

The Rise of the Impact Economy

Thought Leadership
May 2023

Evolving to the next level

Executive Summary

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Economics exists to solve the fundamental problem – how best to allocate our limited means between our unlimited desires. We can easily count the means, but what makes up our unlimited desires?

For the past 75 years the focus guiding economics has been output, or the mass production of goods and services for profit. Output economics has used simple measures such as gross domestic product (GDP) to do this.

By the late 1940s GDP was an obsession of political leaders, who equated living standards with owning things. However, while GDP places a value on how much is produced it ignores how efficiently these products are made or the long-term costs of the production on the health of people and the planet.

In recent decades the problems of this approach have become increasingly apparent. Unwanted pollution has risen in many areas. Climate change from centuries of burning fossil fuels poses the risk of disastrous consequences for large parts of the planet. At the same time, failing to offer equal opportunities and fight prejudice denies people what they want, undermines sustainability and damages economic output.

Output economics, with its focus on making things, has become worryingly out of step with today's priorities. Economics needs to evolve to continue to solve this fundamental problem and balance humanity's interest in the latest products and services with their desire to live in a planet that offers a brighter future and greater opportunity for all in society.

Welcome to impact economics.





Accounting for all factors

This evolution of economic thinking does not seek to replace market mechanisms as an efficient way of allocating scarce resources between people's wants and needs. What it tries to do is to make these mechanisms consider everything we want and need – including breathable air and fairness in the way people are treated.

Essentially, the impact economy encompasses profit, people, and the planet.

'Profit' remains an essential aim. Products and services are integral to people's needs and wants, and less developed parts of the world can significantly improve their living standards through the acquisition of goods. The pursuit of profit is also a powerful motivator for innovation.

'People' represents social needs and wants. Societies desire more than the latest television or mobile phone; they also want fair access to education and healthcare. Meeting these needs helps to maximize the ability of people to excel. Perhaps most important, any measure of economic success in the coming years will depend on having the right person, in the right job, at the right time. That can only happen if people are genuinely treated equally, and their diversity of experience is valued.

'Planet' is about people's desire to live in a sustainable world. People generally want there to be a future for humanity. That means changing the environmental cost of production, in terms of the damage already done and the damage being done. Unlike output economics, the impact economy puts more value on efficiency, to minimize the waste of resources. Any future output must therefore depend on doing more with less.

In addition, issues such as biodiversity are essential to broader economic aims. The world's rainforests are massive absorbers of carbon dioxide, while many of our medicines derive from nature. Reductions to the world's biodiversity come at a worryingly large opportunity cost.



The data dilemma

Upgrading to the impact economy will take time and resources. Currently, there is no agreement about what data should be used to measure whether environmental and social aims are being met, or even how such data is collected. This has led to confusion; one set of data might suggest that impact economy outcomes are being achieved, while another data might suggest the contrary.

Added to this, the costs or benefits may take a long time to materialize, and financial markets are not necessarily very good at pricing far off benefits.

Put simply, the world needs better numbers to assess the problems and measure progress towards solutions. Governments and regulators need to work with independent research and analytics organizations to build more transparent, accurate and wide-ranging data resources.

Transparency of data collection and agreement about what is the right data to use will go a long way to build acceptance of the impact economy. If the data that is to measure the impact economy becomes more consistent, markets are more likely to push capital towards projects that best promote the impact economy.



Forming an accurate picture

Even when these reliable data sets exist, assessing the impact economy will be more complicated than the misleadingly simple GDP focus of the output economy.

Companies have an essential role to play in the impact economy. As employers, their actions have a significant impact on people. As businesses, they have an equally important impact on the planet. As thought leaders and investors, they can help shape the policy debate to promote the impact economy.

The role of governments and regulators will be important in the collection and standardization of high-quality data. A case can also be made for them to offer public policies and rules to enhance the impact economy. They could potentially offer incentives and penalties – carrots and sticks – to encourage companies to include people and planet alongside profitability.

Ultimately, the impact economy still pursues profit. However, it is also designed to offer an accurate view of all the trade-offs and balances needed to meet humanity's broader desires in a way that doesn't harm the planet's future.

This paper sets out to examine the concept of the impact economy, what needs to happen to bring one about, and what can be done to upgrade the global economy to better solve the age-old economic problem of allocating our limited means between our unlimited desires.



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