

# Sustainable Investment: the challenge for macroeconomics and for Government

- Presentation to ESRC Seminar “Towards a new economics for sustainability: complexity, ecology and prosperity”
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# Prosperity Without Growth?

- Focus on the Growth Dilemma
- Growth in Transition
- New macroeconomics

# Need for a new macroeconomics

- Uncertainty – events, tipping points, ppm/temp, risk, affects economic theory
- Path Dependency – cumulative emissions
- Social Rationality – micro, macro – ethics/values

# Need for a new macroeconomics

- Wellbeing

Economics as one means to an end

Rethinking growth

Debt-based Consumption growth is damaging the basis for future wellbeing and isn't even well-aligned with current wellbeing in developed countries

# Reactions

- Don't mention the G-word – paradigms and politics
- Limits to monetisation and the failure of market failure (3)
- The myth of decoupling – linking production and consumption. (2:1)

# Mainstream

- The World Economic Forum

*“the world is at tipping point” and “achieving wider global prosperity within a resource-constrained world is the greatest economic and political challenge of the 21st century”.*

*Beyond CSR “fundamental changes in the way business is done and the way the world consumes, requiring rethinking of business models, supply chains and how society values goods and services”.*

# Sustainable Investment

- PWG identifies the relationship between consumption and investment as a central concern.
- Investment is needed not to stimulate higher levels of consumption in the future but to build new infrastructures, to effect the transition to a low-carbon economy, and deliver key environmental and social goals (3)

# Sustainable Investment

- The balance and nature of conventional variables needs revision including:
- Balance between investment and consumption in the demand function (Foley)
- Nature of productivity improvement and its relation to investment



# Sustainable Investment

- Under current assumptions this is challenging
- Resource productivity improvement – not always preferential returns unless relative price of labour and materials change substantially
- Renewable energy – some only bring returns over much longer time frames than conventional financial markets expect

# Sustainable Investment

- Investments in ecosystem protection and maintenance might not bring financial returns at all
- Such investments contribute to aggregate demand but make no direct contribution to 'conventional' aggregate supply. They may protect environmental integrity that sustains production over the long-term but in short-term they appear to soak up income without increasing economic output

# Sustainable Investment

- Simplistic prescriptions that investment contributes to future productivity won't work here
- Investment in long-term infrastructures and public goods that are vital in maintaining the natural and social capital that underpin future wellbeing will have to be judged on different criteria – how?

# Sustainable Investment

- Sources of Investment
- Public sector – shrinking
- Private sector – de-risking
- Relationship between the two renegotiated?
- Eg Development of GIB
- Community Investment

# Sustainable Investment

- Community finance takes many forms and remains a very small niche in total investment terms.
- Offers an approach that has begun to balance the value of protecting and enhancing environmental and social wealth with financial return.

# Sustainable Investment

- Often such investment accepts lower or longer-term financial return in exchange for greater resilience.
- Self-organising value chains and loops?
- They also offer innovative approaches that engage communities.

# Sustainable Investment

- Agents
- Networks – different legal forms
- Business Plans – combining physical and social technologies
- Niche growth – FIT, food – innovation (2:2)
- New ‘business forms’, ‘new market structures’, ‘new regulatory frameworks’?

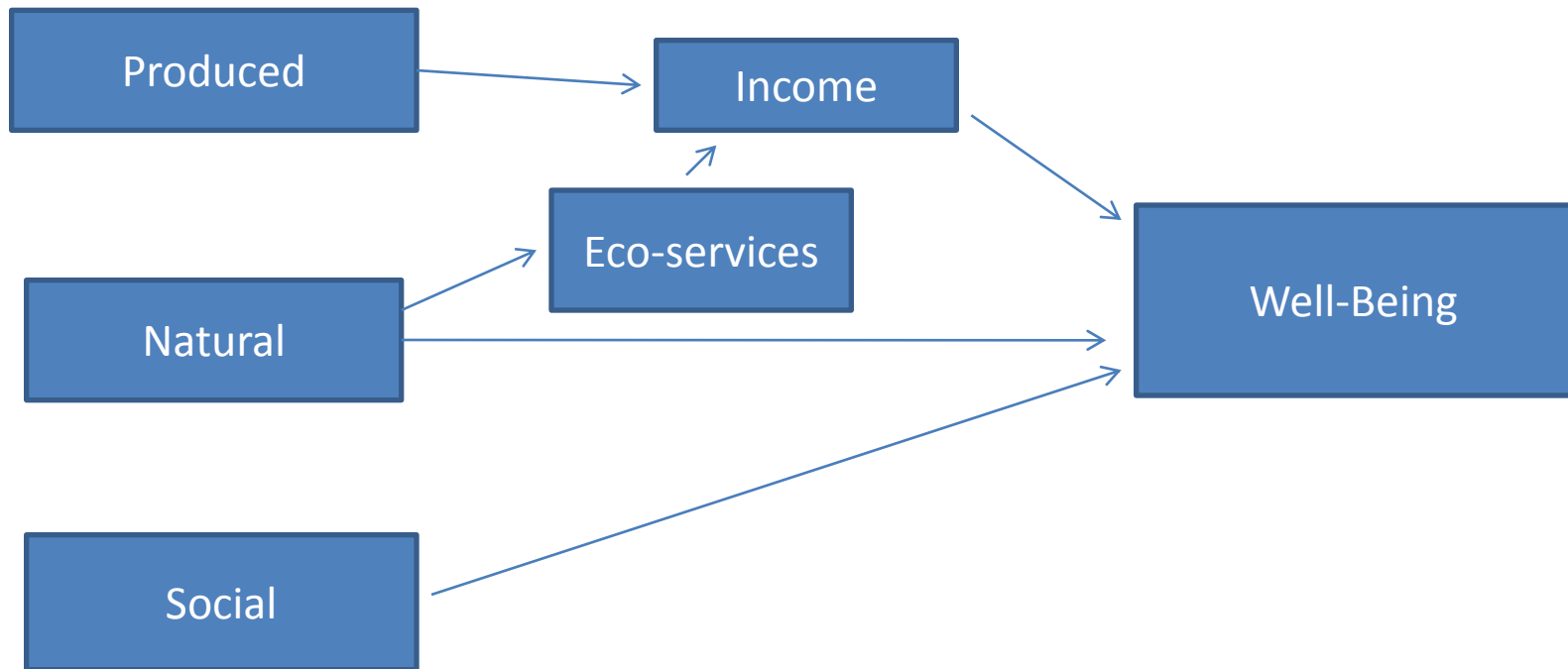
# Challenges to Government

- Thick and fast, Significant
- How do you do rapid evolution – co-evolve
- Economics isn't everything



# Challenges to Government

- Problematic use of Capitals approach

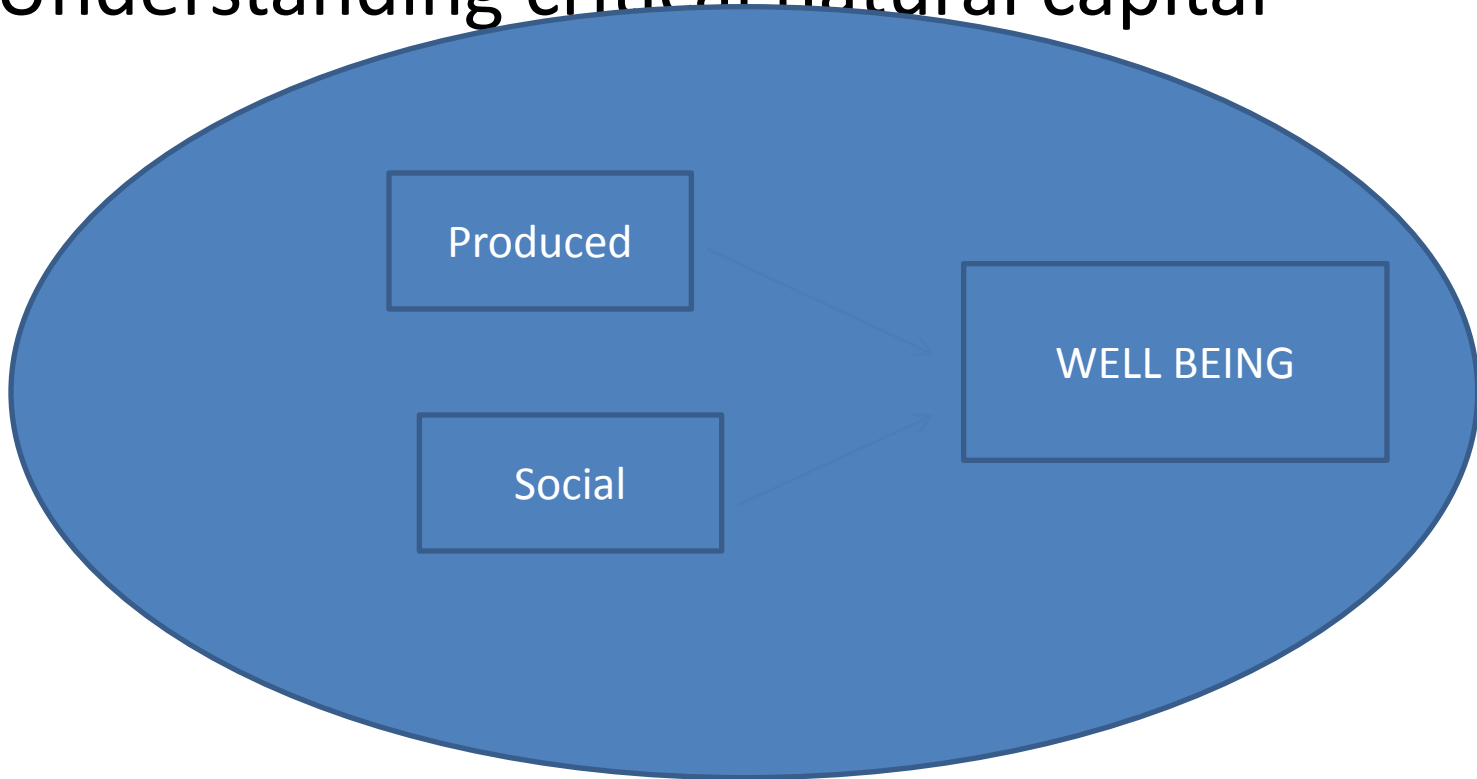


# Mainstream

- Ben Bernanke, Chairman of the Federal Reserve
- “happiness and life satisfaction are perhaps more closely related to participating meaningfully in a network of friends, family, and community than any other factor”

# Challenges to Government

- Understanding critical natural capital



# Challenges to Government

- Beyond GDP
- Production indicators to Well-Being indicators
- Relationship between the two
- Appropriate Carbon indicators and the link to Carbon Budgets

Challenges to Government

Growth in Transition