generation foundation

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THE TRANSFORMATION OF GROWTH

HOW SUSTAINABLE CAPITALISM CAN DRIVE A NEW ECONOMIC ORDER

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ABOUT US

The Generation Foundation (the 'Foundation'), is the advocacy initiative funded by Generation Investment Management LLP. The goal of the Foundation is to strengthen the case for Sustainable Capitalism.

Our strategy in pursuit of this vision is to mobilize asset owners, asset managers, companies and other key participants in financial markets in support of the business case for Sustainable Capitalism.

In our effort to accelerate the transition to a more sustainable form of capitalism, we primarily use a partnership model to collaborate with individuals, organizations and institutions across sectors and geographies and provide catalytic capital when appropriate.

In addition, the Foundation publishes in-house research such as this white paper, gives select grants related to the field of Sustainable Capitalism, engages with the local communities where we operate and supports a gift-matching program for the employees of Generation.

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EXECUTIVE SUMMARY

This report outlines several of the critical dynamics that have led capitalism to the crossroad it faces today, and goes on to suggest how companies and investors can shape a future of economic growth which is both prosperous and sustainable.

We emphasize how allocating resources towards Sustainable Capitalism is aligned with best practice for business, and in particular, how promoting an inclusive form of growth not only creates a more just society (also resulting in a more stable economic environment) but creates a wealthier society for all.

The case for reimagining capitalism and the role of business in society has never been more urgent. As such, we propose investors and companies focus on three fundamental pillars of growth:

PILLAR 1: A DECARBONIZED ECONOMY

PILLAR 2: CIRCULAR BUSINESS MODELS

PILLAR 3: EMPLOYMENT AND COMMUNITIES

Each of these pillars highlights the way in which new risks and opportunities are emerging in accordance with the inevitable rise of a more sustainable form of capitalism. The question is no longer will capitalism change – it must; and ongoing technological advancements ensure it will. The question for investors and companies to consider is if their strategy will succeed in a world where growth is transformed to be more inclusive, and where prosperity is decoupled from the consumption of finite natural resources.
This shift, which is already underway, is the Sustainability Revolution.

Whereas an 'at-all-costs' approach to growth, with slight regard for people or the environment, was often the guiding principle for previous economic revolutions, the Sustainability Revolution, by contrast, is oriented around a fundamentally different framework – one which extends far beyond untenable financial gain. The Sustainability Revolution is capitalism's next chapter.
It builds upon the progress and innovation which has powered global commerce to date, transforming it into a model which generates financial returns today without compromising our ability to create value in the future.
We hope this report will inspire an ongoing dialogue and, importantly, a course of action for investors and companies to embrace this new economic order.

INTRODUCTION

It is beyond dispute Capitalism has benefited many: since the end of the Second World War, the share of the world's population living in extreme poverty fell from 72% in 1950 to only 10% in 2015.[1] In absolute terms, over just the last twenty years, more than one billion people have been lifted out of extreme poverty.[2]

Furthermore, the spread of liberalized capital markets has led to increased economic production and global trade. And as a result of the rapid economic expansion over the past fifty years, "average per capita income almost tripled, and the global economy expanded six fold in GDP terms".[3] And yet, for all this, there are unmistakably clear signals of disaffection.

Last year, in successive elections in Europe and the United States, majorities voted against incumbent parties and policies – to the clear surprise of incumbents themselves, most news organizations, gamblers and the global financial markets.

It is often difficult to interpret all the entangled messages being sent by voters in an election because binary voting always masks the full diversity of public opinion. In the 2016 elections, however, it is obvious to most analysts that an unusually large percentage of voters were lodging a protest against the way they perceived the 'system' (Democratic Capitalism) to operate.

Many of those casting ballots expressed deep concern prevailing market forces are threatening job security and community stability. Indeed, with markets becoming ever more dynamic, voters made it clear many have come to fear the growing impact of globalization, and are worried further expansion of free trade might lead to even more job losses and disruptions of community.

In parallel with globalization, other features of the increasingly dynamic business environment have become a source of anxiety for many. Fast-moving markets have led to more rapid changes in the availability and locations of employment, often with perceived negative consequences for individuals and communities.

For example, a relatively new, and real, worry for many is the growing displacement of labor by increasingly intelligent software and robots – a trend long seen on the factory floor, but which is now looming over other highly labor-intensive sectors, including retail, restaurant and trucking industries, which collectively account for about 20% of all jobs in the U.S.[4] Mounting evidence indicates intelligent automation – the extension of cognitive functions alongside physical functions – is overturning the long-held belief by economists (supported by 200 years of data, until recently) that automation always ends up creating more jobs than it displaces.[5]

INTRODUCTION CONTINUED

Problem Indicators

When we look past the well-known measures of capitalism's success and also consider indicators of its current failings, one of the most glaring and obvious is the growing inequality in incomes, accumulated wealth, and opportunity. Underneath the impressive statistics of aggregate wealth generation, it is painfully clear too many individual lives have stalled, and too many parents are losing hope for the upward mobility of their children.

In the US, for example, incomes for the bottom 90% of the population have been stagnant for over 30 years.[6] America has the second highest measure of income inequality of all OECD countries, (second only to its North American neighbor, Mexico.)[7] Indeed, millennials are the first generation in American history that can expect to earn less than their parents.[8] The intergenerational contract has eroded in other developed markets too, bequeathing to millennials an inheritance of the economic, societal, and environmental costs associated with the unsustainable practices of previous generations.[9] In Europe, for example, over 40% of millennials are stuck in the cycle of low-paid, temporary work.[10]

These 'surface' monetary indicators also conceal even deeper problems that have been developing for some time. Inequality may matter more today than it has in the past. As markets continue to reach into more and more spheres of life, the 'wealthification' of society[11] is increasingly empowering those with more money to buy access to superior standards of the essential services that play a powerful role in determining access to future opportunities – like adequate healthcare, healthy food, and high-quality education.

At a simple level, the old democracy of the amusement park line has been replaced by the 'efficient market' solution of stratifying customers by their ability to pay; children in wealthier families can go straight to the front of line, ahead of children in middle or low income families. More importantly, 'opportunity hoarding' by the wealthy increasingly inhibits the potential growth and development of others.[12] The more that money can buy, the more monetary inequality matters.

Societal health and 'social capital' are also declining in other important ways. In the US, for example, the percentage of people who agree that "most people can be trusted" has fallen to an all-time low of about 30%, compared to 45% in 1980.[13] According to the 2017 Edelman Trust Barometer – which aggregates data from over 33,000 people across 28 countries – under 50% of the countries surveyed trust in the mainstream institutions of business, government, media and NGOs to act in the broad interest of society – and a mere 15% of the general population believe the present system is "working" for them.[14]

Psychologists posit that individual wellbeing depends upon a sense of personal growth and development, and collective wellbeing depends upon an ability to trust others.[15] Yet as the indicators cited above reveal, the 'lived experience' of capitalism is now falling short because too many are being left behind. And because human nature leads us all to compare our circumstances in life to those of others, growing inequality can sometimes serve to curdle disappointment into resentment and anger.

To be clear, some level of inequality is necessary and desirable for the efficient operation of capitalism. It is both a root cause and an inevitable consequence of the ubiquitous incentives that are organic within capitalism, which reward work, ingenuity and investment. These incentives unlock a higher fraction of the human potential than any other system for organizing economies. However, when the level of inequality grows too high, great damage can result.

INTRODUCTION CONTINUED

Looking Forward

Economic growth across income categories, and over varying time horizons, can only be achieved if: natural resources remain readily available; affordable energy is abundant; infrastructure is reliable; and if citizens have access to healthy food, clean air and water, affordable medical care, quality education and fair wages. These factors, each a hallmark of Sustainable Capitalism*, enable – albeit do not guarantee – vibrant societies and stable operating environments. Moreover, it is not possible to optimize land, labor, and capital in the absence of these conditions.

The business community needs to confront these realities because the stakes are so high. After all, the majority of the world's 100 largest economic entities are no longer nations, but companies. And, the 10 biggest corporations now manage more wealth than most nations in the world combined.[16]

We need to pursue a more inclusive form of growth, so the benefits of capitalism are shared more widely. If not, we would run the risk of still more popular rejection of capitalism and its associated liberties – which, in our view, would lead to even worse outcomes in the future.

This should not be a defensive exercise. Indeed, if it is pursued thoughtfully, it can instead prove to be inspirational. One of capitalism's real strengths is its flexibility to respond to a society's expressed needs. At different times and in different places, capitalism has evolved and changed, as have our attitudes toward it. Consequently, there is no reason we should consider the particular form of capitalism in place today in the US and Western Europe to be the best possible form of capitalism for human development. To the contrary, we believe that better forms of capitalism lie ahead.

In the pages that follow, we discuss three economic opportunities companies can pursue to foster more inclusive growth.

* "Sustainable Capitalism is an economic system within which business and capital seek to maximize long-term value creation, accounting for all material ESG (environmental, social and governance) metrics". As defined in the Generation white paper *Allocating Capital for Long-Term Returns – The Strengthened Case For Sustainable Capitalism* (2015)

DRIVING INCLUSIVE GROWTH: PILLAR 1

A Decarbonized Economy

PILLAR 1: A DECARBONIZED ECONOMY CONTINUED

Although the environmental imperative to decarbonize the economy is profound and urgent,[17] progress will be significantly compromised if the case for change is not grounded in inclusive growth.

Given the prolonged and widespread wage stagnation and low economic growth rates that now characterize global markets, many afflicted communities and their advocates are calling for initiatives which create jobs and generate wealth. Inclusive growth therefore is not merely an optional ingredient for environmental protection, it is foundational.

Fortunately, the business case for decarbonizing the economy is extremely compelling. In the energy space, this shift is already well underway as market forces usher in new renewable energy technologies that are displacing carbon-intensive legacy assets. Not only are renewable energy sources now cost competitive in many markets – due to significant technological advances and dramatic, continuing cost-declines, the broader economics of decarbonization are increasingly favorable; particularly given its net positive impact on labor markets.

Carbon-intensive energy businesses only provide, at most, a discrete and limited number of jobs concentrated in fossil-fuel rich geographies. By contrast, the installation and maintenance of solar photovoltaic panels and wind turbines, for example, requires a very large workforce, especially given the vast and dispersed potential market of residential and commercial properties. In the context of growing global demand for energy, and international momentum to curb heat-trapping emissions associated with burning fossil fuels, the growth of jobs in the sustainable energy sector is increasing rapidly. And, given its competitive pricing, employment by renewable businesses will continue to grow.

The International Renewable Energy Agency ('IRENA') noted that in 2015 "the total number of jobs in renewables worldwide continued to rise, in stark contrast with depressed labor markets in the broader energy sector".[18] In 2016, employment in the U.S. solar business in particular grew 17 times faster than overall job creation in the U.S. economy, accounting for 2% of all jobs created that year.[19] To contextualize this data, more Americans now work in solar power than for Apple, Facebook, and Google combined.[20] As a further example, the US Bureau of Labor Statistics notes the single fastest growing job in the United States is wind turbine technician.[21] China, the biggest installer of new renewable capacity in 2015[22], employed 35% more people in the renewable industry than in the country's oil and gas sector.[23]

PILLAR 1: A DECARBONIZED ECONOMY CONTINUED

Not only will the transition to renewables generate more jobs, it is also expected to generate higher quality jobs – both in terms of safety (the work will be far less dangerous than what is required of work in mining or in refining fossil fuels) and in terms of equality (the renewable sector is creating greater gender parity compared to the broader energy sector, according to IRENA's findings).[24]

Of course, job creation will extend well beyond the renewable energy sector and will include new work. Indeed, low carbon and resource efficient solutions are emerging across traditional industries at an accelerating speed – presenting a wide range of potential investment opportunities in healthy food systems, new materials, the built environment, mobility, water infrastructure and waste management.

In fact, there is abundant evidence that our global economy is in the early stage of the Sustainability Revolution, which appears to have the scale of the Industrial Revolution and the Agricultural Revolution – and the speed of the Information Revolution. Compared to these three previous revolutions, the Sustainability Revolution is likely to be the most significant event in economic history.

Like its predecessors, it is already influencing how we build communities, organize labor, consume natural resources, develop transportation, engage in global commerce, and grow financial markets. But unlike the Agricultural and Industrial Revolutions, the impact of the Sustainability Revolution will be immediately universal. The Industrial Revolution was primarily limited for many decades to Britain, parts of Europe, and America in a world with barely 1.5 billion people on the planet. By contrast, much of the innovation now emerging in the Sustainability Revolution is taking place in developing as well as developed nations, diffused across a global population of almost 7.4 billion people.[25]

The scope of investment opportunities that will be generated by this shift can already be seen in broad outline. To take one example, it can be easily understood in the context of mobility. The future of transportation in densely populated urban zones – cars, roads, fueling stations, and parking lots – will be disrupted and transformed by the uptake of electric vehicles, proliferation of the 'sharing economy', networked business models, and the imminent rise of autonomous vehicles. Collectively these trends will cause the decarbonization of urban mobility by optimizing low carbon intensity, improving asset utilization and maximizing resource efficiency. This example illustrates the vast impact of decarbonization in just one specific slice of the economic pie; using the lens of 'decarbonizing the economy' can help businesses and investors identify many other significant areas of growth and disruptive innovation across all industries.

Decarbonizing the economy will require a dramatic overhaul of every aspect of our lives: from what we eat to how we travel, and what we wear, from where we live to the kind of jobs available and of course the energy sources that power it all. It is important to understand therefore that the Sustainability Revolution will affect both people and planet in equal measure. It requires confronting the inextricable links between environmental and societal issues and acknowledging that we cannot solve for one without solving for the other.

DRIVING INCLUSIVE GROWTH: PILLAR 2

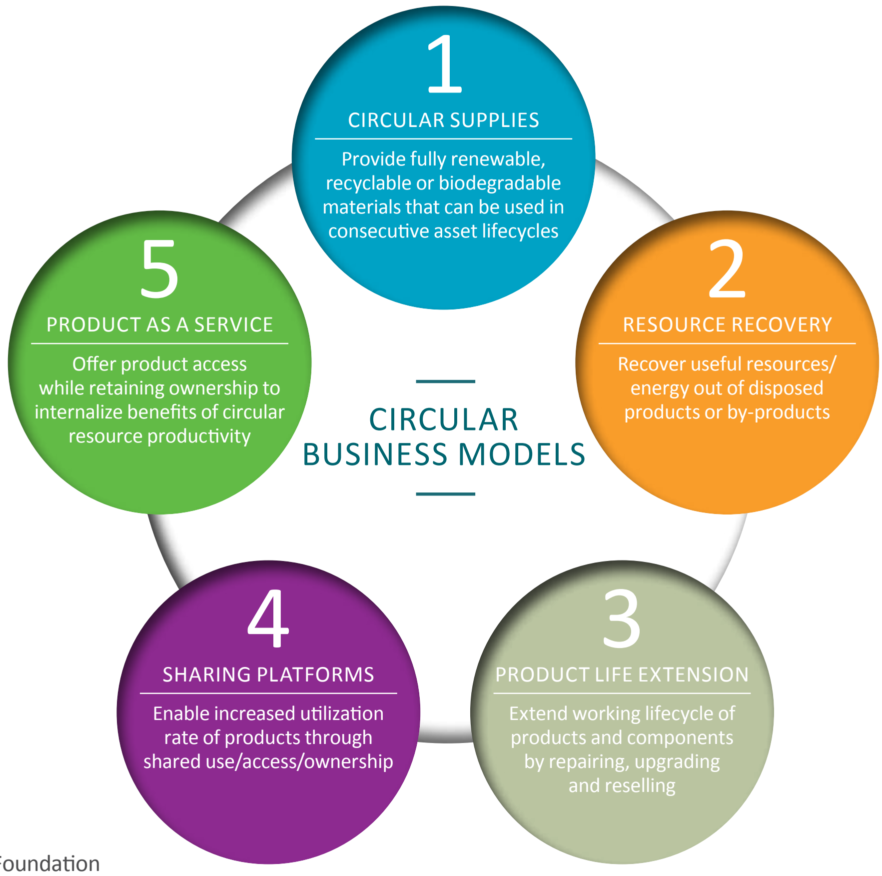
Circular Business Models

PILLAR 2: CIRCULAR BUSINESS MODELS CONTINUED

The rise of new materials, connected devices, and enhanced supply chain traceability is causing a pivot away from the inefficient and costly ‘take-make-dispose’ model of linear growth. Instead it is being replaced with a circular model of ‘reuse-repurpose-recycle-regenerate’, extending the life-cycle of assets and minimizing the use of new raw materials.

The rule of disruptive innovation teaches us that this transformation is inevitable as new products and services that simply offer more affordable and more efficient solutions continue to come to market.

Capital should be allocated accordingly, guiding investors towards five circular business models that can increase a company’s competitive advantage:[26]



PILLAR 2: CIRCULAR BUSINESS MODELS CONTINUED

Importantly, business models organized around the principles of circularity apply across sectors. In the consumer goods space, for example, companies like Unilever and Patagonia are at the vanguard of procuring, manufacturing, and disposing of materials in their supply chain within a closed loop system.

Unilever describes the potential benefits of integrating circular thinking as: "The benefits of the circular economy approach are clear for business and the environment – the more effective use of materials means lower costs and less waste. It means new sources of value for customers and consumers, better risk management of raw materials, and improved approaches to the supply chain."[27]

In January 2017, Patagonia announced an e-commerce platform on which it will sell used Patagonia clothes and gear sourced directly from customers that are then refurbished through the company's existing Worn Wear program. Through this circular model of business, Patagonia will both improve its products – as every repair provides feedback to Patagonia's designers regarding how to improve future merchandise – and will simultaneously help the company acquire new customers through this secondary market.[28] In addition to these tangible financial gains, there is brand value associated with achieving sustainability objectives like extending the life of Patagonia's products.[29] There is already evidence of a 'cool factor' valued by millennials (and others) who value the sustainability provenance of Worn Wear.

IKEA has also captured value by diverting waste from landfill. In 2016, the company announced that it sent zero waste to landfill (instead incorporating recycled materials into its products) and actually turned a profit as a result.[30] Realizing the financial gains from turning waste from a cost to a resource, IKEA wants more. The company has announced that "the next step is not just about recycling, but it's about using waste in our own operations."[31]

Food and agriculture offer one of the biggest opportunities for circular economy gains. From urban farming (to enhance access to fresh food), to delivery logistics (to reduce carbon footprint), to food waste systems (to prevent financial and environmental cost of sending organic material to landfill), the consumption of food is being transformed through circular economy models of business. Not only does this present a significant commercial opportunity to improve a highly inefficient and wasteful system, but it has positive effects on both social and environmental dimensions as well (the decay of organic matter produces methane, a greenhouse gas 34 times more powerful than CO_2 over a 100 year timeframe). Resources should therefore be dedicated to improving food storage and transportation infrastructure, adopting dynamic and precise expiration labels on products, and scaling up composting systems.

DRIVING INCLUSIVE GROWTH: PILLAR 3

Employment and Communities

PILLAR 3: EMPLOYMENT AND COMMUNITIES CONTINUED

There is a growing recognition that poverty wastes people's potential, depriving our society and economy of the skills and talents of those who have valuable contributions to make.[32]

Ultimately, this leads to an unrealized talent pool and an untapped customer base, both of which are obviously bad for business. It is therefore in every company's interest to seek to ensure the vitality of the communities in which they operate and the vitality of the workforce living in those communities; which in turn transform the antiquated notion of economic growth to one that is inclusive and long-term oriented in practice.

To this end, there are several steps business can take:

Employment

In order to realize the benefits of a diverse, highly engaged and well-trained workforce, companies should pay "living-wages," distributed fairly across genders, races, and ethnicities. As detailed in her book, The Good Jobs Strategy: How the smartest companies invest in employees to lower costs and boost profits, Professor Zeynep Ton at the MIT Sloan School of Management studied four retail chains: Costco, Trader Joe's, QuikTrip, and Mercadona and found that "even in highly competitive industries like low-cost retail, it is possible to pay employees decent wages and treat them well while giving customers the low prices they demand."[33] In fact, doing so resulted in "high productivity, great customer service, healthy growth, and excellent returns to their investors."

Companies should also adopt holistic human capital management policies that provide benefits such as paid sick leave, paid family leave, and subsidized child care. Research has shown that these kinds of practices – which increase employee loyalty and engagement and help companies better develop and retain talent – are associated with enhanced productivity and improved corporate performance.[34] Specifically, corporate policies of this nature are critical to attracting and engaging women in the workforce, a development which could add as much as $12 Trillion to Global GDP.[35]

In addition, companies have found that they can improve productivity[36] by providing firm-wide opportunities to participate in the companies' success through employee stock ownership plans (ESOPs), or similar profit sharing schemes.

ESOPs have not only been shown to align employee interests with the company's performance, they are a mechanism for wealth creation across all segments of the workforce. Since many hard working segments of the population are 'ALICE' (asset-limited, income-constrained but employed), profit sharing plans are vital to more inclusive growth.

PILLAR 3: EMPLOYMENT AND COMMUNITIES CONTINUED

Furthermore, improving transparency related to compensation would aid efforts to mainstream wage policies aligned with inclusive growth. Britain, for example, passed a law requiring companies with 250 or more employees to publish the average salaries of the men and the women they employ by April 2018, in an effort to tackle the gender pay gap. Companies will be mandated to make compensation data publicly available on factors such as: the salary differences between men and women, the difference in average bonuses and the proportion of men and women who received those bonuses. Many feel that this can have an important and beneficial economic impact as lawmakers acknowledge that: "Eliminating work-related gender gaps could add £150 billion to our annual GDP by 2025. That is an opportunity that neither Government nor business can afford to ignore".[37]

Education and Innovation

The cost of educating workers throughout their careers and providing them with upgraded skills valued in the marketplace (e.g. curriculums directly shaped by companies to align with evolving hiring needs) is far more affordable than the price of extensive unemployment and disenfranchisement as advances in technology reshape the landscape of jobs. Through the use of MOOCs (massively open online courses) that leverage technology to democratize access to education, 'micro-credentials' or 'nano-degrees' that offer specific certifications, and through the use of vouchers to subsidize the cost of intensive training, companies can place a value on and invest in education[38] in ways that are in the best financial interest of both companies and investors.

Whether a company is in heavy manufacturing or software development, it can gain a long-term economic benefit by subsidizing skill development and unlocking more of its workforce's human potential. In 2014, Starbucks announced a novel program providing a free online college education for thousands of its eligible workers. Although many participants pursued a line of study in preparation to leave Starbucks and find better paying jobs, CEO Howard Shultz recognized the macro economic benefits associated with democratizing education to enable greater economic mobility. Furthermore, he acknowledged that even if employees moved on to new opportunities upon completing their degree, their experience "would be accreted to our brand, our reputation and our business...it will lower attrition, it'll increase performance, it'll attract and retain better people."[39]

IBM's P-TECH (Pathways in Technology Early College High School) initiative demonstrates how, at an early stage, companies can align educational curriculums for the workforce of the future with industry needs.[40] P-TECH focuses on STEM-oriented technical training for disadvantaged high school students. The program allows students to earn associate degrees free of charge in high-demand jobs, creating more inclusive growth, while corporate partners benefit from cultivating a workforce with relevant skills.

For companies that seek to create and maintain a competitive edge, investing in the education of their workforce and in the improvement of their communities is necessary but insufficient. Enabling innovation (new and better ideas) and entrepreneurship (implementing the new ideas) must also be a priority.

PILLAR 3: EMPLOYMENT AND COMMUNITIES CONTINUED

Sustainable Capitalism is a helpful framework in this regard as it is based on a recognition of the close relationship between innovation and sustainability.

Lost innovation, according to Nobel laureate in economics, Edmund S. Phelps, can be attributed to the rise of a corporatist ideology that stifles "the love of imagining, exploring, experimenting, and creating".[41] That is one reason why people are often at their most creative when in a foreign country or in a brand new environment.[42] It is also why the free flowing exchange of ideas and people is so central to the inspiration of innovative thinking. And it helps explain why almost half of US startups worth more than $1 billion have at least one founder or co-founder who has emigrated from another country.[43]

Communities

Companies that understand the linkage between their future and the future of the communities in which they operate must also address the diminishing prospects of low income families for upward social mobility. That is why programs like the 100,000 Opportunities Initiative, a US focused coalition of more than 45 companies promoting a nationwide effort to "to access new sources of talent from communities that have not traditionally been included in our nation's prosperity"[44] are incredibly important. They have demonstrated that connecting America's youth (age 16-24) who are neither working nor in school to jobs with a pathway to long-term employment directly contributes to inclusive growth and shared economic prosperity. Like many of the program's sponsors, Microsoft was motivated to participate by more than altruism; they knew that providing young people with employment opportunities creates "a pipeline for technology talent that sparks innovation."[45]

In the UK, The Social Mobility Foundation also provides support, guidance and work experience to bright young students to help overcome the barriers preventing entry into top universities and professions. This program, like the 100,000 Opportunities Initiative, not only helps break the cycle of poverty and inequality of opportunity, it provides companies with a pipeline of ambitious and diverse employees.

Products and Services

Business has a tremendous market opportunity to enable the growth of financially resilient communities.[46]

In doing so, companies expand their consumer base, reinforce sustainable growth in a stable economy, and alleviate unnecessary strains on public spending – which can be refocused towards policies that further improve quality of life.

For example, there is a clear business case for offering financial products to unbanked women, due to the evidence that "prioritizing women's financial inclusion is a lever for achieving inclusive growth because women tend to invest more of their income in families and societies."[47] To this end, if banks simply stopped requiring a minimum deposit, they could remove a significant hurdle often preventing the unbanked from gaining access to financial services.[48]

The benefits of scaling products that serve low-income women can also be found in the healthcare space. The medical device company Becton Dickinson, for example, has created the 'Odon device' which can ease complicated births for women around the world. A low cost applicator which requires minimal medical training to use, the Odon will decrease neonatal and maternal mortality rates for women in low and middle income countries. The product not only addresses a real market need at scale, but serves to foster more resilient communities better positioned to create prosperous societies.[49]

PILLAR 3: EMPLOYMENT AND COMMUNITIES CONTINUED

Similarly, companies that invest in affordable housing understand the systemic benefits of that investment, because "without a sufficient supply of affordable housing, employers – and entire regional economies – can be at a competitive disadvantage because of their subsequent difficulty attracting and retaining workers."[50]

Efficient, low-cost public transport has also proven to be a valuable part of the suite of solutions necessary to address inequality. Ample research indicates that upward mobility for lower-income people – in the form of access to jobs, healthcare, and education – is contingent on the availability of public transport. Servicing low-income, marginalized communities with public transport is therefore a key component to economic empowerment and inclusive growth.[51] Deploying capital towards fleets of zero emission buses would be an effective means of achieving this goal, since they have lower operating and fuel costs compared to diesel buses, (savings that could be passed on to customers) and do not emit toxins into the air (a health benefit to low income communities that are so often disproportionally affected by pollution).[52] Bike share programs are increasingly becoming another meaningful solution for clean, affordable transport. 24% of cities in the United States with bike share programs offer subsidized passes to low-income communities.[53]

Healthy food systems also play a major role in promoting a healthy citizenry and inclusive growth.

Although poverty and hunger often go hand in hand, research shows a more complicated series of inputs leading to food insecurity, as it can also affect families above the poverty line, due to unemployment, inflation and rising prices.[54]

As highlighted by the examples in Pillar 2 – Circular Business Models, businesses would do well to target the population classified as food insecure (13% in the US)[55] through an approach that scales access to healthy and affordable food by employing the local workforce. Urban farming, for example, can provide affordable access to nutritious food in areas known as 'food deserts' where residents would otherwise face food insecurity.[56] Urban agriculture has the additional benefit of boosting local economies and stimulating job creation.[57] Detroit is an example of a city devastated by de-industrialization that has creatively promoted urban farming as one of its strategies for rebuilding prosperity. Food systems, of course, are just one part of the broader set of economic opportunities that contribute to the building of healthy and robust communities.

Lastly, by developing business models that address the concurrent and complex needs of the poor (e.g. energy poverty, access to credit, food insecurity) businesses can provide multiple levels of linked solutions.

M-KOPA, for example, sells home solar energy systems to rural impoverished villages in Uganda and Kenya. Not only does the company address energy poverty with a simple and carbon-free solution, they give customers access to cheap financing leading to ownership of the energy system which can then be upgraded or used as collateral for further financing needs.[58]

CONCLUSION

> "Things take longer to happen than you think they will, and then they happen faster than you thought they could."
>
> **Rudi Dornbusch**

It is increasingly evident large segments of the populations in major developed countries have been left behind by the current model of economic growth. Unaddressed, the impact of this failure will reverberate across generations, because even though global GDP surpassed $75 trillion in 2016, those under the age of 25 are now about four times as likely to be unemployed as older generations.[59] This challenge will only deepen as life expectancies continue to rise. So if there was ever any doubt, there is now a clear case for a better form of growth that works for everyone, not just the few.

Far from being a threat to business, this transformation should be viewed as a welcome opportunity and a call to action. The examples outlined in this paper indicate the many ways in which responsible businesses can participate in the Sustainability Revolution. And importantly, these opportunities do not come at the expense of profits, but have often been the basis for identifying new business initiatives. This underscores what we have observed more generally to be true with great companies: Sustainability is a tool for growing revenue and profitability while strengthening their competitive position.

However, it is clear that more needs to be done. In the first instance, companies and investors must confront the immediate need to develop investment frameworks which incorporate material ESG factors.

Investors can then play a further role through appropriate long-term capital allocation and responsible ownership. Investors can also mainstream a new model of growth aligned with Sustainable Capitalism by forcefully reminding companies that fiduciary duty requires the integration of sustainability factors alongside financial performance[60] and encourage companies to adopt reporting frameworks which integrate material sustainability issues with financial metrics. Additionally, investors can encourage new corporate forms that allow businesses to formalize a mission-aligned governance structure.[61]

Looking ahead, as new dynamics and challenges shape financial markets, existential questions about the role of business in society and the future of global economic activity must be answered. CEOs and investors must assess if companies are poised to: decouple prosperity from carbon intensity and the consumption of finite natural resources; enhance asset utilization through circularity; capitalize on market opportunities in underserved communities; cultivate a work force fit for purpose through continued education; foster innovation and entrepreneurship; and expand opportunities for upward social mobility.

This model of economic growth promotes the environmental and social equilibrium required for stable financial markets, a necessary condition for long-term prosperity. The business case, therefore, to rethink the prevailing model of economic growth is not an exercise in altruism or environmentalism; it is the inevitable future of capitalism in which we optimize financial, natural, and human capital. This transformation of growth towards Sustainable Capitalism, is likely to be chaotic, unpredictable, and volatile, but the trend line is clear: we are heading towards a new model of growth and it will change everything.

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Important Information

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