

# The transition to a regenerative economy

'Doing less bad' is not enough

2023



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## THE TRANSITION TO A REGENERATIVE ECONOMY – ‘DOING LESS BAD’ IS NOT ENOUGH

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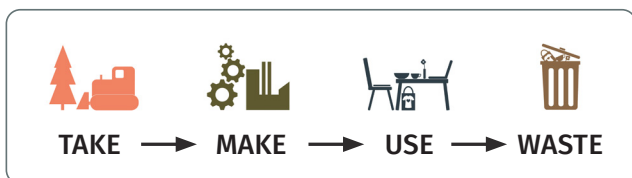
Everything in our world is interconnected. Taking a narrow view of complex systems is no longer an option. Today’s linear economy is failing. We need to transition to a regenerative economy and see the bigger picture. ‘Doing less bad’ is no longer enough. Regeneration goes beyond sustainability and seeks to ‘do more good’. By creating conditions that support life in all its forms, regeneration has a positive impact on nature, society and the economy, as Melanie Beyeler, Senior Portfolio Manager, details in this thought piece.

### Step 1: Recognition that the linear economy is failing

The Industrial Revolution that began in the 18th century laid the foundations for today’s economic system. It has brought many benefits, in particular the mass production of goods, with significant economic growth, job creation, improved standards of living, technological advancements and improvements in infrastructure. Advanced, industrialised nations have evolved and become societies of abundance. Developing and emerging economies seek to replicate their success.

Although this has been widely hailed as progress, it is evident today that the design of that system is fundamentally flawed. It challenges the existence of the living world by depleting the resources needed to sustain it. Resources are extracted, transformed into goods, used by consumers and then disposed of as waste. This process is often referred to as the linear economy of ‘take, make, use and waste’ (see Figure 1)<sup>1</sup>. It is a process of depletion, disconnection and decline.

**Figure 1: Linear economy**



The ‘fast fashion’ industry is one example of this linear economy. Clothing is produced quickly and cheaply, with a focus on disposability rather than durability. The disposal of clothing generates significant amounts of textile waste, which can take hundreds of years to decompose in landfills. According to the Ellen MacArthur Foundation<sup>2</sup>, globally the equivalent of one garbage truck of textiles is landfilled or incinerated every second. In addition, landfills are often located near low-income communities, which can lead to health problems such as respiratory diseases and an increased risk of cancer due to exposure to toxic chemicals from the waste.

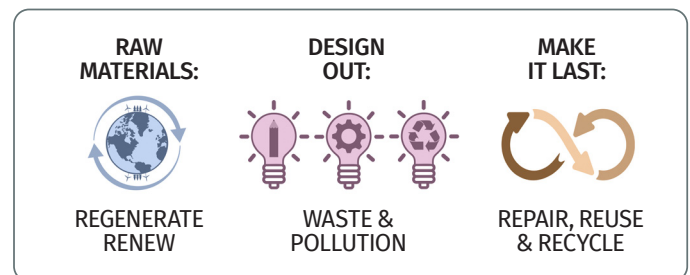
### Step 2: Moving beyond linear cause-and-effect thinking to a circular economy

This linear model of economic development has increasingly been challenged. In particular, it fails to consider the environmental and social costs involved with the take-make-use-waste system. At a time when the world is more chaotic, overcrowded, interconnected and interdependent than ever before – and is evolving at an ever-faster pace – taking a narrow view of complex systems is no longer an option. Kate Raworth, most notably, has introduced the concept of the circular economy. It is an approach which aims to overcome the limitations and narrowness of the linear economy. There are three key elements of this approach (see Figure 2):

1. Making products which last longer through reuse, recycling and repair;
2. Designing out waste and pollution in manufacturing and consumption processes; and
3. Renewing and regenerating the raw materials that are used.

Many of these elements are already familiar to us in our daily lives. Whilst very welcome, we see the circular economy view as an intermediate step towards a much more holistic view of the interconnectedness and interdependence of environmental, social and economic systems.

**Figure 2: Circular economy**



<sup>1</sup> Kate Raworth, Doughnut Economics, Penguin Random House (2017).

<sup>2</sup> Ellen MacArthur Foundation <https://ellenmacarthurfoundation.org/topics/fashion/overview>

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## Step 3: The transition to a holistic perspective

Taking a holistic perspective addresses the challenges and opportunities in a comprehensive and integrated way. It considers the long-term impacts of our decisions on environmental, social and economic systems, as well as the way these systems interact. A holistic view helps us to move beyond cause-and-effect thinking and see the bigger picture. Crucially, it also helps us to identify chain reactions and unintended consequences, and to develop more integrated solutions for the future.

To return to the fast fashion example, holistic thinking involves factoring in the environmental, social and economic impacts at every stage. This can involve a range of strategies and initiatives such as using sustainable materials, implementing closed-loop systems to recycle or repurpose materials at the end of their lifecycle, advocating policies that support a more sustainable fashion industry, or educating consumers about the impact of their clothing choices.

‘Doing less bad’ – the idea at the heart of some sustainability approaches – is no longer the answer in this final stage. Sustainability is important but it is often focused on maintaining the status quo in the environment rather than actively improving it. Regeneration, on the other hand, uses sustainable practices, but goes one step further and seeks to ‘do more good’. It actively restores degraded ecosystems, boosts biodiversity, and improves the health and resilience of the natural systems we rely on. Regenerative approaches create conditions that support life in all its forms. In this way, regeneration has a positive impact on nature, society and the economy.

## Transition speed and grounds for optimism

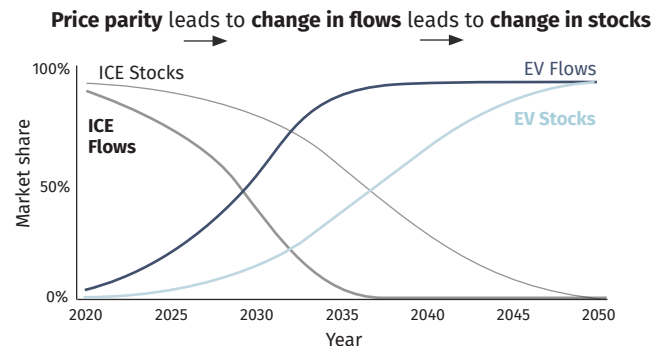
Perhaps the greatest challenge in the transition to a regenerative economy is how quickly it can occur. Clearly, there is pressure for a swift move, demonstrated by campaigns such as ‘Just Stop Oil’. Of course, the answer is not as simple as that slogan suggests but the urgent need for action is more broadly recognised these days. For example, Simon Sharpe’s recent book ‘Five Times Faster’ discusses the need for a rethink of the science, economics and diplomacy of climate change.<sup>3</sup>

There are grounds for optimism. Kingsmill Bond, for example, shows that the transition to new modes of

transport (from the internal combustion engine to the electric vehicle, for example) and new sources of energy (from fossil fuels to wind, solar and other renewables) can be very quick.<sup>4</sup> In the past, the spread of new innovations has typically followed a logistic or S-curve: slow burn to start with but then rapid adoption towards high levels of saturation.

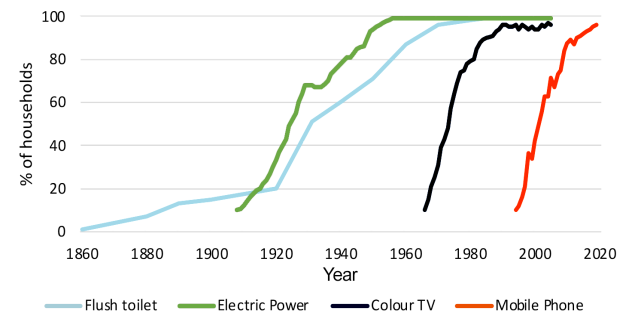
Successful new technologies typically spend decades in development before being deployed. At first, adoption is slow and prices of the new technology tend to be high. But at the point when a price tipping point is reached, sales take off. Typically, sales will grow from around a 10% to 80% market share in a decade or so. Figure 3 gives a schematic presentation of the transition and Figure 4 shows some historic examples. The stock of assets using the new technology obviously takes longer to adjust but, slowly and inexorable, with depreciation and redundancy of old-technology assets (‘stranded assets’ in the modern terminology) the stock adjusts.

Figure 3: Adoption of new technologies



Source: BNEF NZS, RMI

Figure 4: Spread of new technologies



Source: www.ourworldindata.org 19 June 2023.

<sup>3</sup> Simon Sharpe, Five Times Faster, Cambridge University Press (2023).

<sup>4</sup> Kingsmill Bond in remarks made at the CFA Society United Kingdom Conference Investing in the net zero transition (23 May 2023). <https://www.cfauk.org/events/investing-in-the-net-zero-transition#gsc.tab=0>. Also see [https://rmi.org/wp-content/uploads/dlm\\_uploads/2023/06/rmi\\_renewable\\_revolution.pdf](https://rmi.org/wp-content/uploads/dlm_uploads/2023/06/rmi_renewable_revolution.pdf)

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## Black swans, ugly ducklings and green swans

A colourful, narrative description of that process is provided by John Elkington.<sup>5</sup> The old linear economy has often seen ‘black swans’, a term popularised by Nassim Taleb in 2007.<sup>6</sup> Black Swans are unfortunate events that come as a surprise and have major disruptive effects: extreme weather events (drought and flooding) fall in that category. ‘Green swans’ in contrast, are welcome beneficial changes brought by rapid change (the spread of clean energy usage and electric cars, for example). The crossover transition period can seem like an ‘ugly duckling’<sup>7</sup> – elements of the old and new co-existing as new technologies become more widely adopted. At the moment, we seem clearly to be in that ugly duckling phase.

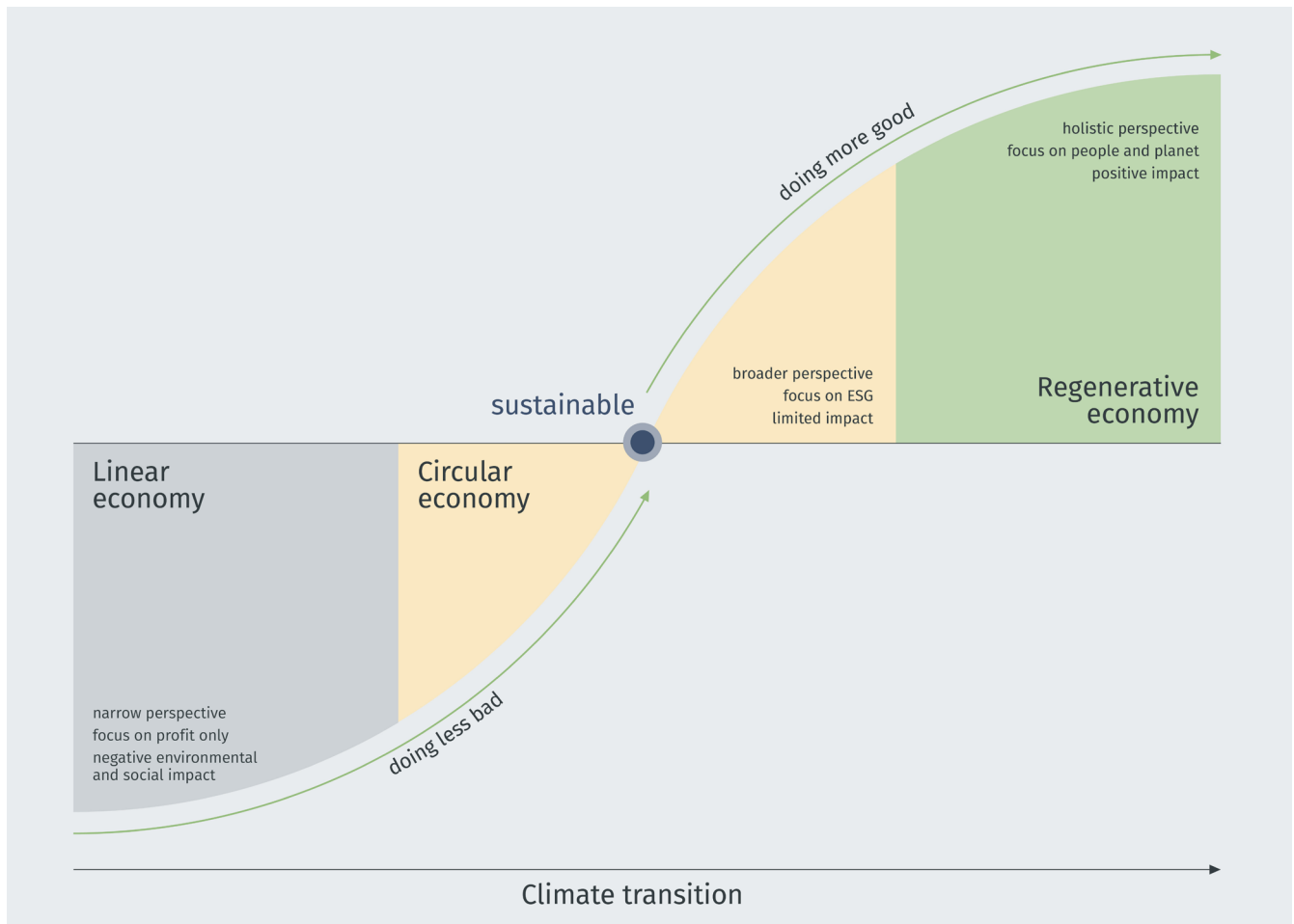
John Elkington also developed the concept of the ‘triple bottom line’: a focus on People, Planet and Profits. The

transition from the old economy to the new seems to be well described as a move from a shift in the primary focus between those three pillars. From a primary focus on financial return (‘profits’) to the current focus on ESG considerations to a more holistic consideration with a focus on ‘people and planet’.

## Conclusion

We are in a period of transition to a regenerative economy that will see the restoration, renewal and regrowth of environmental, social, and economic systems. Taking such a holistic perspective creates a thriving balance between the different systems and allows them to flourish together, rather than one being traded off against the other. The transition phase in which we now find ourselves may well be shorter than many expect, if the adoption of new methods progresses quickly, as has been the case in the past.

Figure 5: The three stages to a regenerative economy



<sup>5</sup> John Elkington, Green Swans, Fast Company Press (2020).

<sup>6</sup> Nassim Taleb, The Black Swan, Penguin (2007,2010).

<sup>7</sup> A reference to the ugly duckling, in Hans Christian Anderson's fairy story. The ugly duckling grew up to be a beautiful swan.

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