

Environment and Social Impact. Public Goods. Private Capital?

What sets us apart from the planet's other tenants is our ability to collaborate. We are the most intelligent known species on the planet, but even this intelligence pales before our ability to work together. This ability to collaborate has allowed us to not just live with what we have, but to shape our environment to suit our purposes. When our influence on the planet was yet small, we didn't have to think too much about the consequences. The planet had the ability to absorb the collateral effects of our growth and development. As the impact and complexity of our constructs have grown, feedback has become more significant. Many living things change their environments but none with the scale that humans do. We build cities, roads, rail, infrastructure. We mine the earth for resources to build and to power. We enact laws and frameworks to guide how we interact with one another. We change the world.

Every now and then, our relationships with one another become strained and unsustainable leading to wars and revolutions. We are naturally driven to improve our wealth, power, and prestige, and often this leads to competition which can reach unsustainable levels. Wars and revolutions are the system-resets of society.

Every now and then, our relationship with our habitat becomes similarly unsustainable. In the past this has occurred on a local scale. Today our industry and technology are sufficiently developed to allow us to threaten the environment on a global scale. What are the system-resets of environmental sustainability? A lower planetary carrying capacity? More competition for resources?

By 2023, climate volatility has reached acute levels with heatwaves, floods, and fires all around the world. The evidence supports anthropogenic causes. We urgently need to address this climate crisis. Decarbonisation and net-zero initiatives are means to this end. All dynamic systems are cyclical and net zero will be achieved with or without our efforts. Whether net zero is achieved with a planetary carrying capacity of 10 billion or 5 billion is the real question.

We have the means to achieve a more stable and habitable planet. If by working together we were able to house in cities 50 million people in 1900 to 4.4 billion people in 2020, we can reverse global warming. We need to work together, and we need incentives to encourage collaboration towards this common goal. Standing in our way is the tragedy of the commons or the free rider problem. A healthy and habitable environment is a public good. It is non-rivalrous, and non-excludable. Public goods tend to be undersupplied by the free market and hence must be provided by government. Without an international framework and enforcement, climate initiatives are likely to fall short.

Capitalism and free market economics have worked well for growth and development at the aggregate level. The natural tendency towards growing unequal outcomes stresses the social compact. Inequality has disadvantages beyond social justice impairing our understanding of economics and the efficacy of policy. Indeed, inequality likely impairs the functioning of the market economy as allocative and productive decisions become less diversified and less well-informed. As a result, we find that some goods which may be demanded by the many are undersupplied while goods demanded by the few are oversupplied. A more equal society is a public good and government has a duty to provide it through a more progressive tax code and appropriate fiscal redistribution.

In both addressing a sustainable planet and social justice,

the private sector simply is not incentivized to provide solutions in scale. Private philanthropy through grants or concessionary capital will never completely meet demand or need. Only regulation and government can bridge the gap. Yet private capital is important to the cause.

High net worth individuals, foundations and family offices play an important role in funding impact investments. While regulation is needed to create the incentives to mobilize private capital, impact investments are often either too risky or earn concessionary returns. The mass of private individual balance sheets may not have the risk appetite for these investments. Investors whose wealth exceed, especially when they far exceed, subsistence requirements, are well placed to provide solution capital to de-risk impact investments for smaller investors. The unequal distribution of wealth in this case provides the capacity for different risk appetites and the opportunity for a class of larger, purpose driven investors to facilitate the impact investments of smaller ones. This is an opportunity for turning inequality, a bad, into a catalyst for good.