Nature assures a lasting development in the region, particularly if the appointed area would cover a basin of a river or stream. Water is the blood of Nature. The quality of water reveals the quality of the environment.

What will be the consequences for public funding

With the industrial revolution, the state received less taxes paid by suppliers of non-industrial goods and services and more taxes paid by suppliers of industrial products. Since the latter made a more efficient use of natural resources, they produced more, made more profits and paid more taxes. As a result of this shift, the state received more funds.

The increase in demand of consumers for environmental cost free goods and services will cause a rise in the production and sales of such products. Producers will pay

more taxes as they made higher profits due to increased sales. Simultaneously, the state will receive fewer taxes, as consumers deduct costs of environmental friendly products from their taxable income. The increase in taxes paid by suppliers of these products will offset the reduction caused by consumers deducting costs of living from taxable income, as again, suppliers will make a more efficient use of resources.

At the same time, the state will need fewer funds, since it will no longer need the huge amounts of money to protect Nature⁽⁸⁾. It will be the task of the consumers and the producers to take care of keeping Nature unblemished.

Public funds will increase because the *black market* disappears. On the black market goods and services are sold without formal proofs. As a consequence, taxes on the income from these sales are not paid. The deduction of costs of environmental friendly products requires proofs that these goods and services qualify for deductibility.

The state will have more funds at its disposal when costs of living with goods and services which assure sustainable development can be deducted from taxable income and, as an added bonus, tax rates could then be lowered.

Conclusion

The only goal of development is currently one of consuming more. Increase in consumption leads to the depletion of the limited natural resources, to environmental catastrophes and to further impoverishment of the poor. Pursuing such a goal is leading a way of living which will not last.

“Sustainable development demands ways of living, working and being that enable all people of the world to lead healthy, fulfilling, and economically secure lives without destroying the environment and without endangering the future welfare of people and the planet.”⁽³⁾

An imperative demand for the goods and services needed for an existence compatible with the requirements of sustainable development will be real when consumers can deduct from their taxable income the money they spent on products that match the challenge.

Producers will be convinced of the interest of consumers to spend their income exclusively on such products and they will invest in the necessary research. The continuity of the process will eventually lead to sustainable development at 100%.

In the meantime, the efficiency of absorbing resources will increase significantly, since such efficiency will be a competitive quality of the goods and services required for sustainable development.

Eventually, producers and consumers will share the common resources with optimum efficiency and everyone can enjoy compatible levels of well being.

Peace by way of the economy progressing within a flourishing environment is then possible.

Notes

(1) See Schumpeter, Innovation and the Business Cycle (<http://www.minotstateu.edu/econ/drhuenneke/schumbiz.html>)

(2) De. vel. op. ment, noun

1): the act, process, or result of developing <development of new ideas> <an interesting development>

2): the state of being developed <a project in development>

3): a developed tract of land; *especially* : one with houses built on it
See Merriam-Webster Online dictionary: (<http://www.m-w.com/dictionary/development>) for some definitions of the noun “development”.

The Economic Developers Association of Alberta, the members of which are the public and private development professionals of this province of Canada, defines economic development as :

“The process of developing and maintaining suitable economic, social and political environments, in which balanced growth may be realized, increasing the wealth of the community.”

The Economic Developers Association of Alberta (http://edaalberta.com/about_us/DefinitionOfEconDevelop.htm)

Another definition shows what it means to be developed from the bottom up.

“a process that begins when a community makes itself ready to accommodate the retention, startup, location, or expansion of an enterprise. Economic development occurs when a local economy is vitalized by the creation of one or more jobs, an increase in community wealth, or the useful distribution of capital that arrives from outside sources.”

“Network search”, a free-access directory of search tools and help, (http://www.findmehere.com/search/dictionary/e_index.htm)

The Wikipedia encyclopedia gives a long description about what economic development is. It begins as follows:

“Economic development is the development of the economic wealth of countries or regions for the well being of their inhabitants. The study of economic development is known as development economics.

Economic development is a sustainable increase in living standards that implies increased per capita income, better education and health as well as environmental protection.

Public policy generally aims at continuous and sustained economic growth and expansion of national economies so that ‘developing countries’ become ‘developed countries’. The economic development process supposes that legal and institutional adjustments are made to give incentives for innovation and for investments so as to develop an efficient production and distribution system for goods and services.”

The Wikipedia encyclopedia (http://en.wikipedia.org/wiki/Economic_development)

The Ministry of Economic Development of New Zealand gives following under, definition sustainable development. “The Government’s overarching economic goal is to grow an inclusive, innovative economy for the benefit of all. This goal is closely related to the Government’s other social and environmental goals. These include improving the skills of New Zealanders, closing the gaps for Maori and Pacific People in Health, Education, Employment and Housing and protecting and enhancing the environment.”

The Ministry of Economic Development of New Zealand (http://www.med.govt.nz/templates/Page____3784.aspx)

The Organisation for Economic Co-operation and Development (OECD) gives in its “Policy Brief: Sustainable development strategies: What are they and how can development co-operation agencies support them?”, of 18 September 2001, following definition of sustainable development: “In simple terms, sustainable development means integrating the economic, social and environmental objectives of society, in order to maximise human well being in the present without compromising the ability of future generations to meet their needs. This means seeking mutually

supportive approaches whenever possible, and making trade-offs where necessary. The pursuit of sustainable development thus requires improving the coherence and complementarity of policies across a wide range of sectors, to respond to the complex development challenges ahead.”

The Organisation for Economic Co-operation and Development (http://www.oecd.org/document/3/0,2340,en_2649_201185_1899843_1_1_1_1,00.html)

In its “Policy Brief: Advancing sustainable development” of 14 March 2006, following definition of sustainable development is given: “it implies a better balance between economic, environmental and social goals, and greater fairness in distributing the gains from growth among people and countries. It also concerns preserving the environment and natural resources as a basis for progress. And it means making policy decisions which are in the interest of future generations.”

The Organisation for Economic Co-operation and Development, (<http://www.oecd.org/dataoecd/43/44/36277332.pdf>)

The history of the concept of “Sustainable Development” is explained and its definition is given in the The Wikipedia encyclopedia.

“Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Popularization (of the concept of sustainable development) started with the United Nations Conference for Environment and Development (the Earth Summit) in 1992. The conference was prompted by the report “Our Common Future” (1987, World Commission on Environment and Development, also known as the Brundtland Commission), which called for strategies to strengthen efforts to promote sustainable and environmentally sound development. A series of seven UN conferences followed on environment and development. They coined the most widely used definition of sustainable development, which contains two key concepts: The concept of “needs”, in particular the essential needs of the world’s poor, to which overriding priority should be given; and the idea of limitations imposed by the state of technology and social organization on the environment ability to meet present and future needs.

Sustainable development demands ways of living, working and being that enable all people of the world to lead healthy, fulfilling, and economically secure lives without destroying the environment and without endangering the future welfare of people and the planet.”

(3) The Wikipedia encyclopedia (http://en.wikipedia.org/wiki/Sustainable_development)

This definition seems to give a good perception of the concept of sustainable development. We therefore adopt it as basis for the arguments in the article.

(4) According to Kofi Annan, “The Millennium Development Goals were adopted five years ago by all the world’s Governments as a blueprint for building a better world in the 21st century.”

United Nations Development Programme Millennium Development Goals – MDGs (<http://www.undp.org/mdg>)

(5) Merriam-Webster Online dictionary (<http://www.m-w.com/dictionary/efficiency>)

(6) UNECE, United Nations Economic Commission for Europe, Aarhus Convention (<http://www.unece.org/env/pp/>)

(7) Government of Romania, objectives, government program, chapter 18 - Policy on the environmental protection (<http://www.guv.ro/engleza/obiective/afis-docdiverse-eng.php?iddoc=24>)

(8) According to USA Today, “China: Costs from pollution exceed \$200 billion per year.” “Damage to China’s environment is costing the government roughly 10% of the country’s gross domestic product, estimated Zhu Guangyao, deputy chief of the State Environmental Protection Agency. China’s GDP for 2005 was \$2.26 trillion (http://www.usatoday.com/news/world/2006-06-05-china-pollution_x.htm)