

The Rise of the Impact Economy

Evolving to the next level

Thought Leadership
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The Institute
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Dear Reader,

The world economy is always changing – and at the moment the pace of change is furious. The fourth industrial revolution is the biggest structural change to economies in 250 years. The world is experiencing an environmental credit crunch. After centuries of continuous growth, humanity is learning that we cannot indefinitely borrow natural resources from future generations. Solving this will require all of our collective ingenuity and skills.

The output economy that has evolved over the past hundred years, with its pursuit of the production of paid-for things, is not likely to continue to dominate in this new world order. By definition, economics exists to allocate limited resources between unlimited desires. That does not change – economics, and economists, must continue to search for ways to improve this allocation process. The challenge today is that those unlimited desires are far broader than just a craving for the goods that are mass produced by the world’s manufacturers, or services that can be bought at the drop of a credit card. While people crave the latest smartphone, they also desire outcomes where our planet has a future, and our world provides its populace with equal opportunities. And developments in data and technology can now allow us to give a definite value to these outcomes.

Economists and markets are starting to note that output-based measures like GDP can distort what the discipline of economics is supposed to achieve. Output economics was an objective for a different time, one which bears little resemblance to the realities of today. Evolution is about adapting to a changing world and impact economics is the evolutionary successor to earlier forms: subsistence economics, mercantilism, industrialization, and output economics.

This paper sets out to examine the concept of an impact economy, what needs to happen to bring one about, and what can be done as the world upgrades to the latest economic model. As with all periods of change, the uncertainties and disruption can be daunting – but the new possibilities that change offers are also exciting.



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An impact economy represents a more comprehensive approach for efficiently allocating scarce resources to effectively meet society's current and future needs.

It does so by shifting the focus from narrow output measures like gross domestic product in favor of a broader set of socioeconomic outcomes intended to improve standards of living and thereby drive broader economic success. This allows for the leveraging of all forms of capital to provide more profitable and sustainable outcomes for all people living on the planet.





What is the impact economy?

The global economy is complex and constantly changing – economics must necessarily evolve with these changes. The focus on economic output does not meet the needs of the modern world. The impact economy's time has come.





Although the world in which we live is ever more complex, the aim of economics throughout history has been both consistent and surprisingly simple. Economics tries to allocate the planet's scarce resources in a manner that can best meet people's endless needs and wants. The real economic challenge is that people's needs and wants constantly evolve. In a famine, food is the only priority. In a time of plenty, other things assume greater importance.

Over the past 75 years economic policy objectives appear to have stopped evolving. In the 1940s the new and exciting concept of gross domestic product (GDP) became the obsession of political leaders, who equated living standards with owning things. GDP focuses on how much is produced, without regard to how efficiently it is made, how it is distributed, or what long term costs may be incurred to the health of people and of the planet. In the immediate aftermath of the global devastation of World War II, this obsession with output was perhaps understandable. The accumulated possessions of centuries of economic production had been destroyed – and replacing them was a quick way to improve people's lives.

But the era of output-based economics has passed. In reality it passed decades ago, but we have been reluctant to abandon the simplicity of a single number that purports to identify how good our lives are. Over time, the unchanging focus of policy on how much stuff and how many services are being made has moved further and further from the fundamental aim of economics. People's needs and wants are less likely to be satisfied simply by churning out more things. They need a planet that has a future; a single pursuit of output ignores this.

Impact economics therefore represents a reset – taking economics back to its traditional broad focus. This does not mean that output is abandoned as an aim. Products still form an important part of needs and wants. Even the stereotypical anti-materialism of Generation Z has its limits – taking a smartphone away from a teenager generally produces a vocal and visceral reaction. More importantly, less developed parts of the world can still experience significant improvements in living standards through the acquisition of goods.

“The era of output-based economics has passed.”



Back to (economic) basics

Changing focus from output economics to impact economics is a continuous development, not an abrupt change in the economic system. Impact economics is about profit, people, and the planet. The various players in the world economy need to recognize that the three are intimately connected, and that a tangible value can be attached to all three.

“People” represents social needs and wants. Good health and appropriate education are important needs. Improving access to both, and ideally creating equal access to both, improves economic outcomes, both via profitability and social impact. Brilliant talents may lie undiscovered today because of ill health or poor education. Businesses are missing those talents, and society at large is poorer from the waste. Because it is implausible that the quality of health and education received can be wholly separated from income, employment and income inequality should therefore come under the scope of impact economics as well.

The economic consequences of certain groups being disenfranchised and therefore unintegrated in the global economy can be enormous. Commercial success in a time of dramatic structural change places huge importance on having the right person in the right job at the right time. Periods of change also require an agility of thought to spot the opportunities and avoid the risks. A monoculture of decision making, or a society that places less weight on some opinions versus others, is likely to cling to wreckage of the old way of doing things as it sinks to the economic depths.

“Planet” represents environmental needs and wants. These are also inextricably intertwined with people and with profit. The choking smog of the world’s major cities is a visible reminder of the damage being done to the health of the planet and of the people who inhabit it. After generations of output economics, the world’s consumption of natural resources is now alarmingly unsustainable.

Sustainable Development Goals

The United Nations Sustainable Development Goals (SDGs) recognize that people need more than physical possessions. The goals emphasize the importance of environmental and social needs alongside the more output orientated goals of economic development.

The output economy, represented by GDP, has grown over the past decade. But the impact economy, loosely represented by the cost of achieving the SDGs, has actually moved backwards rather than forward. According to the most recent report, the annual SDG financing gap of USD 2.5 trillion is estimated to have increased to USD 3.7 trillion in 2021. In other words, the gap has grown (approximately) from the size of France’s economy to the size of Germany’s. The gap has likely widened even further over the past year, given the impact from the war in the Ukraine and the cumulative effects for the COVID pandemic.

The contrast of these measures highlights the failure of GDP to capture people’s unlimited desires. GDP records progress but it does not capture the many ways in which humans are failing to improve their living standards.



Humans have been borrowing on the environmental credit card with no thought about how the bill would be paid; that debt is now coming due. In environmental terms, any future output must depend on doing more with less. This marks a shift in emphasis from output economics, where efficiency is not a focus but is instead quite literally a residual in the GDP calculation.

Climate change may be the most urgent planetary need to address. Humans may have moved beyond the point of being able to reverse the damage and have to consider how to adapt (while preventing additional harm). But it would be wrong to obsess on climate change to the exclusion of other environmental concerns. Issues like biodiversity are also important to broader economic aims.

The loss of a species represents a very obvious and long understood economic loss. The opportunity cost, or the cost of “what might have been,” from a decline in biodiversity is significant. Nature constantly provides solutions to problems faced by humanity. Narrowing the biodiversity of nature today inevitably narrows the range of possible solutions available to people in the future.

Keep in mind that many of our most essential medicines have been sourced from various forms of flora. Think of how much poorer the world would be today if some of those life-saving medicines had not been made available because certain types of plant life had been condemned to extinction – and how much poorer our children’s and grandchildren’s lives will be if the next generation of “miracle meds” never has a chance to be developed due to the loss of biodiversity.

Biodiversity benefits

The world has been living beyond its environmental limits for a very long time. All too often biodiversity has been sacrificed on the altar of GDP, where even a modest amount more output is lauded.

The costs of this are all too apparent. We need to feed a growing global population, when land degradation has devastated agricultural productivity by 23%. We have lost pollinators that are critical to food production, imposing a cost of somewhere between USD 235 billion and USD 577 billion on farmers. And yet, popular concern was only really raised when the loss of bees became a recurring theme in the science fiction program “Doctor Who”.

As natural coastal protections like mangrove swamps dwindle, between 100 million and 300 million of the global population are now at risk from floods and hurricanes. Human actions to undermine biodiversity are creating environmental threats that nature had previously contained. Politicians might want to reflect that more of the people falling into risk are the politically powerful middle class.



Allocating resources

Identifying the needs and wants of moving from an output economy to an impact economy is only half the job of the economist. We are still constrained by scarce resources, and how those resources are put to work matters a great deal.

However, there is no need to drastically restructure the economy in a broad sense. One of the tenets of the impact economy is that market mechanisms are normally the most efficient way to allocate scarce resources. The difference that the impact economy introduces is making sure that the market mechanism takes account of all the economic costs and benefits. Those include traditional 'externalities' such as pollution, but also broader costs and benefits like inclusion which historically have not been lumped into the externalities category.

This approach allows the market to allocate resources in a way that is truly efficient. It contrasts with markets operating in an output economy, which efficiently allocate resources for profit but (nearly always) inefficiently allocate resources for people and planet. In an impact economy, the ambition is for markets to allocate resources efficiently for profit, people, and planet.

In an impact economy the existing economic players – markets, companies, consumers, governments, charities, etc. – each act out their roles. But each economic player will have to adjust how they do so. The impact economy is more broad-based than the output economy, and each economic player will have to change their priorities accordingly.

To carry on with business as usual is to be condemned to pursue the defunct aim of output economics. But with shifts of emphasis, sometimes of a subtle nature, each economic player can help ensure that the output economy is upgraded to the impact economy.

“In an impact economy, the ambition is for markets to allocate resources efficiently for profit, people, and planet.”



What has to happen?

Achieving an impact economy is impossible if there is no way of measuring it. The world needs a clear and consistent way of first measuring and then pricing what people really want.





The charm of the output economy is the (seeming) simplicity with which it can be measured. In a complex world people crave simplicity, so the desire to reduce everything about human economic existence to a single statistic is understandable.

The impact economy needs to reimpose some complexity to measurement, without creating so much confusion as to drive people back to the output economy in a fit of misguided nostalgia.

To upgrade to the impact economy, **three things must happen:**

**Recognizing value**

Recognizing the economic value of people and planet, and allowing that value to be fully priced by financial markets.

**Impact transparency**

Being transparent about what is being measured.

**Targeting incentives**

Creating the right incentives to meet the needs and wants of society.

We have understood for centuries that people and planet generate a value which is not always captured in the prices generated by output economics. That does not mean the value cannot be uncovered. The world's carbon markets show that it's possible to place a financial value on an economic want as invisible as reducing carbon dioxide emissions to help address climate change by ascribing an economic cost to the emission of carbon dioxide. Similarly, when identifying the economic cost of racial prejudice over six decades ago, Nobel Economics Laureate Gary S. Becker identified the potential relative unprofitability of racist firms and by extension the lost potential of the economy at large.



More recently, the court of public opinion has acquired increased power through social media. A viral post exposing business practices that harm the value of either people or planet can destroy a company's reputation with its customers. Opinion shaped on social media rarely gives credit to any attempt to explain or justify. A brand's value may be given a dollar value on a corporate balance sheet but that value can be hurt or enhanced by public perception of the company's approach to society and the environment. This social pressure links people and planet to investment returns and the markets' calculation of what a company is worth.

Too cheap is a problem

In today's output economy, the difficulty of universally recognizing the value of people and planet has led the market to price both too cheaply. While improvements are being made, driven by investors who are increasingly aware that these values exist, there is much further to go to properly measure these values.

The problem is that there is not yet even a veneer of universal acceptance of how to measure the value of people and planet. Indeed, not only is there no consensus about what sort of data should be used, but there is often disagreement on the methods by which it is collected. The costs or benefits may take a long time to be fully known, and financial markets are not necessarily very good at assessing long term values. The output economy often lacks the data to accurately identify the value of people. The economics of diversity and inclusion is often only glimpsed in narrowly defined case studies.

In fact, the output economy suffered in a similar fashion in the first half of the nineteenth century. The desire to maximize output was limited by the fact that measures such as GDP did not exist. That led economists to make some heroic assumptions – that iron and coal output represented economic output, and that economic output then equated to living standards.

None of those assumptions was correct, and it took the systematic adoption of a broader GDP as a standardized, transparent measure to allow the output economy to develop. Having created such a universally accepted and more or less standardized output measure, it is no wonder that policy makers have been so reluctant to move beyond GDP.

Irrational prejudice

The Nobel Economics Laureate Gary S. Becker identified that prejudice economically hurts both the one carrying out and the one being subjected to prejudice. For instance, until the late 1940s US baseball was segregated along racial lines. "Breaking the color barrier" in professional baseball therefore became a critical inflection point that ushered in broader societal changes.

When segregation was finally lifted, some teams became racially integrated. Others did not. The teams that integrated had access to a wider pool of talent and won more games. The better quality of play brought in more spectators. Players like Jackie Robinson and Larry Doby not only became cultural icons but were also popular players who helped to broaden the appeal of the game.

The changes helped attendance for major league baseball games to double between 1945 and 1947. The increase in spectators made the teams more money. But – with the notable exception of the New York Yankees – teams that were slower to integrate tended to underperform. Still, racial prejudice irrationally persisted for more than a decade after desegregation, with the last team finally adding its first black player in 1959.



The lack of data needed to assess the value of people and planet gets worse as economists survey the chaotic nature of the limited data that does currently exist to measure the impact economy. The world simply needs better numbers.

Standardized data would allow comparisons to be made easily. High quality data – meaning data collected from credible methods – gives confidence that it is a good representation of what is being measured. Full disclosure of data and their components makes proper analysis possible. Unfortunately, the impact data available today is an opaque pool of numbers hiding behind obscure acronyms. Individual components are no doubt interesting, even useful – but the collective mix is unhelpful and possibly even harmful.

Almost any narrative can be crafted from the range of data available. One set of data might suggest that impact economy outcomes are being achieved, only for another data set to refute those conclusions. Social media's amplification of soundbite economics has resulted in a tendency to focus on the headline conclusions without consideration of the underlying data. What is seemingly measured takes second place to the conclusions that are being drawn.

This is not necessarily a problem if the data is of a high quality. But failures to understand how a conclusion is arrived at can mean that dangerous or faulty assumptions are conveniently overlooked in the rush to sensationalize.

It does not have to be this complicated

A nostalgic desire for the simplicity of the GDP measure is hardly surprising when impact economy data is currently so opaque, and contradictory outcomes so easily supported.

The impact economy is necessarily more complicated than the output economy because it focuses on people and planet, as well as profit. However, it does not have to be this complicated. Transparency and consistency will go a long way to building acceptance of the impact economy as an alternative to the monotone simplicity of measuring output.

“The world simply needs better numbers. Standardized data allows comparisons to be made easily.”



If the data that is used to measure the impact economy becomes more consistent, markets are more likely to push capital towards projects that best promote the impact economy. Clearly understood data is also likely to lead investors and customers to shun companies that do not take consideration of impact economics.

Including the people and planet alongside the profit motive does not mean that society has to become a paragon of virtue without thought of corporate or personal gain. The value of people and planet is often tied to profit. The importance and value of a company's brand are arguably increasing in an ever more virtual age – and protecting that brand encourages behavior that finds the value in both people and planet.

The benefits of a diverse and inclusive workforce have been repeatedly demonstrated; companies that embrace the value of people tend to enjoy lower risks and higher returns. Diversity in decision making, for example, increases the chance that opportunities will be spotted, and risks avoided.

At a time of economic upheaval diversity of outlook becomes more important – a wider experience is more likely to identify useful parallels that are simply outside the understanding of a group whose members have the same education, come from a similar social background, and have faced near identical challenges over the course of their lives. An inclusive workplace is far more likely to employ the right person, in the right job, at the right time – as opposed to the irrational barriers of prejudice that promote mediocrity by prizing irrelevant characteristics over skill.

This does not mean that the invisible hand of the market can transition from output to impact economy without assistance. People are often not rational, and as financial markets represent the collective behavior of people, that means markets do not always operate rationally either. Humans are prone to preconceived ideas and unconscious bias, and are not necessarily the profit-maximizing inputs of the pure economic model (i.e., homo economicus). A middle manager may rationally know that hiring a diverse candidate will improve the quality of decisions made, but still unconsciously choose a like-minded individual who agrees with their ideas rather than serves as a challenger.

First attempts

The world is not ignoring the lack of data around the impact economy. One initiative comes from the Capitals Coalition. This expands on the output economy's focus on financial capital by adding natural, social and human capital into the decision-making process. The familiarity of a capital approach helps embed other values into decision making.

To try and identify what is happening, politically-inspired initiatives like the G7 Impact Taskforce have been formed. They aim to improve transparency (or, rather, create any transparency at all) for companies reporting on impact economy issues. Unfortunately, these approaches have not “gone viral,” while GDP can be classed as an “influencer” across all platforms.



Standard measurements, more clearly communicated, will help market forces push for a shift to the impact economy. The investment returns are more clearly understood, and the economic costs of inappropriate action are more quickly visible. However, the market tends to be better at punishing misdeeds than encouraging good behavior. That is particularly true when the benefits are far in the future – beyond the time horizon of most fund managers.

Carrot and stick options

This is where the role of the government becomes more important. Government action gives the option of both a carrot and a stick. The carrot is the ability to change relative taxation (or, less commonly, subsidies) so as to encourage capital to flow in a certain direction. The stick is the direct regulation of the marketplace – to either limit or redirect the flow of capital for specific industries.

The danger with government action is oversimplification. As already stated, impact economics today desperately needs simplification and standardization – but this should not go too far. Politics often devolves into an artificially “black and white” contrast. Economic actions are cast as sinner or saint, with the former being taxed or regulated, and the latter encouraged through direct government investment or some form of subsidy.

As the world is never really that simple, the risk is that unintended consequences occur. For instance, regulation of the US shale gas industry may have discouraged investment in that sector, constraining production and forcing the use of more polluting coal as an alternative fuel. The intent may have been to benefit the planet values, but the outcome is contrarian.

The risks of oversimplification also apply to market forces. Modern public opinion has less time for complex issues. It is hard to adequately consider the benefits of investing in fossil fuels in something as brief as a tweet. “Fossil fuels – ban them” is an eminently tweetable concept, but is far too simplistic a concept to help achieve a more complex but more sustainable future.

“Impact economics today desperately needs simplification and standardization – but this should not go too far.”



What can businesses do?

Businesses are a part of society, and a critical part of the impact economy. The actions of businesses will be part of the way we change the world.





Getting to the impact economy is an evolution. The output economy is not going to transition overnight. It is in the interests of UBS's shareholders and employees and to the benefit of our clients that we work towards the impact economy – something that has been already happening for over two decades, albeit without the specific impact economy language.

The impact economy is not “led” by any institution – government, social, or private. Shifting from an output to impact economy is an essentially organic process in which the various players participate – successfully or otherwise.

What financial services firms can do is help clients cope with the upheaval of change on this scale. Financial firms have evolved along with their clients as the world worked through the first, second and third industrial revolutions, and with the shift from mercantile economy to output economy. Financial firms have to adapt and are therefore well positioned to play a role in facilitating the next stage of this evolution.

There are **four ways** financial sector firms can aim to influence the upgrading of the global economy to impact economics:



Emphasizing the **importance of people and planet** as a global employer.



Using their **intellectual firepower** to argue for an effective impact economy, and to help create the data needed to direct it.



Advising clients about how the global economy is changing and how that change will impact their investments.



As an investor, using **different types of capital** to develop the impact economy and using the power of ownership to change other companies.



Impact as employers

Financial sector firms depend on the quality of the people who work for them. The sector benefits disproportionately from a diverse and inclusive workforce that naturally takes different approaches to solving complex problems. A firm's success depends on consistently employing the people with the most appropriate skills for the task. The financial world rarely rewards second best – and so having an inclusive culture with minimal barriers to progress is critical.

Risks and opportunities need to be examined from as many different aspects as possible, especially when so many of those risks and opportunities are the newly created consequences of a rapidly changing economic environment. Diversity is a risk management imperative. This is all consistent with the profit motive of the output economy, but there is a wider social impact embedded in being an impact economy employer. Education does not finish with a high school diploma or a degree ceremony. A successful firm should continually educate and inform its staff – who can then take that knowledge and mindset into the wider world.

Financial services firms can also apply impact economy values to their supply chains – as employers at one stage removed. It is appropriate to ask suppliers about how they treat their staff and what their environmental policies are.

There is a direct profit motive here – any profit-driven company will want to work with well run, successful suppliers, and a supplier that is not at least striving towards the value of the impact economy is unlikely to succeed in the longer term. There can be significant reputational risk if companies buy goods or services from a supplier that is focused on output economics at the expense of impact economics. And applying impact economy principles to supply chains is a clear signal to employees, shareholders, and clients of the importance of these values.

The right internal culture can also enable firms to develop their role as impact economy thought leaders. As the previous section made clear, the impact economy is unlikely to succeed when the data around it is so opaque and uncoordinated. Politicians are unlikely to surrender the simplistic security of GDP and the output economy for the current array of jargon and competing ideas that are being used to describe impact economics.

“Financial sector firms depend on the quality of the people who work for them. The sector benefits disproportionately from a diverse and inclusive workforce that naturally takes different approaches to solving complex problems.”



Any significant consumer and user of data can apply its expertise to making sense of the data that exists. It can also use its own resources or partner with like-minded organizations to advocate for clarification. By doing so, it can play a role in encouraging improvement on the transparency and usefulness of the available data.

Impact as thought leaders

The breadth of client relationships of diversified global financial services firms can provide significant competitive advantages in thought leadership. Global financial firms, for example, have daily access to real world economic decisions being taken by the entrepreneurs, established companies, individual investors, institutional asset owners, and government entities, because they are all clients of some bank. The information from these disparate groups is something that would be hard to replicate in academia, and almost impossible to coordinate within government. One key reason for the existence of the UBS Sustainability and Impact Institute is to make sure this information is presented in a way that better informs policy decision making.

Thought leadership will also be essential, to explain the greater complexity of the impact economy and directly counter dangerously simplistic ideas. This is especially important given the growing influence of simplistic and sensationalistic preferences expressed via social media. Arguing against extreme but readily tweetable exclusion policies (“no fossil fuels”), in the interests of promoting practical sustainability is one example.

In its role as a thought leader, UBS aims to influence global and national conversations. That will involve going beyond the immediate client base and considering a wide range of communication methods. Effective communication may well prove to be just as important as the content it delivers, as the world changes one tweet, chat or post at a time.

Thought leadership is not just about creating better data and leading in analysis. Companies in general have a role to play in opposing public policies that work against the impact economy. Although potentially more controversial, a case can be made for presenting the case in favor of public policies which enhance the impact economy.

“Companies have a role to play in opposing public policies that work against the impact economy.”



As with the output economy, the impact economy requires government regulation and taxation to make it work in the best way possible. Firms, as thought leaders and as employers, have an interest in advocating the right sort of policies and pushing back against those that are seemingly well-intended but impose unnecessary burdens. All firms have an interest in pushing back against the malevolent policies of prejudice politics, which do damage to both people and profit.

This marks a break from the practices of the output economy – where, at least in theory, the firm’s interest was confined to profit alone. In the impact economy, advocacy can still be cast in terms of profit – as the people and planet objectives work with the profit motive. The broader goals of the impact economy mean that firms should play a higher profile role as members of civil society than they perhaps did in the output economy.

Impact as advisers

Building expertise as a thought leader allows financial sector firms to educate clients about the risks and opportunities around the impact economy – and advise how best to manage the transition to it. This should make the upgrade easier, as it provides smaller firms and investors access to a depth of knowledge they would struggle to reproduce themselves.

The “Republic of Letters” was a network of academics who shared information across borders between the sixteenth and the eighteenth centuries, speeding the innovation and change of thought that was required for the first industrial revolution. Advice today – a “Republic of Powerpoints,” if you will – can play a similar role as a catalyst in the fourth industrial revolution, helping firms trade up to the standards of the impact economy.

Financial firms play a prominent role in investment and financing, but also in philanthropy. Finance, investment, and philanthropy will have to align if they are to achieve the United Nations Sustainable Development Goals. There are certain goals where an old-fashioned, output economy-focused firm can effect a change. Other areas need government regulation and guidance. Still others require the use of more flexible capital capable of achieving non-financial benefits over the longer term.

Philanthropy and blended finance

The global philanthropy economy is about the same size as the Spanish economy (USD 1.2 trillion) and would rank fifteenth in the world. It is also expected to grow to an estimated USD 11.9 trillion over the next 20 years as wealth increases.

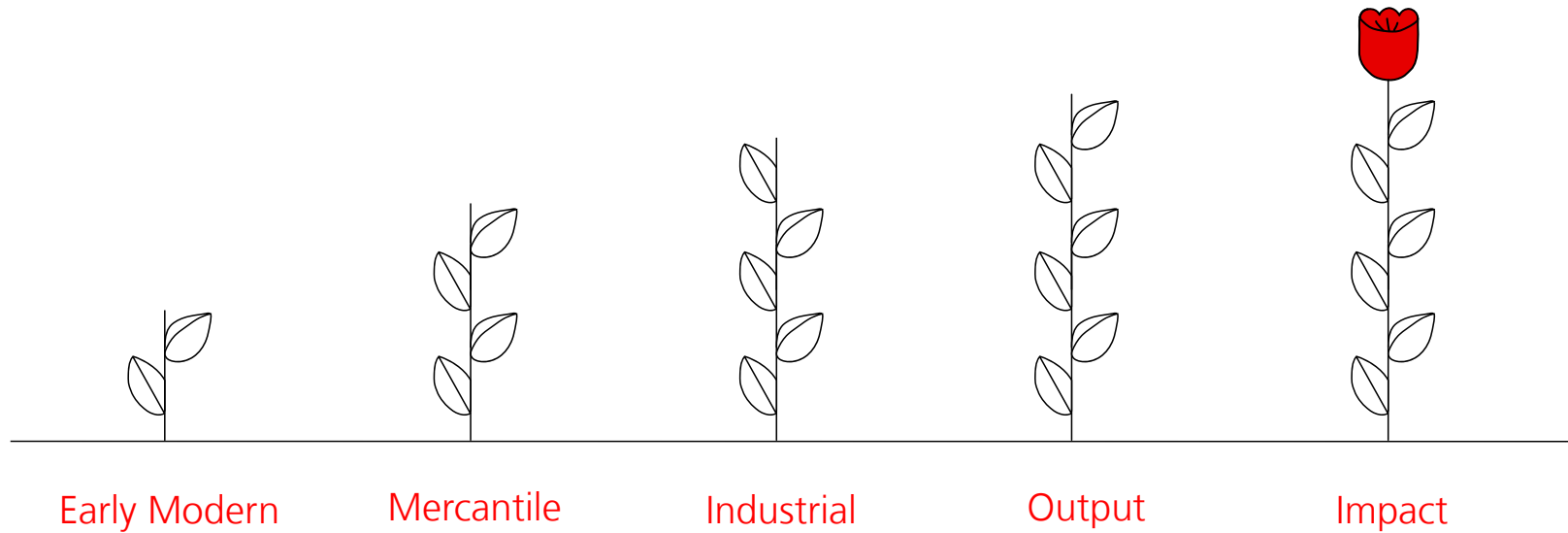
But the impact of philanthropy is more than throwing around cash. It offers a more flexible sort of capital than the traditional profit-maximizing investment of the output economy. Using philanthropy can not only support innovative, earlier stage ideas, it can also build up different ‘tranches’ of capital to attract more private investment to projects, by changing the level of risk faced by the additional investor. Money that would never normally be invested is therefore unlocked.

This is called ‘blended finance’, and it is a big source of funding for the impact economy.



Evolution of the impact economy

The economy that survives is the one that is able best to adapt and adjust to the changing environment



Economic wants and needs:



Food



Precious metals



Material goods



GDP



Quality of life



In an impact economy, social and environmental outcomes will be priced into investment and business decisions, and the output economy's "either/or" choice between financial returns and non-financial impact will disappear. Philanthropy is an important catalyst and bridge in facilitating the transition from an output-focused to an impact economy.

Impact as investors

Finally, financial services firms as investors will play an important role in developing the impact economy. The investment role impacts in two ways – as a channel for capital, and as an active investor. Upgrading to the impact economy will require investment – not just in capital equipment, but in people. By acting as both investors and developers of investment products, financial services firms can influence the cost of capital and risk premium ascribed to different forms of investment. Changing the cost of capital will alter the competitive advantage of impact economy projects.

Any bank provides capital not just as a financial market investor, but also as a lender. While economists often merge the two forms of capital together, there are some differences. It is appropriate for any lender to think about all the risks involved in the loan that they are making. A borrower who does not evolve with the impact economy is likely to be a riskier prospect for loans that last any extended period of time. Basic economics suggests that higher risks have to be paid for with a higher cost of capital.

In addition, investors and their advisors can act (and indeed have a duty to act) to influence corporate management. This is as important, if not more important than the cost of capital argument. UBS's thought leadership gives it insights into what can succeed in the impact economy. These insights can be helpful in advising corporate clients who are looking for guidance on why and how to incorporate impact into strategy and decision-making.

Institutional investors should also hold to account the management of companies in which they invest. If a company's management does not pursue policies that will maximize long-term performance, either the policies or the management team that determines those priorities need to change – and as a part owner of the company, an institutional investor should work to one or the other outcome.

“Upgrading to the impact economy will require investment – not just in capital equipment, but in people.”



Conclusions

Impact economics is an evolution, not a revolution. The world is facing the same economic problem it has always faced – how to match limited resources with unlimited needs and wants. We just need to recognize that what people need and want has evolved.





Economics is about allocating limited resources between unlimited human needs and desires. For the past seventy-five years, politicians and a desire to “stick with what you know” have sought to limit the metric for civil well-being to a simple output measure. As a result, GDP has held sway in mainstream consciousness.


The idea of the impact economy reverts back to the true role of economics – considering humans’ unlimited wants and needs, not merely those that can be simplified into the process of national income accounts. It elevates the importance of valuing people and planet and assures the consideration of all outcomes in the valuations of goods, services, and the entire economy.

The impact economy is a market-based economy. It is, however, a more complicated economy than the simplistic output economy of textbook theory. The impact economy requires better mechanisms for pricing the costs and benefits of people and planet. Forces are already driving the market in the right direction – the increased importance of the value of reputation is one example.

However, more needs to be done. Data provision is too used to the limited world of output economics, and the opaque mass of indicators trying to identify the value of the impact economy needs to be standardized and made transparent.

Financial firms must designate the impact economy as an achievable ambition. Upgrading the output economy to the impact economy is not a binary event, but a gradual evolution. By working as employers, participants in civil society, thought leaders, advisors, and investors, organizations like UBS can help to make the evolution as fast and as painless as possible.

We are only at the beginning of this journey. In the months ahead we intend to explore in greater detail different dimensions of the impact economy. This will include the critical role that education, health and environmental initiatives will play in meeting society’s needs. To assist us in this process we have assembled some of the world’s most influential thought leaders as members of our Institute Forum. We will ask them to share with us their expertise, experiences, and insights to help better understand the future direction of the impact economy.



“We are only
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of this journey.”



About the Institute

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