Time to face the true cost of sustainability on a finite planet

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The world today simply has too many unsustainable excesses, extremes, gaps and imbalances to continue as it has done in the past. Unlike during previous crises, once current imbalances come to a head, the world will have to change — not out of choice, but out of necessity. And once this change is made, there will be no going back. The world cannot be the same again.

Before dismissing this as millennial exaggeration, even a cursory glance at the interplay between key macro variables, such as the environment, levels of sovereign debt, lack of jobs and fair pay, will lead to the conclusion that something isn't right — that there is a design problem in the current world system.

If mankind is to find its way out of this economic cul-de-sac, it needs to look four unsustainable macro factors squarely in the eye: Earth as a finite planet, the enormous levels of current and future sovereign debt, human demographics, and inequality. First, as author, businessman and environmentalist Paul Gilding puts it, because the Earth is finite, you cannot have infinite growth on a finite planet. Or, uncontrolled growth as we know it cannot continue on an increasingly exhausted and overburdened planet. As such, contrary to what many politicians and economists still believe, economic growth — especially in its current form — is not the panacea for all ills. Nor will finite planet issues somehow just pass us by.

Without change, we can expect increasing systemic stress and volatility for years to come.

Yet despite finite Earth issues looming large, they also present an enormous opportunity for mankind to change, to do things differently by reinventing how we grow. As such, managers who take long-term views and focus on sustainability, fairness and balance are likely to be more informed and should, over time, deliver better investment outcomes — especially when both return and risk are considered and measured together.

Second, while sovereign debt issues are unique in being the only unsustainable macro trend that markets have tried to discount, the true scale, cost, impact and likely outcome of the evolving sovereign debt crisis is still not fully known or appreciated.

As governments do all in their power to window-dress the crisis, downplay debt and talk up growth plans, their best efforts are likely only to kick the can down the road, delaying the inevitable and creating an even larger crisis later on. Authorities are more likely to interfere with, and distort, the workings of capital markets, resulting in the misallocation of capital, lower returns and the transfer of private assets to sovereigns. As instability continues, investors can expect even further sovereign interference, including higher and ever more creative taxes, along with increased intervention and regulation.

Many feel that sovereign debt issues can be solved by taking the easy route — by printing more money, as evidenced by the plethora of new acronyms such as QE (quantitative easing), LTROs (long-term refinancing operations) or ZIRP (zero-interest-rate policies). Others believe that growth can somehow simply be chosen in place of austerity, as easily as ticking the growth box rather than the one for austerity.

Given the still-unpaid costs of the poor growth choices made to date, however, growth as we have known it is no longer an option. Instead, it needs to be directed to real and sustainable activities, rather than yet more environmentally unsustainable, debt-induced consumption

spending — especially in the developed world.

Third, many Western countries are sitting on demographic time bombs. Apart from there already being too many people drawing on the Earth's finite resources, very few countries, especially in the West, can even remotely meet the promises they have made to their electorates. What might have been realistic medical, pension or retirement expectations a decade ago are out of reach today. Despite the rhetoric, governments worldwide will increasingly renege, in one form or another, on their social commitments. In response, people will need to work longer and retirement will have to be delayed. This will not happen painlessly. Older electorates are unlikely to take the prospect of delayed or no retirement lying down, while younger, poorer, electorates will be unable, or unprepared, to foot the retirement bill for the army of elderly outnumbering them, especially in older, ageing regions such as Europe and countries such as Japan. The cost of the welfare state is simply unsustainable. Furthermore, one of the biggest issues that the world faces is unemployment. Given a finite Earth, the existing debt constraints and lack of focus on, or commitment to, more sustainable growth areas, the chances of simply growing out of the unemployment problem are remote. At the moment in many southern European countries, youth unemployment exceeds 40%. Large populations of unemployed, increasingly disgruntled youths are a recipe for instability. South Africa, with its 25% official unemployment rate, is not immune to these challenges and will need to find ever more creative ways to manage unemployment, many of which will challenge the beneficiaries of and vested interests in the current system.

Finally, closely linked to unemployment is the last unsustainable macro factor — the unbridled growth of corporate power. Corporate margins are at record levels at a time when unemployment is skyrocketing. A system in which corporates fire employees almost at will in the interests of profit, or in which executives can earn up to 500 times more than other employees in the same business, creates instability and resentment. Economies need to benefit all participants, not just a powerful few. According to a 2011 Gallup survey, investment bankers, one of the least trusted groups in the US, are paid 11 times more than high school teachers, viewed as one of the most trusted groups. Such large differences in value and trust within a system are clearly problematic, requiring social discourse followed by some form of rebalancing. This will happen either proactively, through the introduction of more sustainable policies and constraints, or reactively, as governments or societies intervene, as witnessed by recent events including Occupy Wall Street, the Arab Spring and the rapid change of elected governments around the world.

Certainly, the interaction of these unavoidable macro trends and how they play out will define the sustainability debate for decades to come. At present, most investors seem to ignore or understate these "slow burn" issues, and it is unlikely that current markets have even tried to discount them.

Because it will, ultimately, be companies and investors that will mobilise the capital needed to overcome these challenges, how investors consider, measure and price in the cost of sustainability will determine how these threats are managed and how soon the global system becomes more stable and predictable.

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