UNIVERSITY OF CAMBRIDGE
INSTITUTE FOR SUSTAINABILITY LEADERSHIP

The Future we Want
Discussion Series

2. Re-imagining how we measure the economy

The Cambridge Institute for Sustainability Leadership, (CISL) held the second of its Future we Want discussions on October 9th, 2020. The focus of this session was 'Re-imagining how we measure the economy'.


Matthew Agarwala


Céline Charveriat


Idar Kreutzer


Mashudu Ramano


Robin Millington


Jake Reynolds

A panel of speakers was convened from a wide spectrum of backgrounds including Robin Millington, CEO, Planet Tracker; Matthew Agarwala, Project Leader, Bennett Institute for Public Policy; Céline Charveriat, Executive Director, Institute for European Environmental Policy (IEEP); Idar Kreutzer, CEO Finans Norge (Finance Norway), and Mashudu Ramano, Founder & CEO, Mitochondria Energy Company. The debate was chaired by Dr Jake Reynolds, Executive Director, Sustainable Economy at CISL.

The Covid-19 pandemic, along with existential threats like climate change and biodiversity extinction, have called into question the measures used by governments to guide economic performance which, for many, do not reflect the things that people found most valuable during lockdown – family, friends, health, community and nature. A window exists to re-imagine what the economy is for and what it should deliver so that companies, financial institutions and governments have a broader, more resilient set of performance measures to shape their decision making.

Robin Millingtonopened the panel, reflecting on the limitations of current GDP measurements: "GDP is my favourite dartboard object. I love to throw darts at it." Robin reminded participants that GDP as 'a measure of wealth' was only developed in our parents and grandparents' lifetimes and is not set in stone. When framed in the 1930s, voices called for welfare to be incorporated into such a measurement, and things like armaments be excluded. But such ideas were drowned out. At Bretton Woods, GDP formally adopted a narrow definition of financial growth alone. "We all know the phrase, 'be careful what you wish for. You might get it.' Well, be careful what you measure. You might get it," said Robin.

Robin described how we should learn from our own pensions: "We pay into a pension fund because we think in the future at some time we are going to need that money. Yet we look at the environment as something that we are just using today, and we are not paying into that environmental pension." She gave the example of fish in the ocean being plundered because they are a global common. She asked, "What shall we call ourselves - the post-peak oil generation, the biodiversity generation, the sustainability generation? We need a new Bretton Woods to sit down and think through the new economic system just as we did in 1945." Responding to a question on where responsibility should lie, Robin said: "It takes a village. It's not just the financial community, not just the regulators, not just the consumer pressure. Too often we get reductionist about this…What I see happening is we are getting surround sound. Pressure on the consumer side, governments starting to listen, more companies concerned about it either because they think it is the right thing to do or they are worried about reputational risk."

Matthew Agarwala began by acknowledging the many improvements that have been made over the past fifty years in literacy and healthcare, alongside a spread of ideas, cultures and art around the world. "All of these great successes have come alongside the meteoric economic growth. However, at the same time two-thirds of the population still live on less than ten dollars a day, and that is a tragedy, a moral and economic fail". He added, "this is in addition to the 1.5 trillion tonnes of CO2 we have put into the atmosphere and the catastrophic species decline that is at our door." Addressing a question, on how could our economic model have got it so wrong, Matthew responded, "we have focused on just the outcome and not the underlying support system."

Matthew gave an analogy of a bakery. "You can focus on the size of the pie that you produce. But every one of us could realise quite quickly, that the size of the pie produced in the future is dependent on the stock ingredients we have in the pantry. And, if we are running out of ingredients our future pie will be smaller." Asked about how to include the right kind of measurements into any future alternative to the current GDP system, Matthew responded, "the best approach is to have a dashboard of indicators. We can all drive a car and have a dashboard with five or six different dials telling us five or six different important things, and we can assimilate that information to make decisions in the car. We should be able to do at least as well for the national economy." He pointed to some new initiatives which are showing progress and are a pathway to the future, such as the United Nations project to measure natural capitol.

Céline Charveriat, from the perspective of sitting in the heart of discussions in Europe in environmental policy, highlighted the growing body of experts who say that Europe should be looking to "reduce per-capita material footprint by 80% by 2050". Céline reminded participants that although the mantra of the previous Commission was 'jobs and growth,' the European Green Deal is very much about "competitive sustainability and resilience." She spoke as someone passionate about policies and practices for the past 15 years in Europe, and articulated how the conversation has moved on now and how the Commission is building new conversations with business and member states. "Everyone will be watching where Europe puts the €72 billion recovery and resilience facility package. Member states will have to present their reports to show action," she said. Asked about the role of experts in decision making, Celine suggested that scientists are becoming politically active and are most trusted in the polls. Asked about how we speed things up, Celine explained that "..there are already a lot of pragmatic steps that can be taken now. It takes society often to change before government has the courage to take that step. But that might happen tomorrow." As Chair of the Climate Action Network in Europe, she can see that collaboration in making decisions is urgently needed.

Idar Kreutzer focused on progress being made amongst the investment community, where environmental measures are gaining traction. "By the end of 2019 the investment community issued more than 850bn in green bonds." He added social bonds are also on the rise. "In April 2020, it was the first time more social bonds were issued than green bonds. And the first half of 2020, there were double the amount issued than in the whole of 2019." Idar gave the example of Deutsche Bank, which has forecast that "some sort of ESG mandate, in both fixed income and equities, will reach more than 90% of the market by 2028."

Idar said he sees environmental, social and governance issues which have been driving investment beliefs for a number of years, are 'getting mainstream.' He explained, "I have been working in this field for more than twenty years. More has happened over the last two years than in the previous 18. Compare green with brown pricing, and you see significantly higher pricing on green investments."

Idar believes, and research has shown, that these investments are expected of us by our employees, by our customers and that regulatory change is also a key driver. He said, “We are working on this because it is the right thing to do. We are not only professionals; we are not only managers. We are all fathers, sisters, brothers, mothers. We want to be on the right side of history. Be part of the solution and not a part of the problem.”

When it came to the issue of the role of finance in the debate, he said that many misunderstand the financial sector. Now, it isn’t about lobbying for less regulation. That business wants regulation. What they don’t want is uncertainty or abrupt change. That there are ongoing conversations to work with government to see where regulation can help innovation. Regulation which enables carbon reducing technologies can only be a good thing. These conversations and model of working with policymakers will only work to drive finance towards embedding sustainability further.

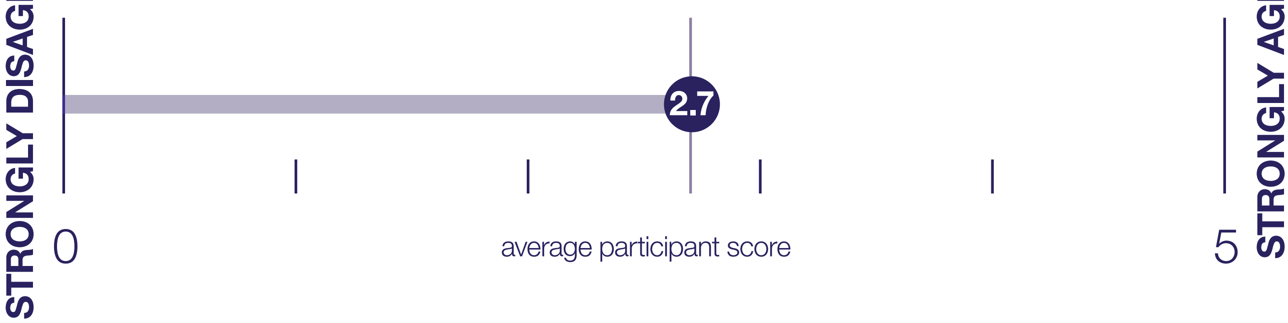
Mashudu Ramano focused on the need for a drastic change in values and mindset in order to reframe how society views its relationship with the environment. To pursue this, he emphasised the need for bottom-up business-led solutions to disrupt the existing system in favour of a regenerative economy. He said, “If you want to change an existing system, don’t fight it, create a new model that makes the existing model obsolete.” He explained the importance of approaching the challenge from a systemic perspective that acknowledges that we are all interconnected and have a responsibility to look to ourselves and see how we participate in society and nature. “This 70-year old system has shown by the results that it is not a system that sustains life or preserves natural resources; it is one that is fuelled by greed and financial returns.” When asked how we can accelerate innovation and have more sustainable companies for the future, Mashudu said we have to see that things have an intrinsic value. He cited Tesla as a company committed to its vision for a sustainable future, proactively defining the electric vehicle market without waiting for government subsidies to foster an enabling environment. He closed by reiterating that a sustainable society will only become a reality if we are prepared to place morality over financial incentive.

Matthew Agarwala concluded the discussion by reminding participants that governments around the world are releasing Covid-19 stimulus packages into the tens of trillions right now. “Every penny of that can either be invested in things that move us towards a just transition, towards a low carbon climate-resilient economy that protects nature and protects the rest of the assets we need in our economic pantry. Or, we can waste this money propping up the dying industries of the past. In the UK, they’ve earmarked 4 or 5bn pounds specifically for green investments from our Covid-19 stimulus package. For perspective, that’s about what we spend on chocolate every year.” This creates significant potential in 2020 to reshape the system so that economic value can expand to consider what we value: healthy societies, flourishing natural environments and strong communities.

2 polls were conducted during the session to garner the views of participants on this topic. The results are shown on the next page.

Do you agree with the statement below?

“Economic growth is an essential requirement for social and environmental prosperity”



What should be the priority for action from here?