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Growth Narratives

An inquiry and provocation by charitable investors

CHARITIES RESPONSIBLE INVESTMENT NETWORK

ShareAction»

About the Charities Responsible Investment Network

The Charities Responsible Investment Network supports charity investors to further their mission through responsible investment. It supports members by fostering a community of practitioners, providing in-depth research into environmental, social and governance (ESG) topics, delivering training tailored to Network members' interests and needs, and facilitating a range of optional engagement activities with selected companies and other entities across the investment chain.

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Background

Between August 2020 and February 2021, ten UK-based charitable investors formed a working group to explore perspectives on possible limits to and limitations of growth in economic activity and investment returns. Members held a series of conversations with experts, with a view to understanding and acting upon how our own, and wider, investment practices will need to change in order to be genuinely responsible and sustainable.

Principles

Our approach was informed by shared principles:

- We are interested in both how we, as mission-driven investors, should best operate within the "growth paradigm", and how we can identify and pioneer practice which moves beyond it.
- Our focus is on our own investment practices, including the role of asset managers and other service providers, but we are receptive to the larger canvas.
- We understand that growth and investment practices are both sexist and racist in their current forms. They ignore structural inequalities in how wealth is currently distributed, and give or withhold value based on what is or is not measured.
- We understand that the prevailing, global economic model of growth is not functioning, even in the interests of the supposed 'winners'.
- We note the huge appetite within and beyond our sector to think differently and 'build back new', in the context of the Coronavirus crisis.
- We hope to break cover and speak out on this topic.

Membership

The group was convened through the Charities Responsible Investment Network (CRIN), with members of CRIN's sister network, the Responsible Investment Network – Universities, also invited. Working group members were the authorised representatives of their network member organisations, but spoke from a personal perspective. Members included:

- Matthew Cox and Josh Lennard-Jones (Esmee Fairbairn Foundation)
- Colin Baines and Danielle Walker-Palmour (Friends Provident Foundation)
- Stephen Power (Jesuits in Britain)
- Matthew Whittell (John Ellerman Foundation)
- Dominic Burke (Lankelly Chase Foundation)
- Richard Robinson (Paul Hamlyn Foundation)
- Jonathan Gillett (Polden-Puckham Charitable Foundation)
- Jennifer Hooke and Jon Mowll (Thirty Percy Foundation)

The ideas from the Working Group informed the report, written by Dominic Burke (convenor of the group) and Lily Tomson (ShareAction, secretariat for CRIN and RINU). This project is an inquiry and an invitation for further exploration, not a set of firm conclusions. Any views expressed in this report should not be taken as the views of the organisations they represent.

External contributors

Our conversations drew on the group's existing expertise and benefitted from the input of several external experts: Fran Boait and David Barmes (Positive Money), Katie Kedward (UCL), and Bill Baue (r3.0). This summary document reflects the results of our discussions with these contributors and with each other, and does not necessarily reflect their views.

Resources

In addition to group meetings, members developed a library of books, articles, films and other media to support our education about this complex topic. Key elements of that list are included below:

- Barmes, D., Boait, F. (2020): The Tragedy of Growth, Positive Money
- Austin, D. (2021): Can ESG grasp what ecology says?
- Baue, B., Thurm, R. (2020): Blueprint 6. Sustainable Finance - Systemic Transformation to a Regenerative & Distributive Economy. r3.0
- Hickel, J. (2020): Less is More
- HM Treasury / Partha Dasgupta, (2021): The Economics of Biodiversity: The Dasgupta Review
- Keen, S. (2020): The appallingly bad neoclassical economics of climate change
- Meadows, D. (1972): Limits to Growth
- Raworth, K. (2017): Doughnut Economics
- World Economic Forum (2021): Beyond GDP
- Pilling, D. (2018): The Growth Delusion
- Stockholm Research Institute, (n.d.): Planetary Boundaries
- Women's Budget Group, (2020): Commission on a Gender- Equal Economy

We use key terms and concepts from these resources and our external contributors throughout the 'Inquiry' below, reflecting the confluence of thinkers and practitioners exploring this topic.

Findings

The growth paradigm is incompatible with a "safe and just operating space for humanity"...

When we talk about growth, we are generally referring to the continual aggregate expansion of economic activities accounted for by the Gross Domestic Product (GDP) measure.

The GDP-growth model has served us well in certain respects, to the extent that it has been "naturalised" as an inherently positive and boundless priority for global governments. However, we considered a number of compelling critiques, indicating that the model has had its time and calling for new approaches.

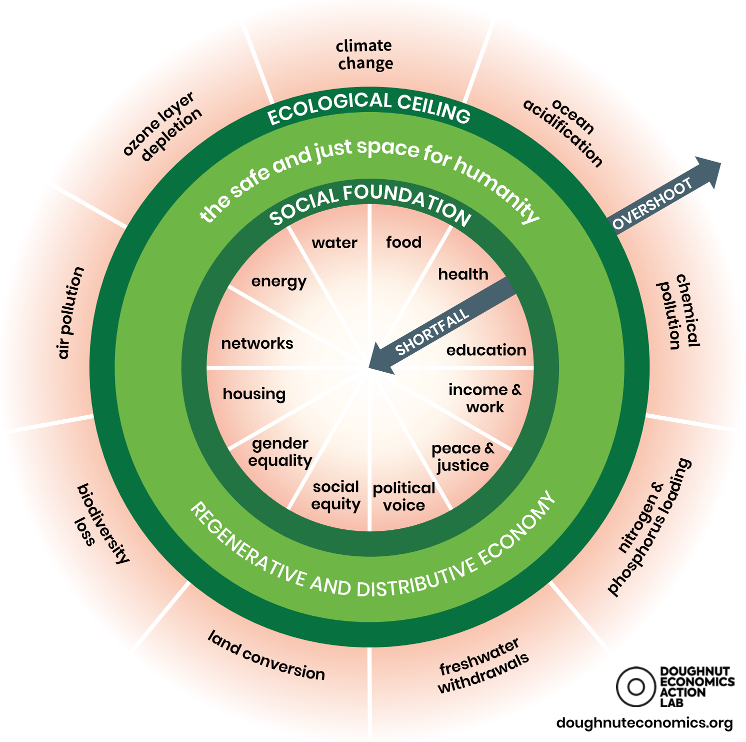
They reach us from diverse and long-standing sources, and increasingly are being heard in the "mainstream", including The Dasgupta Review on Biodiversity, commissioned by the UK Treasury, and the World Economic Forum's Dashboard for a New Economy.

Beyond a certain point, GDP-growth does not improve human welfare or life satisfaction. Yet, as currently pursued, it does overlook and indeed contribute to inequalities, including on the basis of gender and race.

Its cumulative physical footprint represents a "Great Acceleration" in humans' impact on nature's capacity to regenerate, such that we are overshooting critical thresholds for ecological sustainability (or "Planetary Boundaries"). And there is insufficient evidence that it can be decoupled from such material impact on the scale required to arrest this trajectory.

Among the barriers to overcoming the GDP-growth model are the ways that our current economies structurally depend on it in order to avoid social crises. Positive Money refers to this as the "tragedy of growth" - we can't live with or without it as our economic system is currently designed - and highlights the financial system as one such structural factor.

Kate Raworth's 'Doughnut' visualises "a social foundation of well-being that no one should fall below, and an ecological ceiling of planetary pressure that we should not go beyond. Between the two lies a safe and just operating space".



...yet it is baked in to existing investment practices.

We might hope that "sustainable investment" would, by definition, already recognise the unsustainability of this economic model and the financial system which operates within it. So far, however, 'ESG' investors as a whole have not internalised and acted upon critiques of the growth paradigm.

This would mean anchoring their analysis of companies' social and environmental impacts - currently in terms of their effect on asset prices - in externally defined ecological thresholds, such as the Planetary Boundaries, and foundational social needs.

Without fully accounting for these so-called "externalities" of economic activity, ESG approaches are ultimately incrementalist. In the sense that matters - whether economic activity respects humanity's "safe and just operating space" - they are therefore a continuation of *unsustainable* investment.

Efforts to align investment strategies with a 1.5ºC carbon budget will, if implemented, move us in the required direction. However, they address only one of the Stockholm Resilience Institute's nine Planetary Boundaries, within which humanity must stay if it is to "develop and thrive for generations to come." Given the urgency and scale of the challenges, those that prioritise debate and disclosure over transformative action may be guilty of "predatory delay".

From critique to alternatives

Katie Kedward highlighted three key groupings which prioritise human and environmental flourishing above economic growth:

Steady State Economics

- Cap-and-trade systems for resources & commons
- Ecological tax reform
- Maximum income limits
- Trade regulation
- Population stabilization
- 100% reserve banking

New Economics of Prosperity

- Working time reduction
- Job Guarantee Scheme
- Universal Basic Income
- New ownership structures
- Care & repair economy
- Shifting tax from labour to wealth/consumption
- Reducing advertising

Degrowth

- Politicisation rather than technocratisation
- Restoring the commons
- Increased localisation
- Conviviality
- End of property, money

'Degrowth' advocates do not believe that market mechanisms and values can secure environmental sustainability and social wellbeing, and instead focus on grassroots, alternative and care-based economies, conviviality, and localisation. Proponent Jason Hickel describes it as the "planned downscaling of energy and resource use to bring the economy back into balance with the living world in a safe, just and equitable way."

Whereas 'Steady State Economics' holds that states can use market mechanisms to manage emissions and resource use (e.g. absolute caps on carbon emissions and allocated trading rights), the 'New Economics of Prosperity' seeks a more differentiated or agnostic approach to growth, including policies to mitigate capitalism's growth imperative, while also recognising the challenges of a perceived "hair shirt" existence!

The boundaries between these ideas are blurred, and practitioners pursue and implement approaches across a range of camps. What they agree on is that limitless growth is not compatible with a sustainable future in the "safe and just operating space".

What this means for investors

Alternative system designs have drastic implications for the role of private capital, despite this being a relatively under-examined area to date. Indeed, for a group of charitable investors to even be having this conversation about growth feels like we are addressing the "elephant in the room".

We recognise the need to evaluate our own investment practices in light of these findings . We acknowledge that much of what is currently referred to as "investment" involves the extraction of rents from finite, enclosed material resources - or 'commons' - and human exploitation.

One of our speakers described the current model of investment as a "human claim on the biosphere", albeit one of extreme global inequity in terms of who contributes, benefits and is burdened with the consequences.

While we may not yet have complete answers to the challenge this presents, we identified various ways in which the concept of investment may need to change, including:

- Diverting capital away from unsustainable activities towards those which respect and sustain the "safe and just operating space", including foundational needs, civic infrastructure, material efficiency, environmental infrastructure and ecologies.
- Coming to terms with **longer** time horizons and **lower** financial returns, even with pockets of growth in these areas.
- Ensuring the **scale** of ongoing activity is consistent with ecological thresholds. For instance, investment in electric vehicles may be needed to decarbonise transportation, but the replacement of the current total vehicle fleet, let alone its growth, would not be sustainable due to the overall material footprint.
- Embracing more equitable approaches to **asset ownership** to develop and sustain the social foundations.
- Investing with a **systemic** mind-set to support sustainability and equity. The 'values-neutral' investor would be a thing of the past.
- **Partnering** with public finance, which may be best placed to incentivise private investment towards public good. Given our public benefit status as mission-driven investors, capitalised charities may be uniquely placed to bridge the two, including by introducing more realistic and challenging perspectives to investment discussions. We could act as first-movers or catalysts for this new model of investing.

PROVOCATION: What role could responsible charitable investors play?

While recognising that more than investment practices must change (with policies such as universal basic services and shortened working weeks mooted as playing a necessary role), we identified specific actions which charitable investors could take to catalyse and contribute to a broader evolution beyond the growth paradigm into the "safe and just operating space". These exist at multiple levels of the investment system: policy and regulation, asset manager practices and asset owner practices.

Policy and regulation

- *Anchor charitable investment powers in the "safe and just operating space".*

Under current law and guidance, Trustees are considered to "have a duty to maximise the financial returns generated from the way in which they invest their charity's assets." Environmental and social impacts are understood chiefly in terms of their impact on financial value, rather than the public benefit purpose of all charities.

Through the Charity Commission's forthcoming consultation on investment powers, we can call for social and ecological thresholds to be placed at the heart of updated guidance. This should enable and drive charitable investors to actively participate in economic transformation, even if profits are not maximised.

- *Promote a requirement for sunset provisions alongside purpose statements in corporate articles, via the Financial Reporting Council and/ or the Financial Conduct Authority's Listing Rules.*

These would "de-naturalise" the implicit expectation of perpetual growth and clarify a company's "reason for being". Corporations currently privatise profits and socialise costs. This must be addressed as part of ensuring that investment respects the social foundations and ecological ceiling.

- *Call for reporting standard-setters, such as the IASB and SASB, to link corporate activity and its material footprint to externally defined measures of social and ecological carrying capacity, such as the Planetary Boundaries.*

Bill Baue refers to this as a context-based approach to sustainability.

- *Provide investor support to campaigns for financial system change.*

These include aligning credit creation and monetary policy with pathways to sustainability, modern debt jubilees, and shifting - or at least supplementing - GDP measurement by Government with a holistic wellbeing and sustainability dashboard.

- *Support sustainable investment initiatives, including the Principles for Responsible Investment and Charities Responsible Investment Network, to place social and ecological thresholds at the centre of their approach.*

Many existing initiatives tend to focus on relative and practically expedient improvements, or are more concerned with the implications for financial value, than the true sustainability of human wellbeing in a flourishing ecology. As members and peers, we will promote a contextualised approach based on externally defined thresholds.

Asset ownership and management

- *Speak from the new paradigm of sustainability and post-growth.*

We could publicly acknowledge how existing sustainable investment practices, while shaped by what may seem politically and practically viable in the current system, do not address our true sustainability context (for instance, by "solving" for more than carbon emissions). The language we use can be powerful.

We could reframe our investment policies and communications away from the maximisation of financial returns to reflect more holistic objectives to contribute to a "safe and just operating space" for humanity. These would be introduced into our mandates with service providers, including asset managers and consultants. While the circumstances of institutions differ, trustees might ultimately question their 'social license to invest'.

- *Engage with asset managers on their role in developing post-growth or "threshold" investment models.*

This report could provide the basis for discussions with our asset managers about the unsustainability of the current growth paradigm, and the changes needed in investment practices. Some of these discussions could be held collectively.

- *Develop shared approaches to post-growth or "threshold" investing, including "non-financial" measurement frameworks anchored in social foundations and ecological carrying capacities.*

We could collaboratively design approaches to objectives, incentives and reporting which model post-growth or "threshold" investing, and ask our asset managers to help deliver them.
We could begin with a holistic, "multi-capital" view of the relationships between our investments and social and ecological thresholds, broadening existing decarbonisation approaches to encompass the other Planetary Boundaries. Investor action could help to persuade governments to set and act on targets aligned with these Boundaries, similar to the UK's "net-zero emissions" law. While the requisite data and methodologies may not yet be complete, by signalling our intention we can incentivise shifts in this direction.

- *Invest in activities which are compatible with true sustainability, with an appropriate approach to scale.*

We could construct investment portfolios around activities which create alignment with the "safe and just operating space" for humanity. We could set expectations for change across other sectors, escalating to avoidance of those which appear to be inconsistent with or indifferent to the reality of our sustainability context, such as business models based on consumer advertising and planned obsolescence.

Next steps

Our initial inquiry into narratives around growth and investment has revealed to us the significant role that growth itself plays in the systemic challenges of our time. From this starting point, we will begin to undertake individual and collective action. We welcome conversations with challengers and fellow-travellers – please get in touch through lily.tomson@shareaction.org and dominic@lankellychase.org.uk.

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About ShareAction

ShareAction is a non-profit working to build a global investment sector which is responsible for its impacts on people and planet. We mobilise investors to take action to improve labour standards, tackle the climate crisis, and address pressing global health issues, such as childhood obesity. Over the last 15 years, ShareAction has used its powerful toolkit of research, corporate campaigns, policy advocacy and public mobilisation to drive responsibility into the heart of mainstream investment. We want a future where all finance powers social progress.

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