

Beyond ESG: Systems Solutions for Sustainability

**Session 4:
Towards the Economy of a Sustainable Culture**

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Convened by Thinking Ahead Institute
June 7th 2022

Plan of Sessions

1. Taking Stock: ESG and the Risk of Greenwash

- Awakening to sustainability challenges.
- The rise of corporate sustainability and ESG.
- The 'shock of net zero' and the return of limits.
- Rising ESG scepticism.
- Are we suffering from greenwash?



4. Building the Economy of a Sustainable Culture

- Businesspeople as critical moral actors in a system of market primacy.
- Building not a sustainable economy, but the economy of a sustainable culture.
- Realigning business and morality to set business free.



3. The Trap of Externality-Denying Capitalism

- Externality-denying capitalism is a 'fix that fails'
- The Invisible Hand and the Unmentionable Foot.
- How we got here? Externality-downplaying economics.
- The 'Double Bind' of Externality-Denying Capitalism.



2. Systems Thinking Foundations

- The unstoppable rise of systems thinking
- Economy as a sub-system of emergent complex social and ecological systems.
- Deep adaptation and 'fixes that stick'
- Upwards learning (innovation) and sideways learning (unlearning to relearn).

Session 4

Key Points of Session 4

- We live *in* a capitalism that is externality-denying in its current pattern of prices and incentives. This constitutes the 'double bind of externality-denying capitalism'.
- A critical dynamic reinforcing this 'bind' is 'Friedman's Feedback Loop' in which corporations have *de facto* power to shape rules to favour profit.
- A major difficulty in changing the future is that it requires 'changing the now' of our expectations, which are encoded in asset prices.
- The required changes do not 'make sense' by prevailing norms and incentives, because those norms and incentives uphold the problem.
- We need to reconceptualize sustainability as a property of the whole not the parts.
- We must break – reverse? – Friedman's Feedback Loop and similar channels of influence to drive systems change.
- The social responsibility of business must be to increase its *fully costed* profits.
- The goal is not a 'sustainable economy', but rather the economy of a sustainable culture.
- Alas, at this late stage, sustainability is now much more of a moral challenge than a market opportunity. Continued insistence that it be a market opportunity merely postpones acceptance of the moral obligation.

Structure

- **The Nature of the Trap**

- Double Binds
- Friedman's Feedback Loop

- **The Shape of Solutions**

- Breaking Out of a Double Bind
- Re-Conceptualizing 'Sustainability'
- The Social Responsibility of Business
- The Difficulty of 'Changing the Now'

- **Concluding Thoughts**

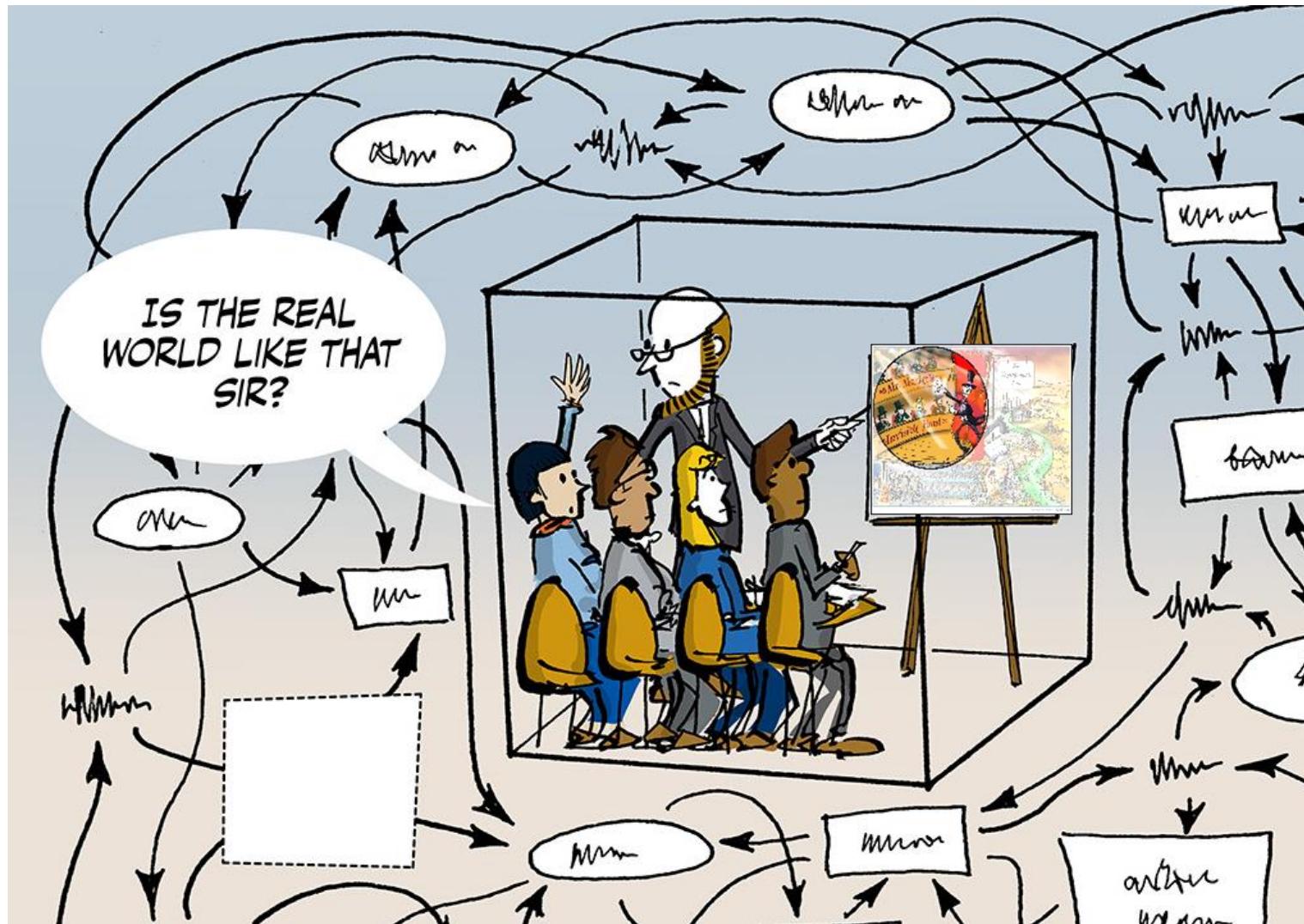
fully costed

The social responsibility of business is to increase its ~~profits~~.

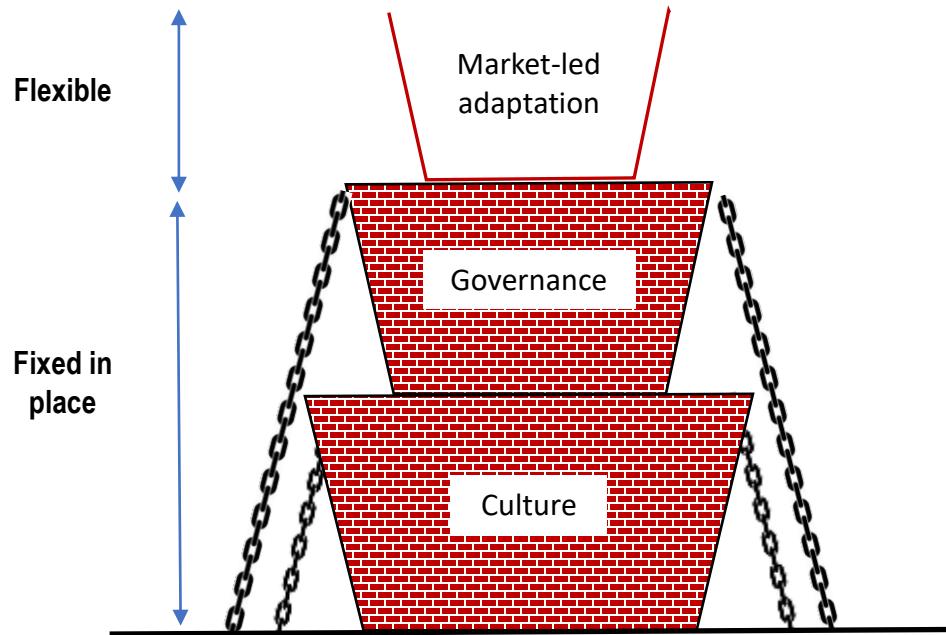
(i.e. two responsibilities, not one)

Recap of Session 3

Is The Current Economy a Good 'Model' of the World?

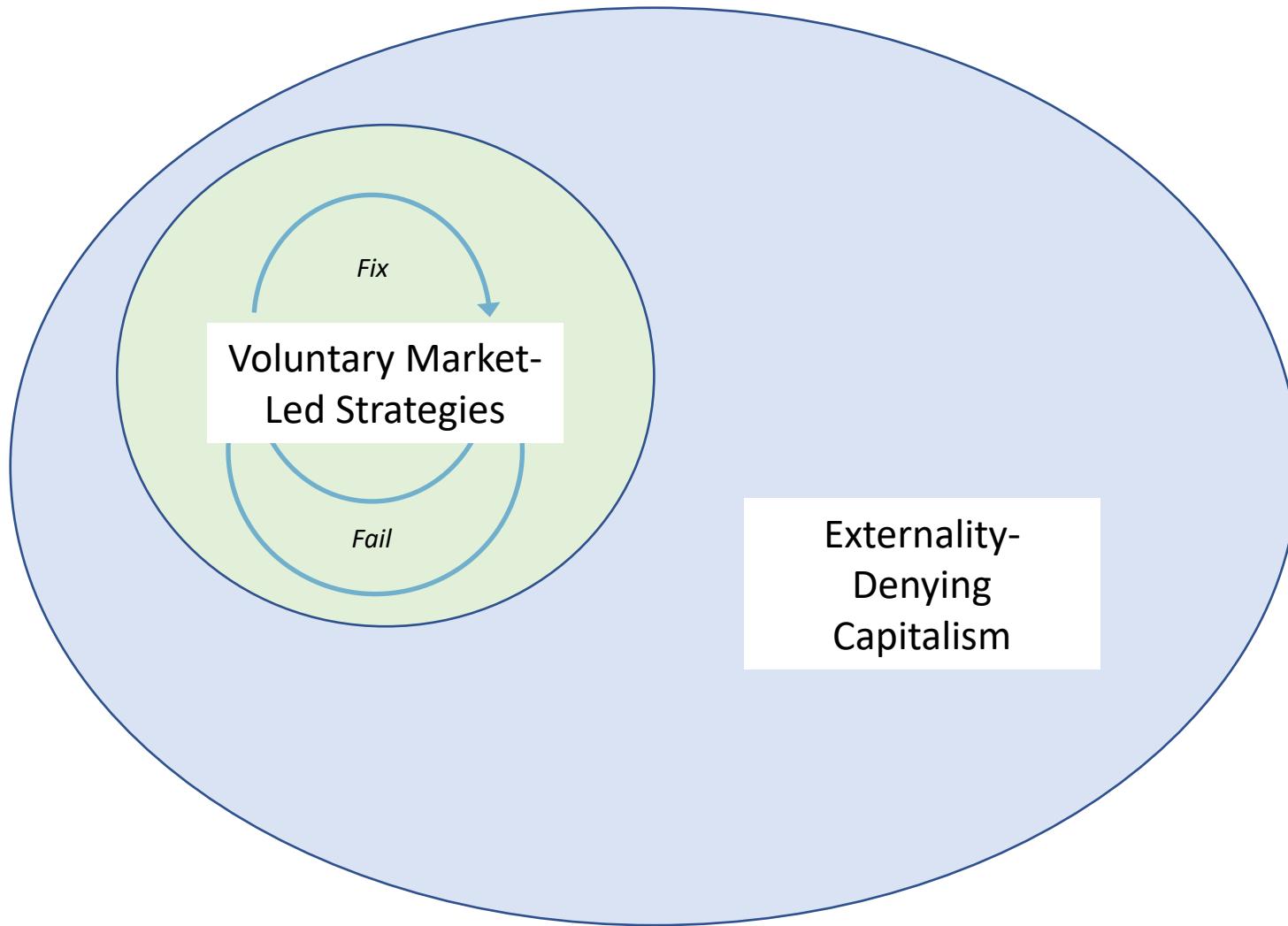


The Adaptive Rigidity of Neoliberalism



- Elevation of markets to primacy has had the effect of 'fixing in place' lower decision-making levels, so limiting adaptive capacities.
- No single layer should be granted permanent primacy. Systems require different layers for different scales of adaptive response at different times.

Essence of Sustainability Challenge





SECTION 1: The Nature of the Trap



Layers of ‘Fixes that Fail’ Can Create ‘Double Binds’

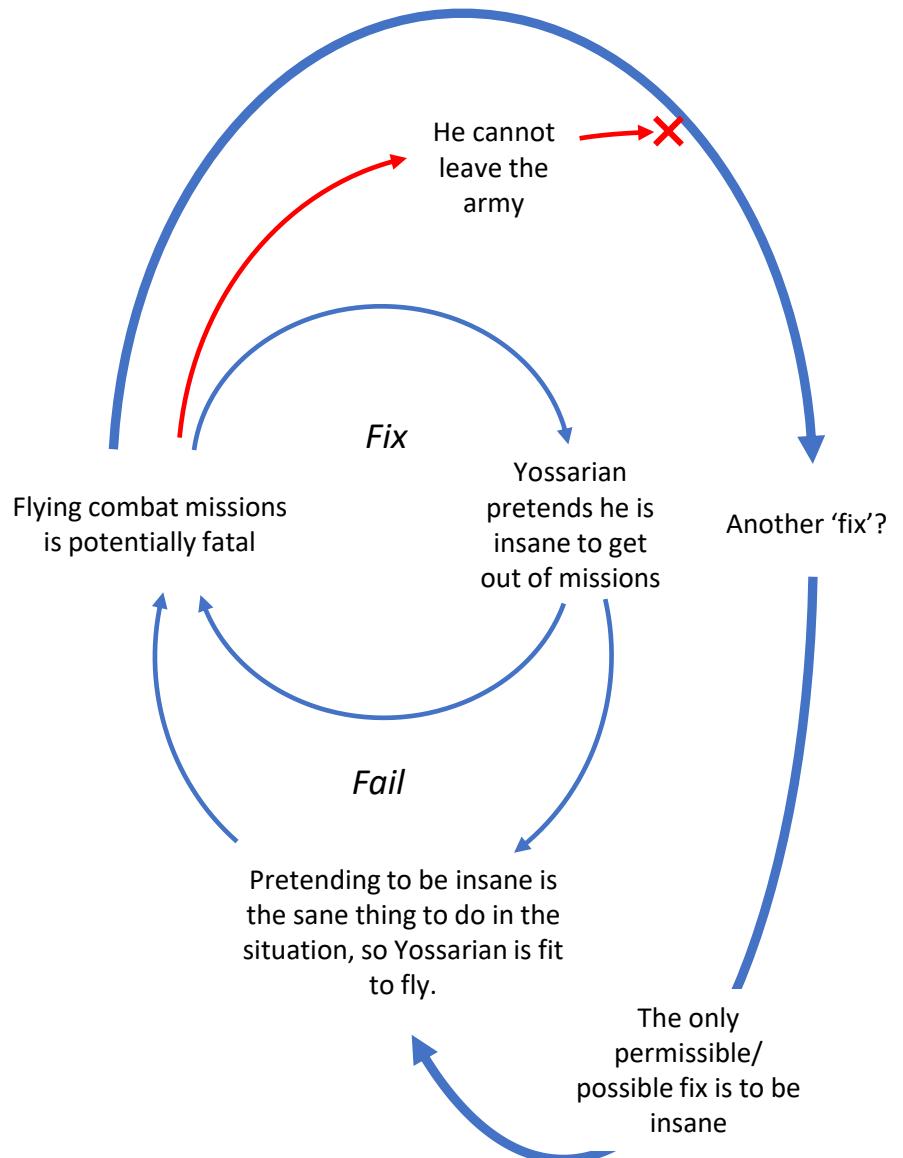
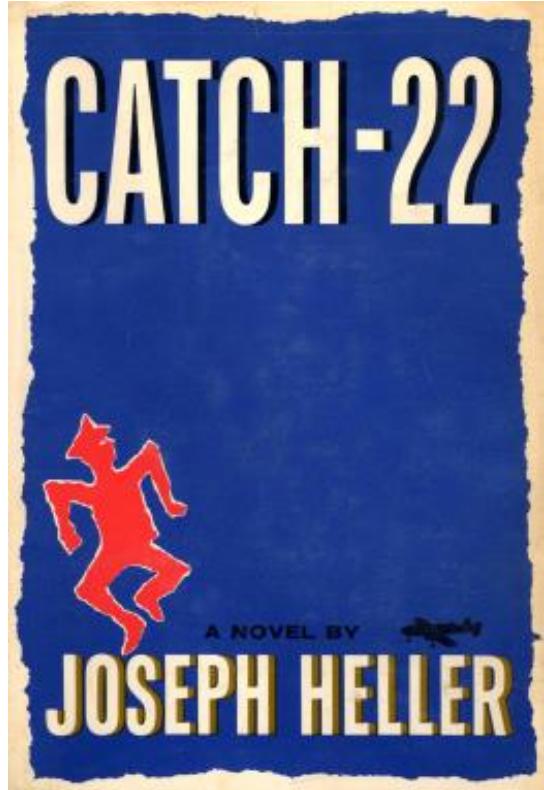
In a nutshell, we are trapped in a ‘Double Bind of Externality-Denying Capitalism’

Trapped in the Loop of Externality-Denying Capitalism

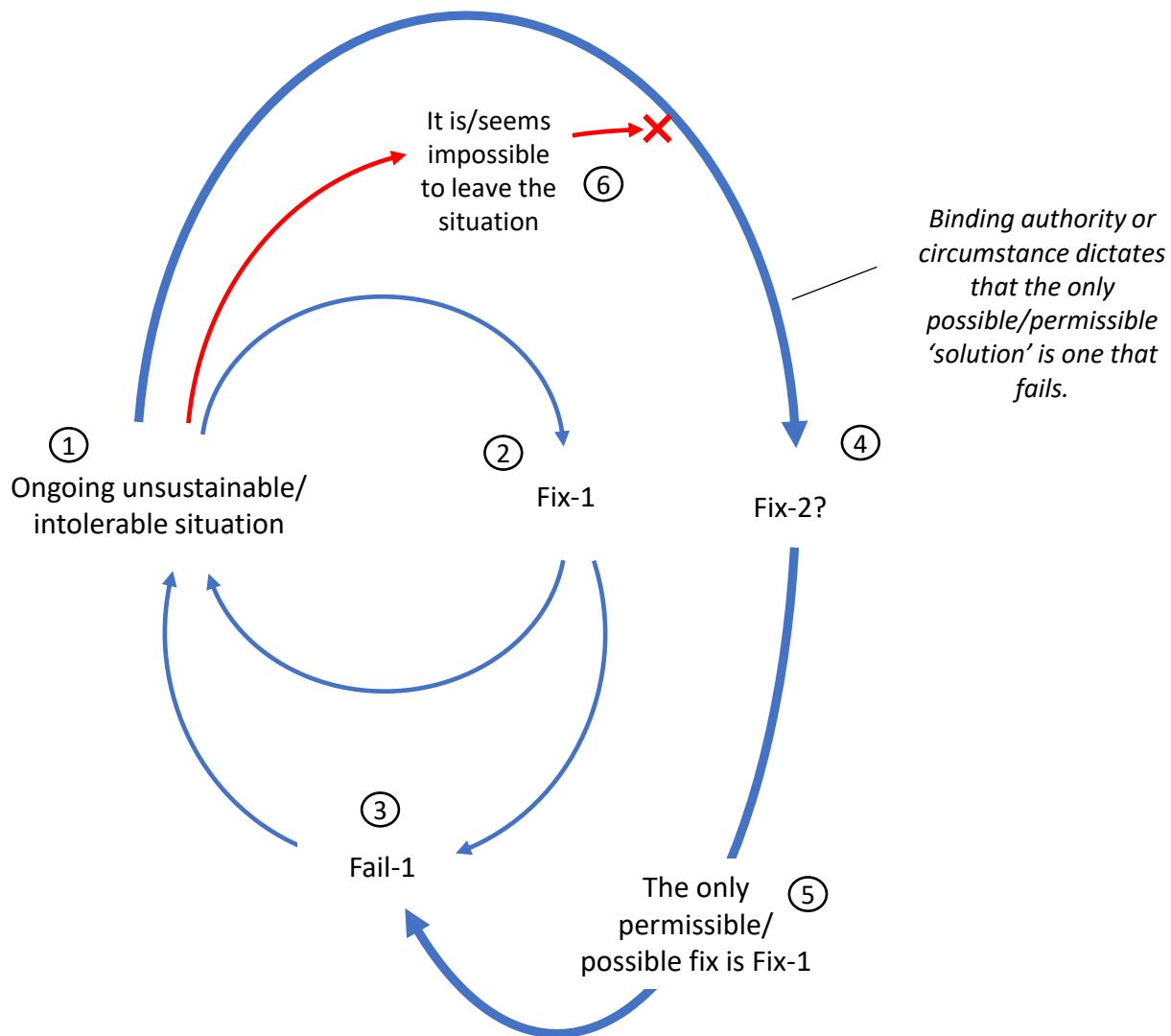


- “Externality-denying” is, of course, provocative.
- Possible objections:
 - We know about externalities, per economic textbooks;
 - Over time we have ‘internalized’ many externalities;
 - Broader redistributive mechanisms seek to compensate for externalities.
- Hence, more accurate – if cumbersome – might be:
 - ‘Resistant-to-internalization-of-externalities-capitalism’
- However, ‘externality-denying’ seeks to emphasise that behaviour is the ultimate expression of values, and our collective behaviour remains highly externality-denying given what we know about the world.
 - *“Actions speak louder than words.”*
 - *“Don't tell me what you believe in. I'll observe how you behave and I will make my own determination.” (Alex Trebeck)*
 - *“If you change your thinking, but not your behaviour, you haven't really changed your thinking.” (Anon)*

Double Binds Example: Catch-22

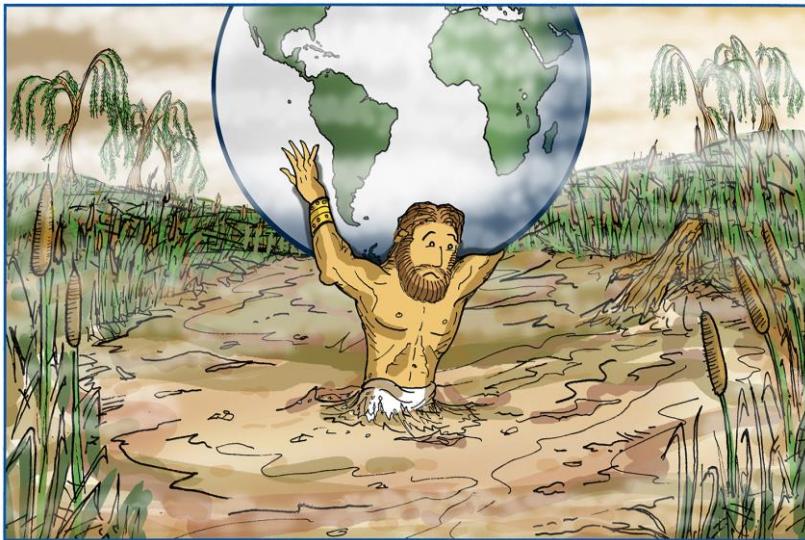


General Form of Double Bind

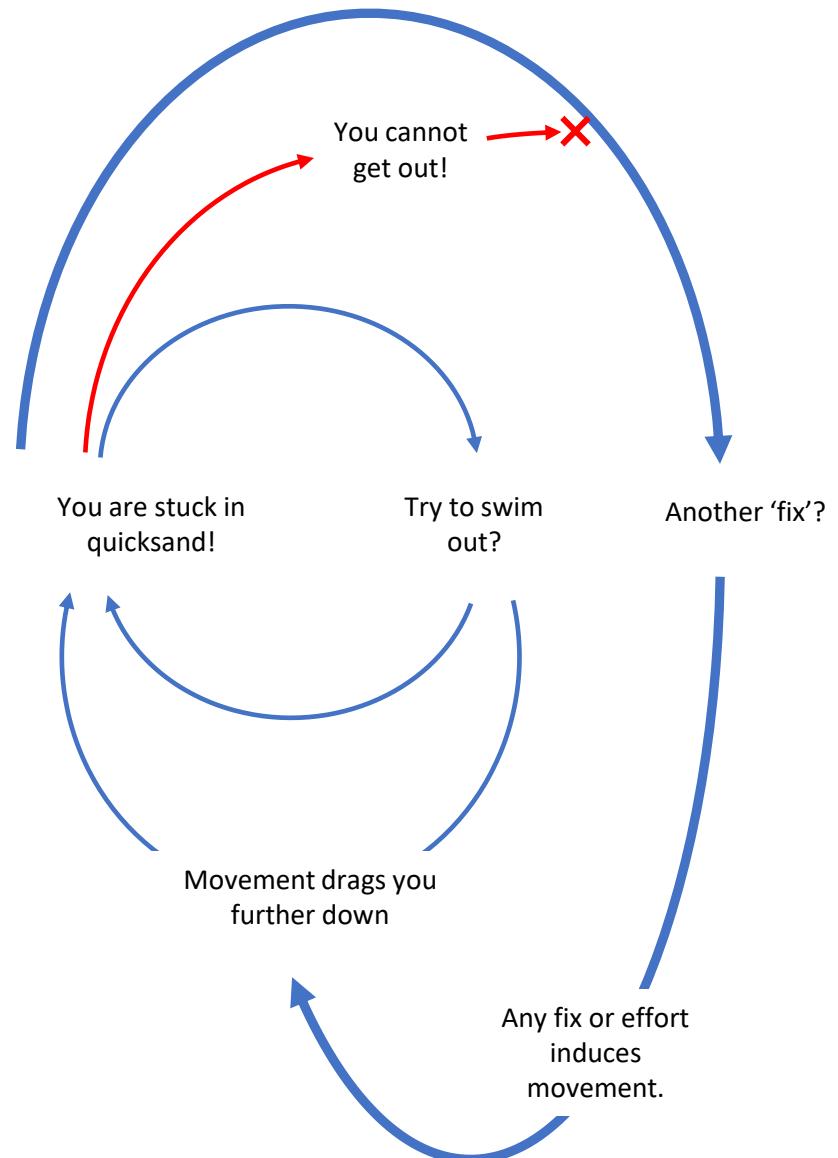


- Double bind dynamics are deeply frustrating and often implicated in mental health problems.
- They create the illusion of meaningful choice or agency, but they are ultimately 'can't win' situations.
- So victims are induced to keep trying, often with increasing effort and urgency, but nothing solves the core problem.

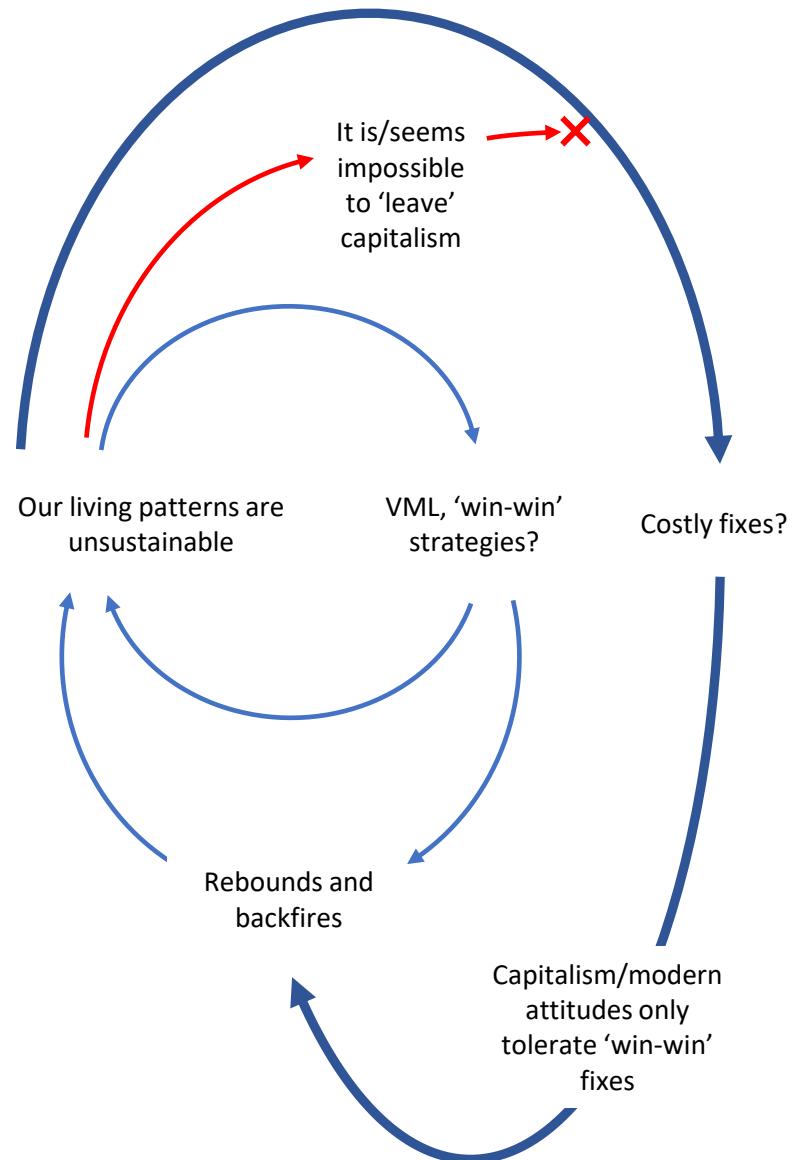
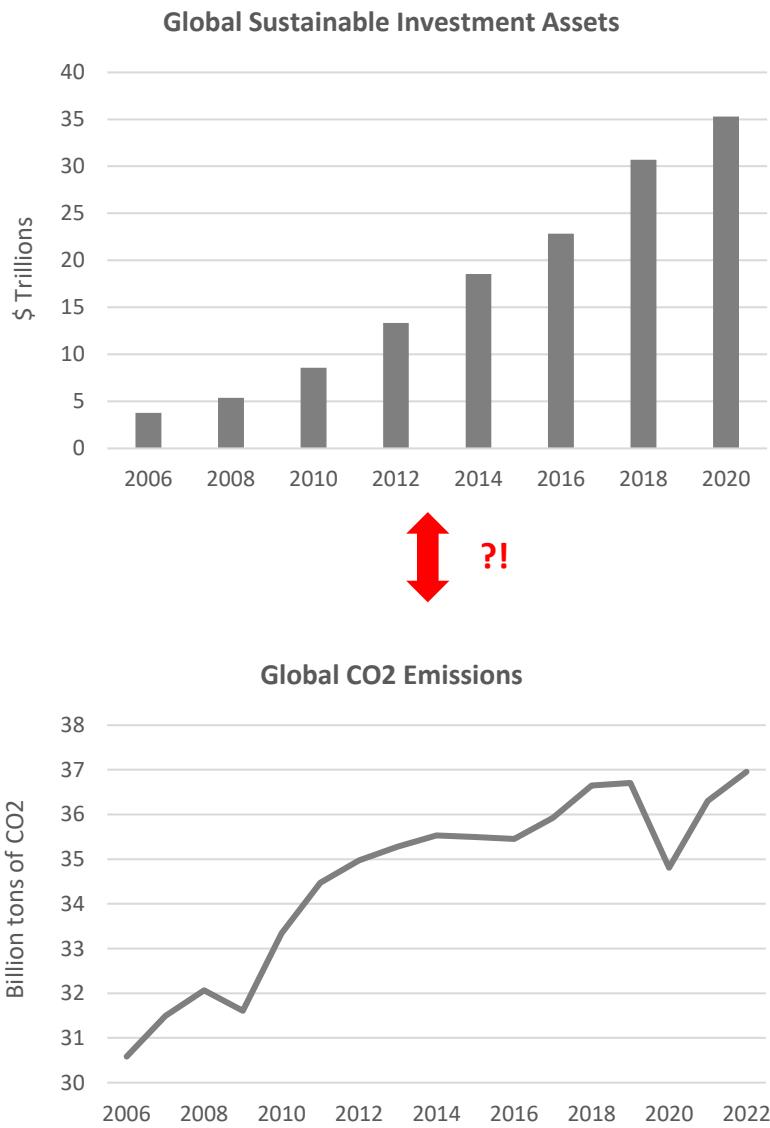
Double Bind Example: Quicksand



*Increasing effort and urgency within the binding situation **may just aggravate the problem!***



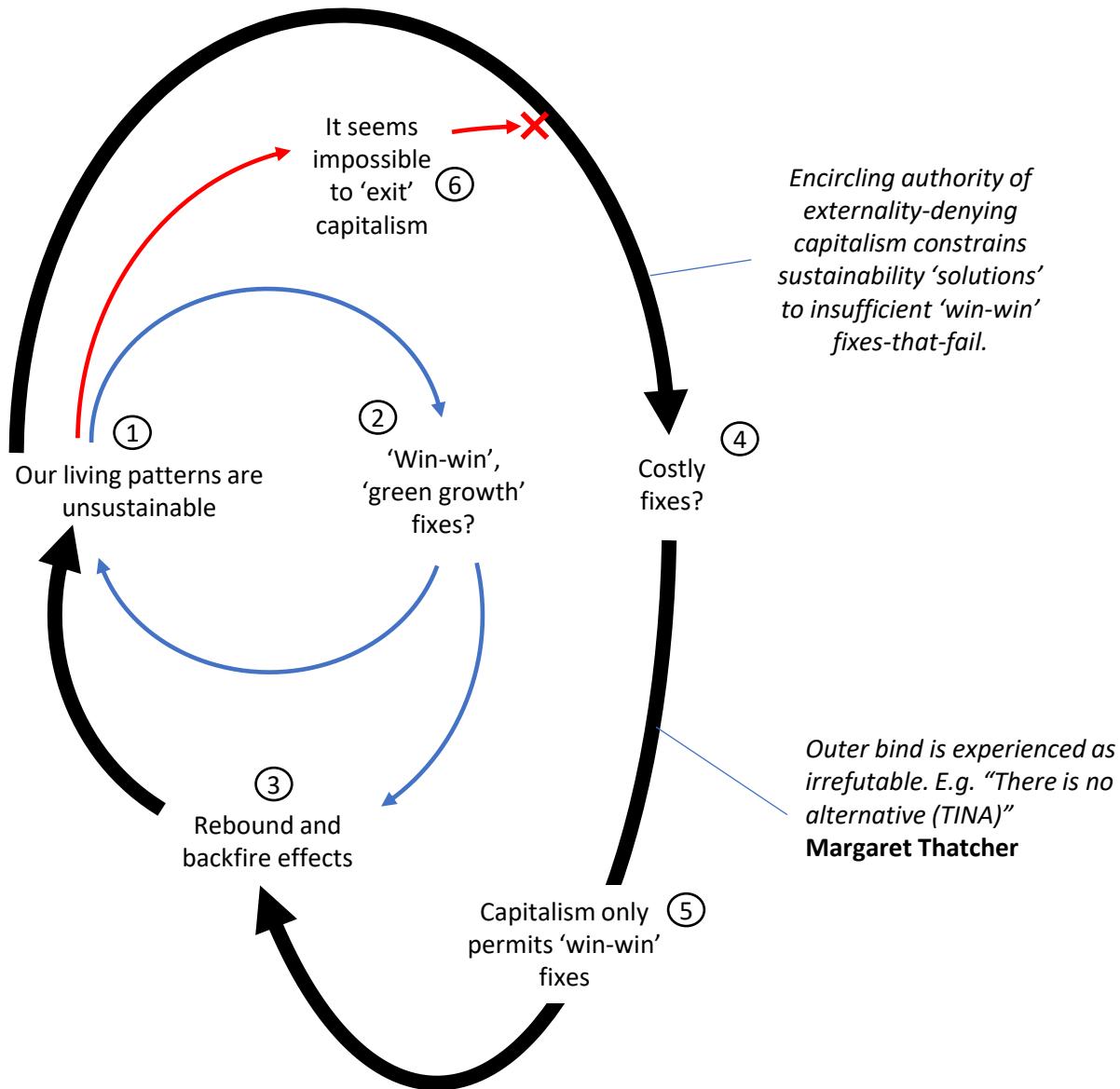
Double Bind Example: VML Strategies



The 'Double Bind' of Externality-Denying Capitalism

"We live in capitalism. Its power seems inescapable. So did the divine right of kings. Any human power can be resisted and changed by human beings."

Ursula K. Le Guin



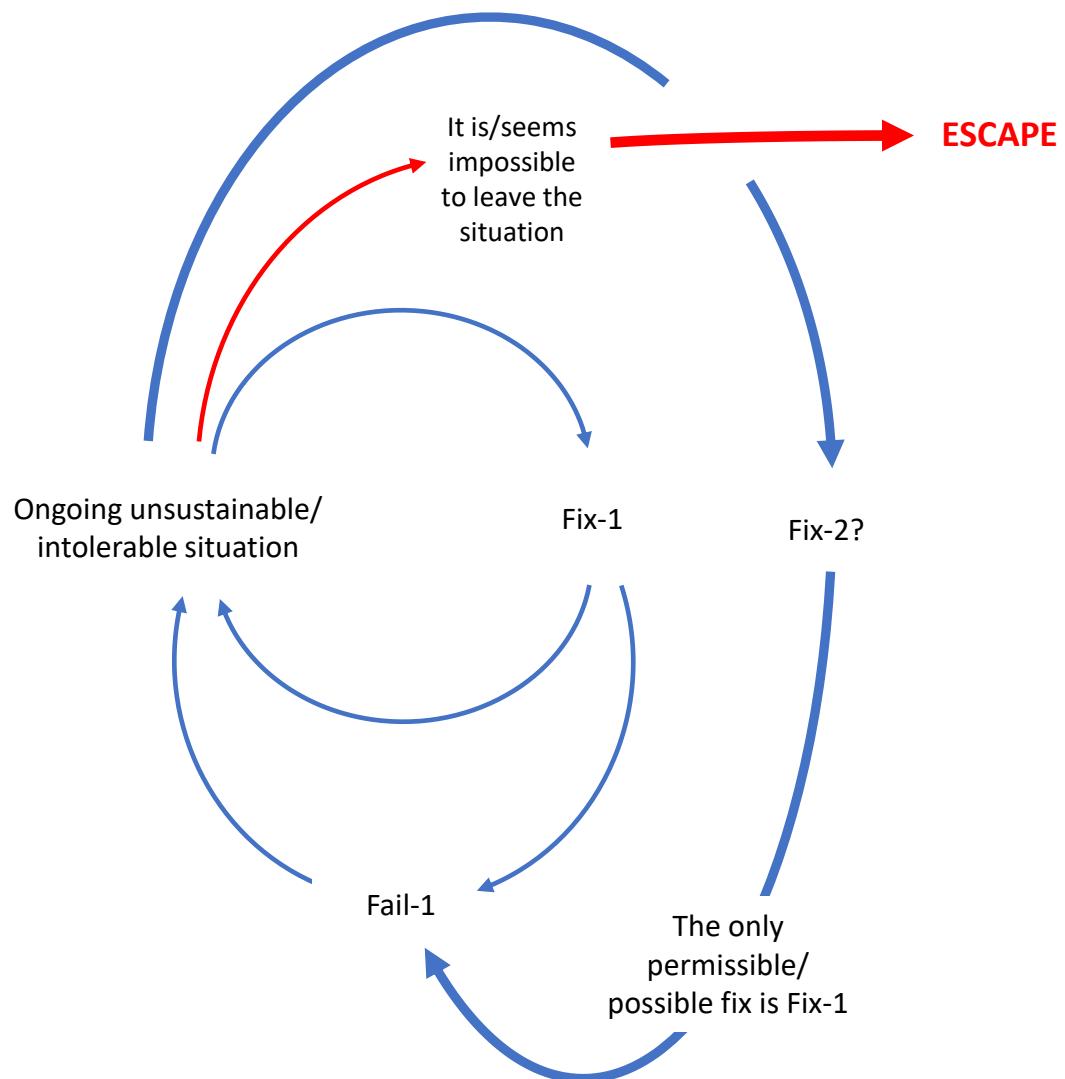
Double Binds are Maddening!



Bateson and co-authors of the 'double bind' theory.

- The hallmark of 'double bind' problems is that they are deeply frustrating and exasperating.
- Indeed, the 'double bind' was first formulated by Gregory Bateson et al., in the 1950s as a proposed driver of schizophrenia.
- Not considered a primary driver today, but 'double binds' are widely recognized as the core dynamic of many mental health problems and dysfunctional relationship patterns.
- The frustration or powerlessness *felt* in double bind situations is the signal that the guiding, rational behaviour is failing to break out from, some unrecognized or unacknowledged deeper problematic thinking.
- The increasing sense of powerlessness, angst, and anxiety in the face of the Anthropocene is part of the adaptive process we must listen very carefully to.
- *"It is traumatising to see that you are caught up in a way of living, whether you like it or not, that makes you a victim and a perpetrator of damaging the Earth."* Sally Weintrobe, psychologist
- **The deeply unsettling feeling of the sustainability crisis is central to the adaptive process, not peripheral. We must attend to it, and not dismiss as mere emotion. It is an emotional signal indicating that our reasoning is faulty, summoning us to re-think assumptions considered long settled.**

General Form of Solution: Break or Escape From the Binding Circumstance



E.g.,

- Catch 22 example:
Change the Army's rules, or
desert.

- Quicksand example
Connect with solid ground (e.g.
tree, person);

- Current situation
Overcome the logic of
Externality-denying Capitalism.

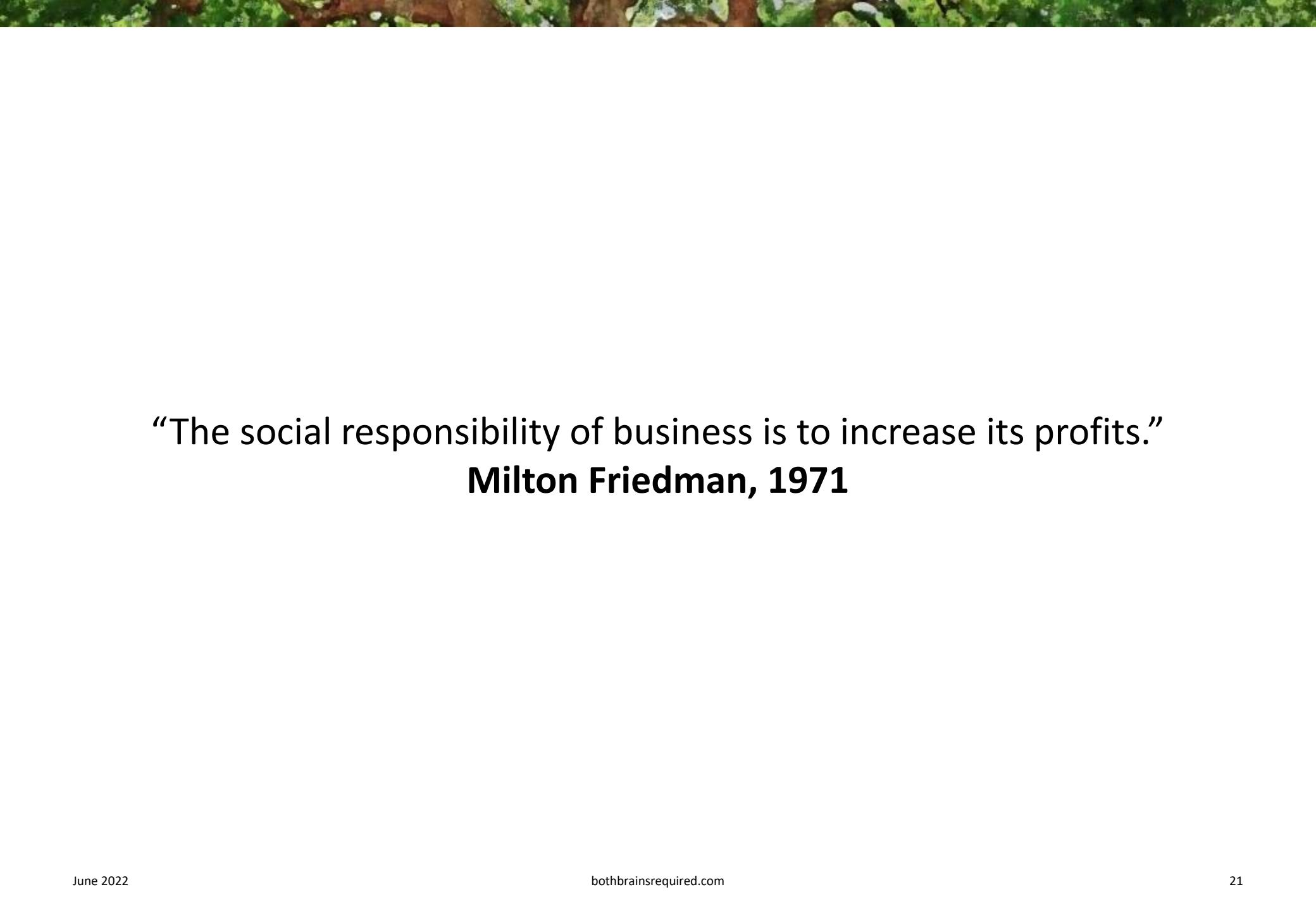
How do you Escape from Double Bind Situations?



- Quicksand provides a good metaphor for how to escape a double bind.
- You need to reach beyond the encircling situation bind and establish a connection with *solid ground*, from which to pull yourself out.
- From *outside* the secondary loop, you can see the whole dilemma for what it is. You are no longer consigned to paradoxical behaviour.
- In other words, escape is a *re-grounding* process.
- In movies, dysfunctional relationships, severe mental illnesses, the *re-grounding* may be unattainable, perpetuating dramatic or real-life frustration or misery.
- **In many respects, the sustainability challenge is whether we can reach beyond the behavioural loop of externality-denying capitalism to reground our interactions with each other and the real world.**

Friedman's Feedback Loop

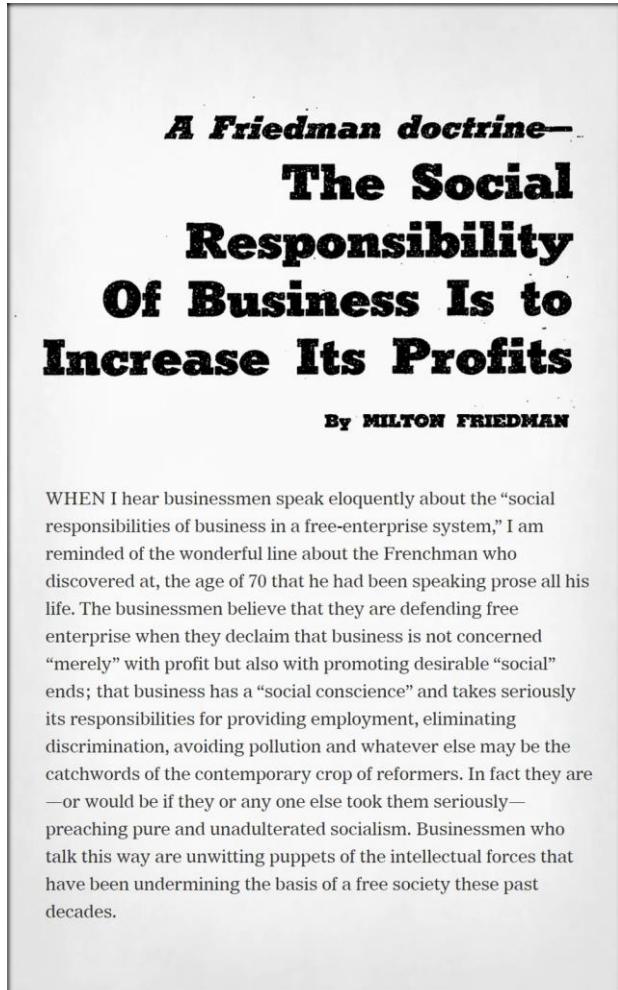
A Key Dynamic Perpetuating the Double Bind of Externality-Denying Capitalism



“The social responsibility of business is to increase its profits.”

Milton Friedman, 1971

Friedman's Feedback Loop



The claim:

- ‘The social responsibility of business is to increase its profits’

The key condition:

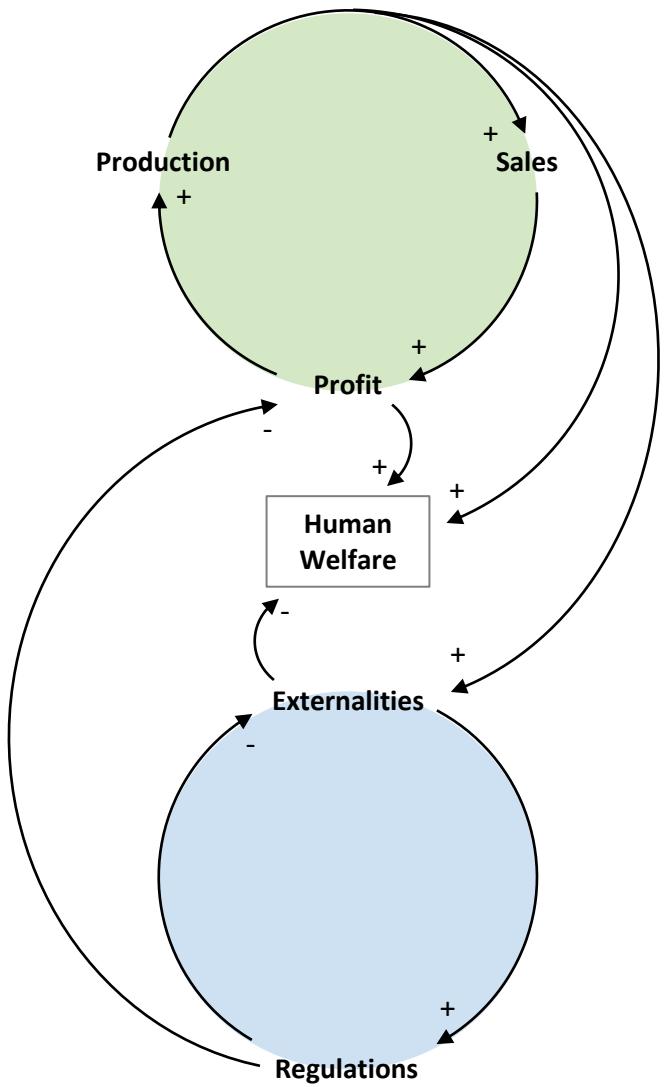
- “[The] responsibility...will be to make as much money as possible **while conforming to the basic rules of society, both those embodied in law and those embodied in ethical custom.**”
- “There is one and only one social responsibility of business...to increase its profits **so long as it stays within the rules of the game...**”

The problem:

- If the ‘rules of the game’ permit corporate influence over the ‘rules of game’, we have a systems-threatening feedback loop.
- For, if the expected return on expenditures committed to influencing regulations is greater than a company’s weighted average cost of capital (WACC), and if lobbying against regulations is permitted under the ‘rules of the game’, then the notion that companies have a social responsibility to maximize profits **equates to firms having a social responsibility to resist any regulation that appears costly.**
- Not all companies will choose to act this way, but enough will and, *over enough time*, it will change the character of the whole system.

[From Session 3:] If one or more positive feedback loops start to overpower the balancing loops in a system, the whole system can dysregulate.

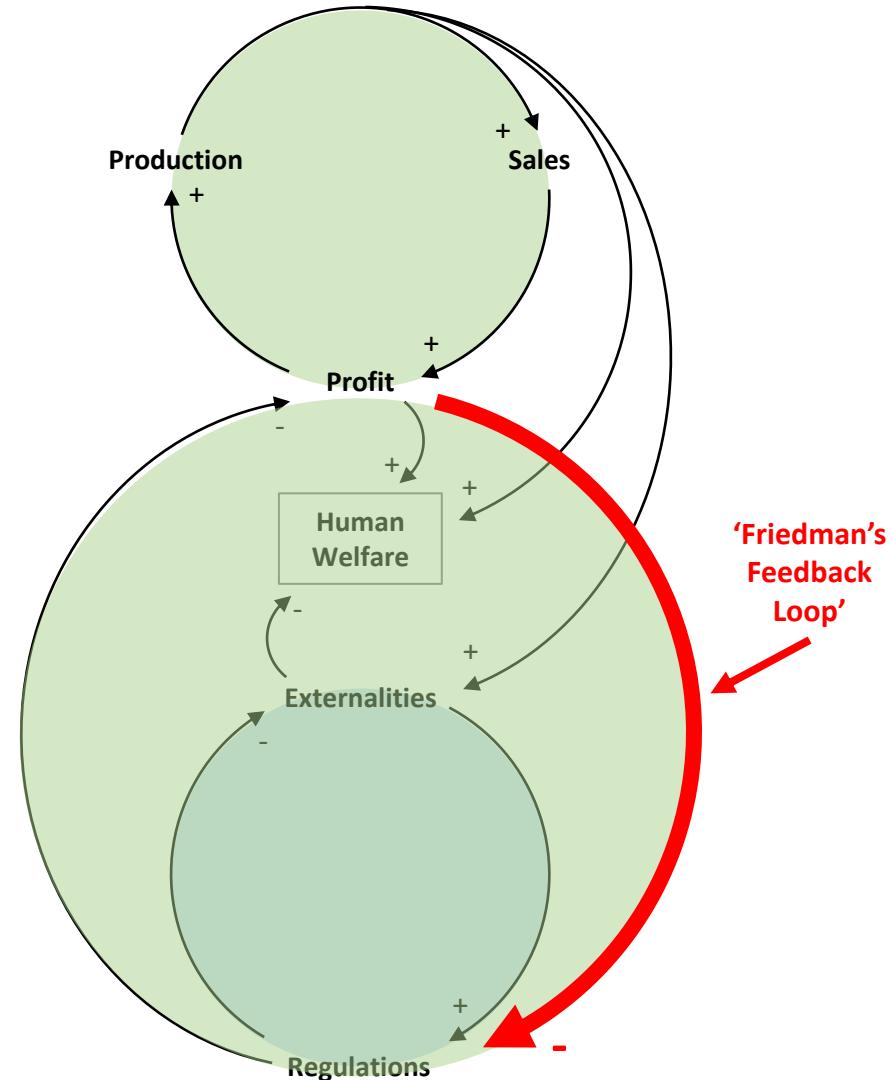
Friedman's Feedback Loop



Private

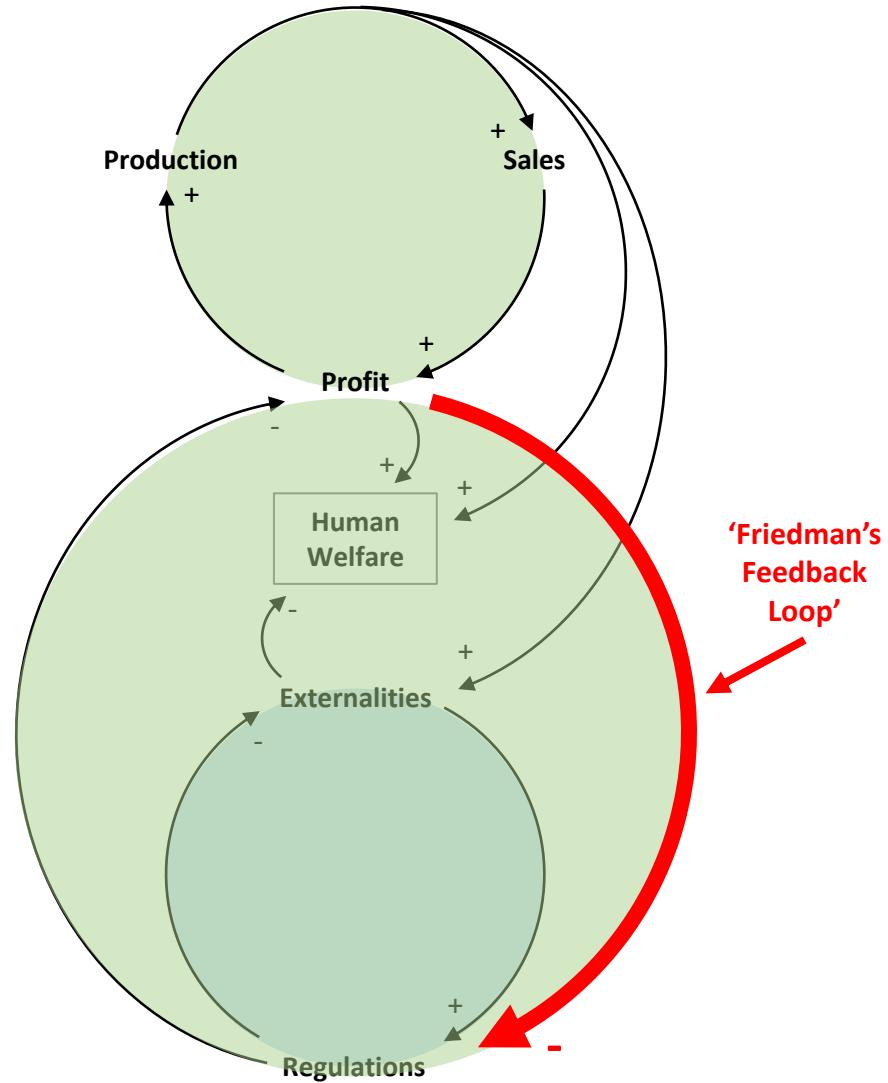
Vs.

Public



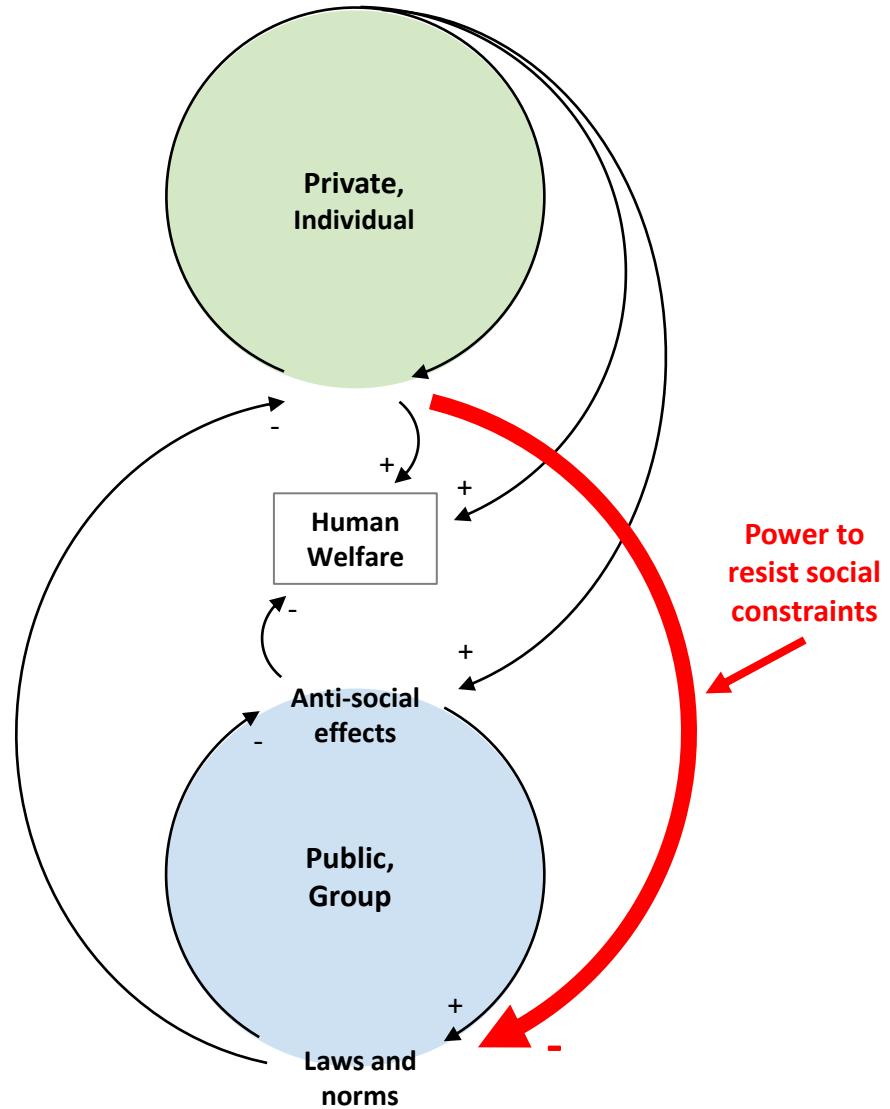
Friedman's Feedback Loop

- **Capitalism is not a static concept** but a set of procedures, whose running over time can change the character of the capitalism that actually transpires.
 - This loop has propelled a succession of regulatory and legal changes that has shifted balanced earlier forms of capitalism towards today's corporatism or neoliberalism.
- Friedman's claim is increasingly tautological – what is profitable increasingly defines what is socially responsible.
 - The meaning of 'social responsibility' collapses from something that citizens and governments might define in the public interest into anything that increases profits.
- The domain of viable socially responsible initiatives is restricted to only those actions that might be profitable.
 - The VML movement is trying to remedy the social and environmental problems generated by a profit-driven market system, but, perversely, find they can only implement investments or projects that are profitable!
- **ESG is caught in the Loop!**



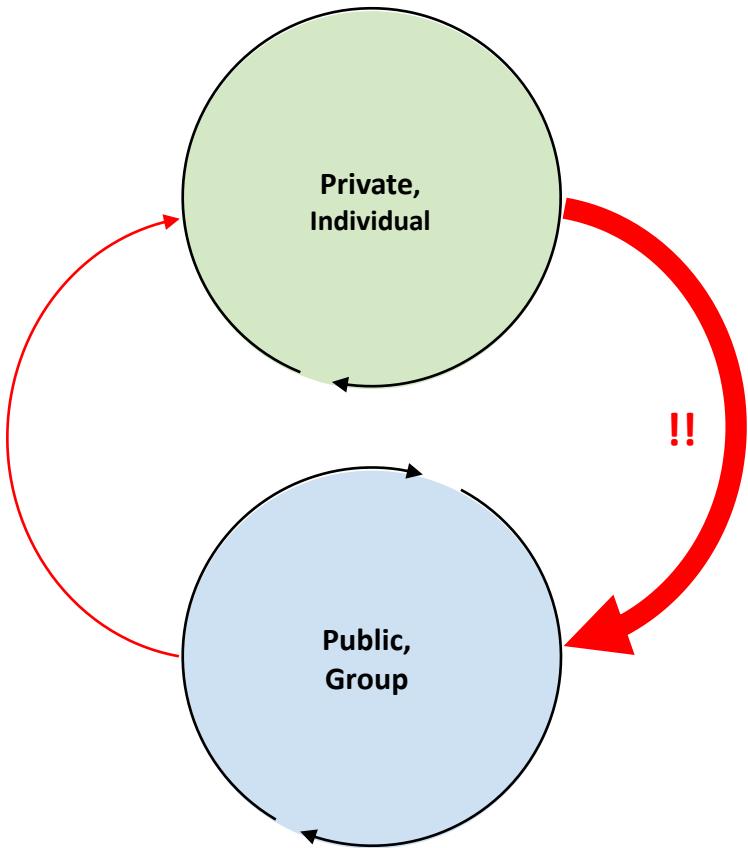
General Form of the Problem

- The general form is the innate tension *in all systems* between the interests of the individual/part and the group/whole.
- Democracy exhibits the same vulnerability...
- Democratic and market processes that evolve to become merely the ‘adding up’ of expressions of narrow self-interest (i.e. votes, spending and saving decisions) can fall into a runaway spiral of ever more extractive behaviour as the ‘good of the parts’ overwhelms a broader ‘good of the whole’.



General Form of the Problem

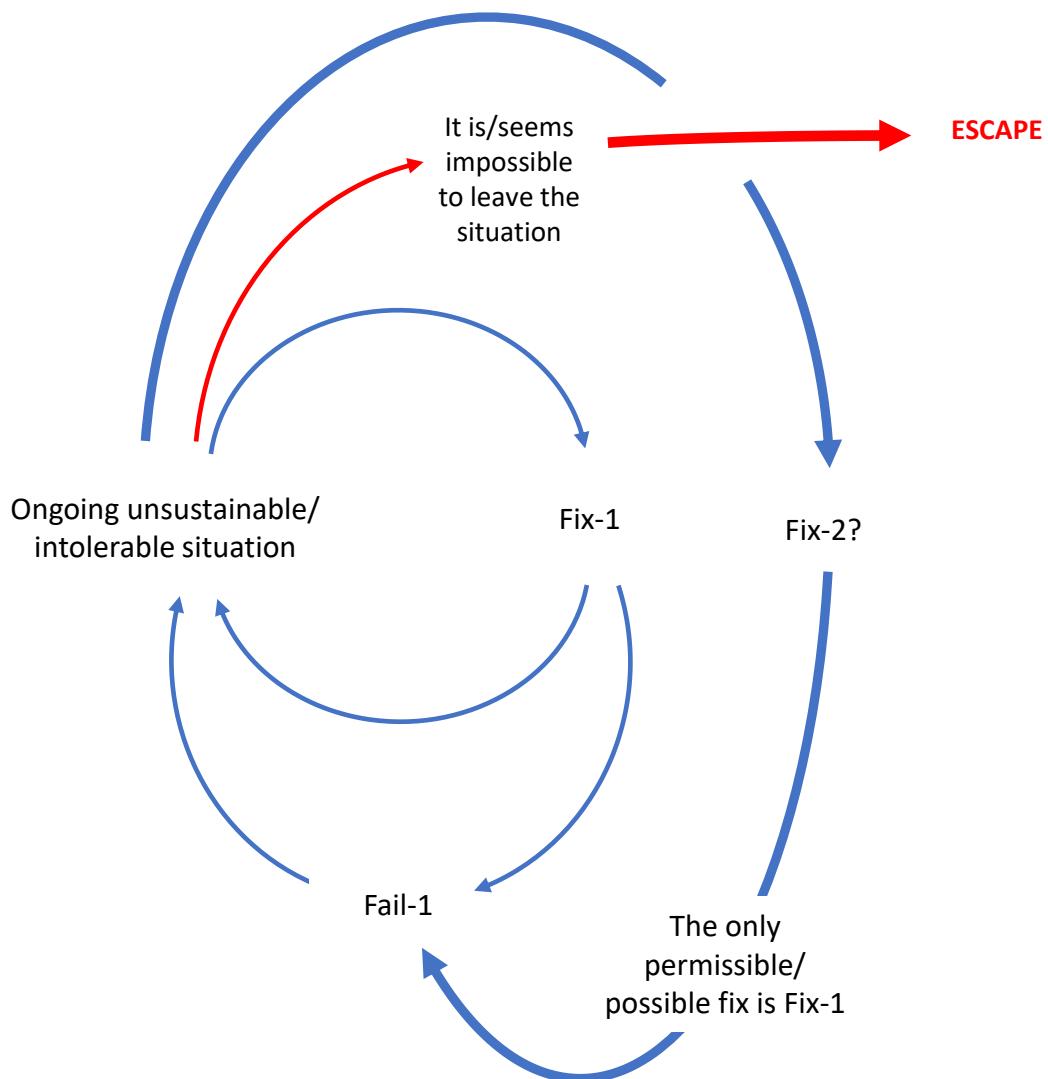
- Sustainable systems succeed in maintaining a healthy balance between the 'good of the parts' and the 'good of the whole' in the face of continual internal and external disturbances.
- 'The unit of selection is organism *plus* environment.'
Gregory Bateson.





SECTION 2: The Shape of Solutions

Characteristics of Solutions



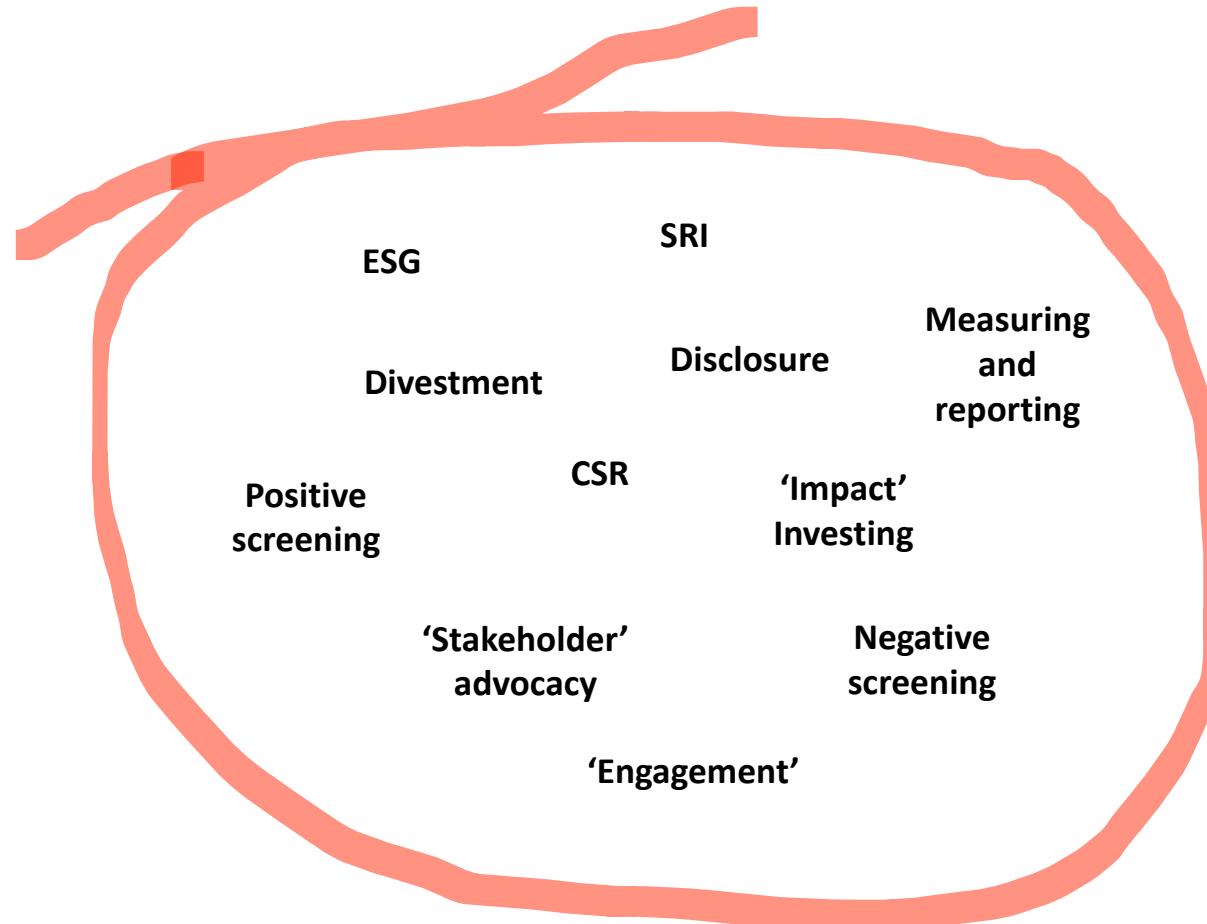
- **Real solutions will not 'make sense'!**
 - Solutions to escape a 'double bind' can't make sense by the prevailing logic, precisely because the prevailing logic is the driver of the problem.
 - Looking for solutions that make sense by the prevailing paradigm only reinforces the unsustainable logic of the paradigm, by imbuing that logic with further authority that comes from repeated compliance.
 - Genuine solutions will make sense by tomorrow's logic, as will become clear with future hindsight.
- **Effortful, painful**
 - Escape is effortful, painful and costly because it is norm- and incentive-defying.
 - Not 'win-win', but 'lose to win'.
- **Collective effort required**
 - Because solutions are costly, to overcome 'free riding', requires establishment of *collective* policies and norms.
 - Even earnestly pursued piecemeal solutions tacitly reinforce the sufficiency of piecemeal solutions as a meta-strategy.

Reboot the Terminology



- *“How useful it would be from time to time to set up all the most common political and cultural terms in a row for reappraisal and disinfection.”* **Johan Huizinga**
- The sustainability terminology - ‘Sustainable’, ‘Eco-’, ‘ESG’ etc. has become so diluted as to be almost meaningless.
- Multiple problems:
 - Greenwashing and greenwishing
 - ‘More sustainable than before’ versus ‘sustainable enough before it is too late’.
- Reconceptualize ‘sustainability’
 - Sustainability is a property of the whole, not the individual parts
 - i.e. not a property of a single business or investment decision or consumption choice.
 - It is impossible to be a sustainable business upon an unsustainable planet.
 - (*Unsustainability can be a property of individual parts, but sustainability is a property of the whole, i.e. everything must avoid being unsustainable*).

Voluntary Market-Led Response



- Are any of these strategies truly 'sustainable'?
- Often justified by insufficient evidence:
 - 'Better than before' not 'sustainable enough in time'.
 - Not contextualized by system-level thresholds and allocations.



The Social Responsibility of Business is...

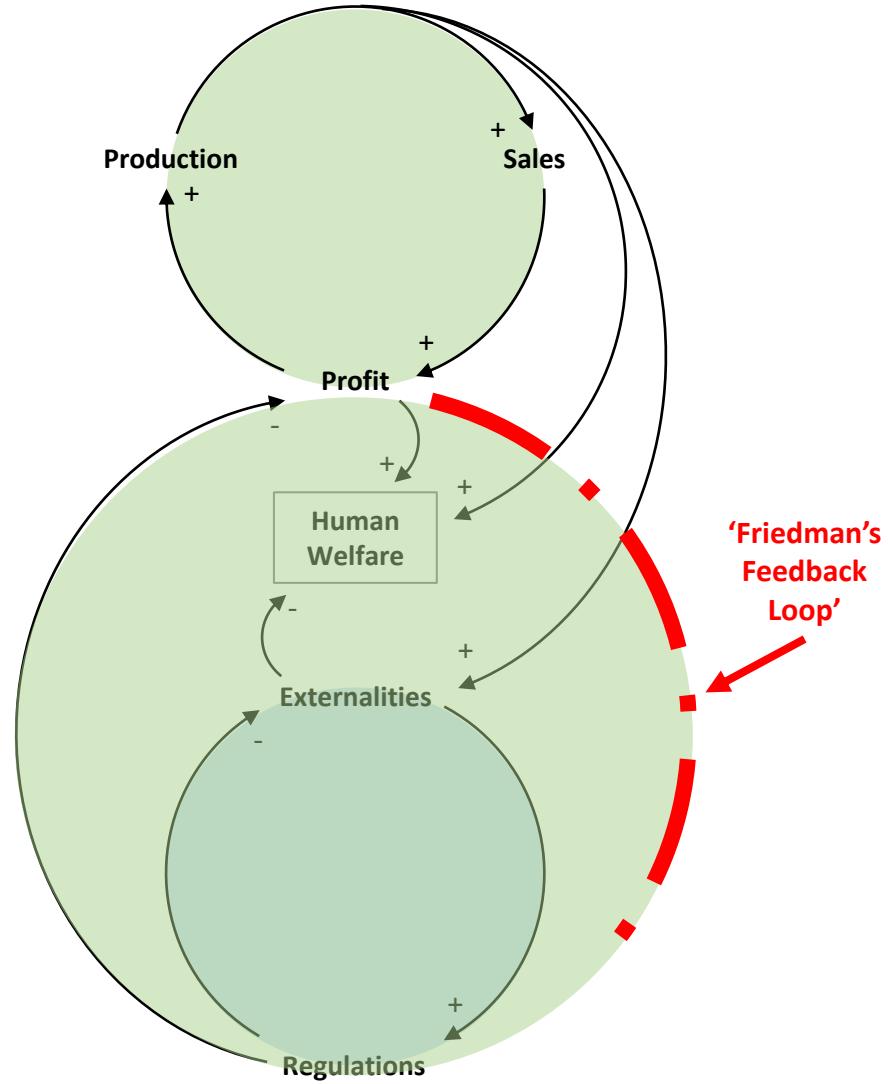
fully costed

The social responsibility of business is to increase its ~~profits~~.

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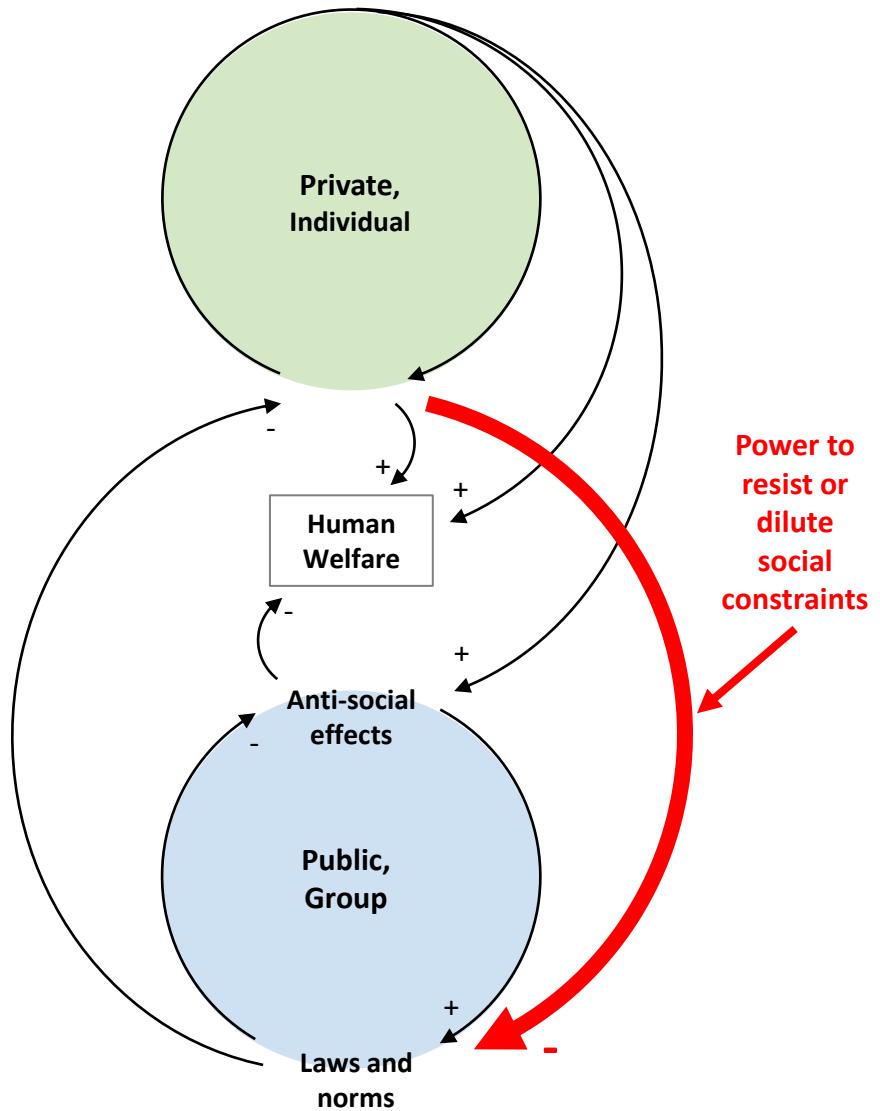
Breaking or Reversing Friedman's Feedback Loop

- Baseline: Break the Loop
 - Establish a new norm that it is unacceptable for corporations to lobby and advocate for measures that inhibit the internalization of well-identified externalities.
 - 'Advocacy footprint' – scale, sincerity – increasingly matters more than 'carbon footprint'.
 - E.g. InfluenceMap work
 - Changing the laws that define *the relationship between* corporations and government is a critical aspect of making the human system more sustainable.
- Better still? Reverse the Loop
 - Because corporations exert huge *de facto* influence on our compromised system and given the emergency nature of our sustainability challenges, can these 'meta-individuals' act morally against their financial interests?
 - Would require 'collective activism' of corporations and investors, based upon a much greater understanding and acceptance of the unsustainable dysfunction of the system.
- Tip-toeing towards the recognition of a moral role for corporations:
 - "Universal owners"
 - "Macro-stewardship"
 - Global Standard on Responsible Corporate Climate Lobbying
 - [US BSR Statements, GFANZ, but weak?].
- ... but have these efforts yet decisively broken free from the 'win-win' mentality?



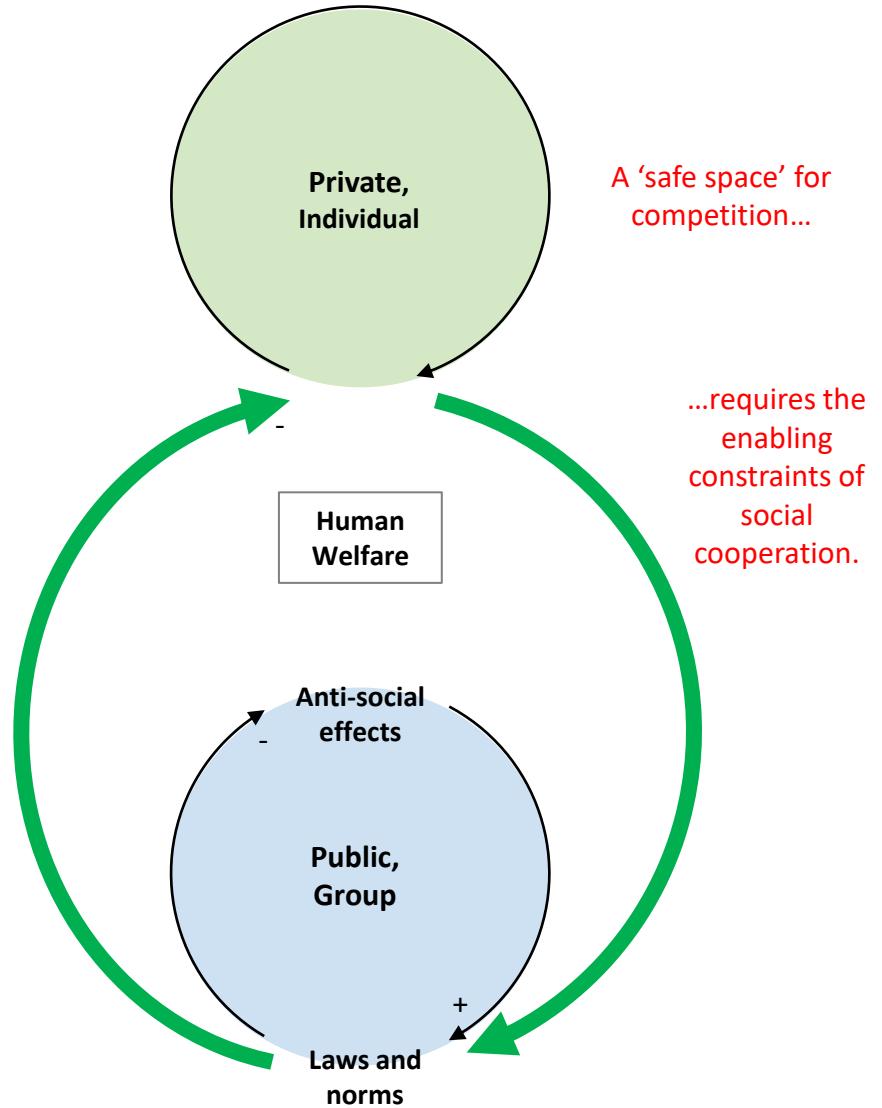
General Form of the Problem

- Friedman's Feedback Loop is just one means by which narrow private interests in a liberal democracy can slowly overpower broader notions of social good, which transcend just 'adding up' expressions of private interest (spending or saving decisions; voting).
- **To become sustainable while preserving enjoyed freedoms to engage in how society is run requires an 'internalization' of morality by individuals and corporations (aka. 'meta-individuals').**
- This is the cost of freedom.
- **That the 'good of the whole' is more than the sum of the expressed 'good of the parts' is the fundamental vulnerability of liberal democracy in the face of difficult and costly moral challenges.**



Social Responsibility of Business Has a Nested Structure

- The social responsibility of business must be to increase its fully costed profits.
- This responsibility has a nested structure.
 - To ensure economic activities are fully costed requires cooperation to develop the enabling constraints of laws and norms...
 - ...which then creates a safe space to permit profit-driven competition.
 - **The cooperative layer must have primacy.**
 - Analogous to sporting structures with an umpire/rule layer and a competitor layer.
- This 'frees' business to just be business again.
- **We don't need 'sustainable businesses' or a 'sustainable economy' but rather the businesses and economy of a sustainable culture.**

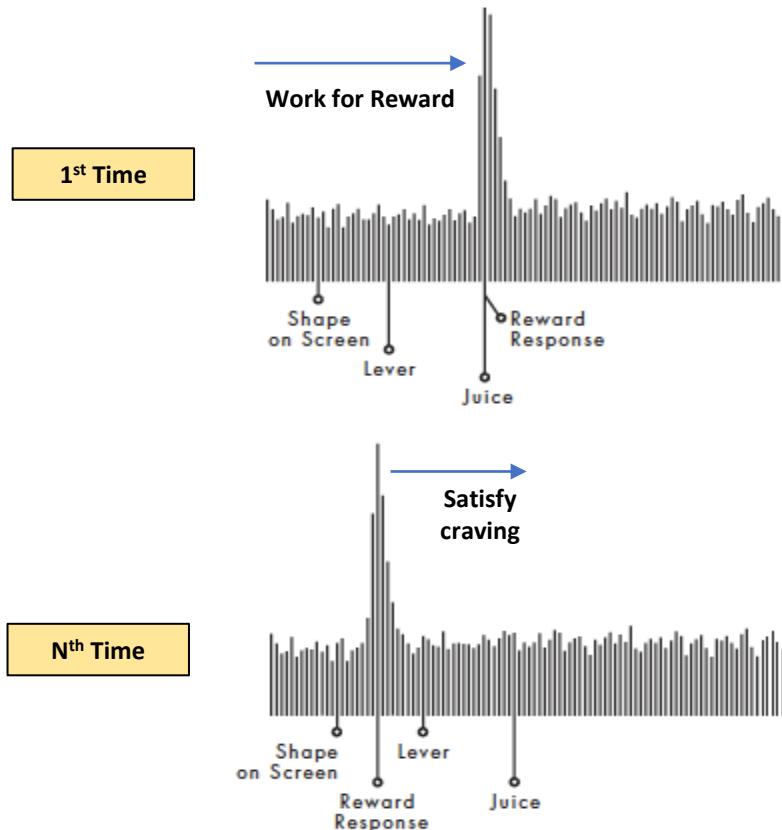




Changing the Future Requires 'Changing the Now'

'Changing the Now' requires a painful change in current expectations.

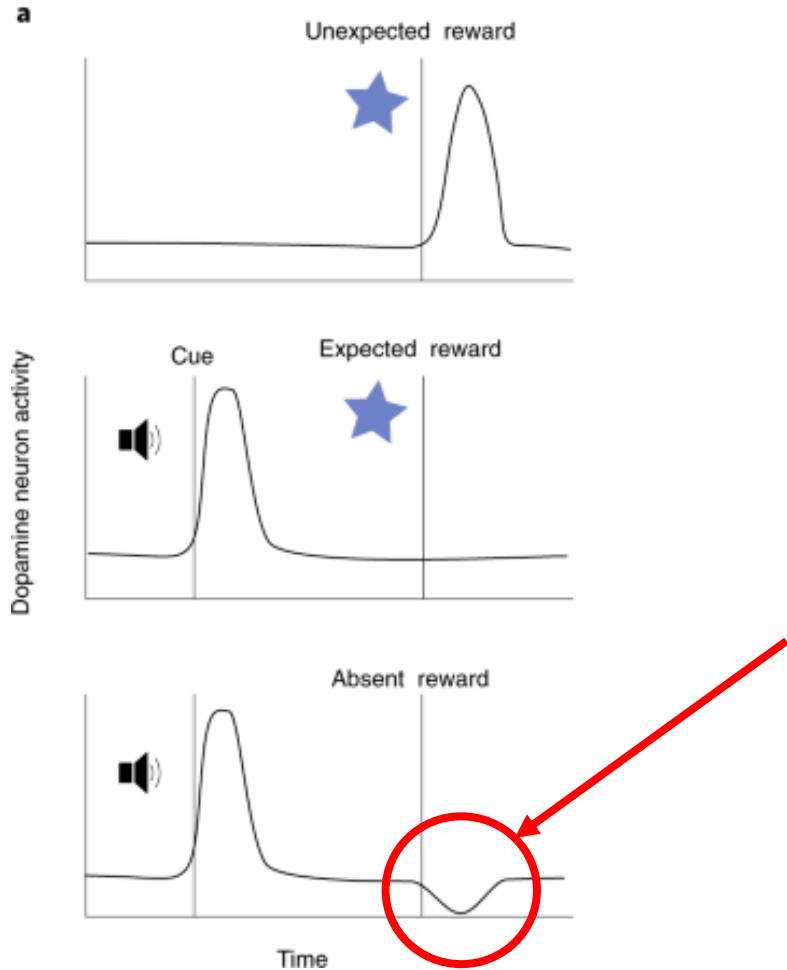
We are Expectations-Led '*Homo Prospectus*'



- Many of our behaviours are (generally beneficially) efforts to live up to, or fulfil, our established expectations.
- We are expectation-ridden: we expect the Earth to resist our step with force of 1g; we expect coffee to taste the way it does; we have expectations about Amazon's quarterly earnings etc.
- We are never 'expectations-neutral'. We cannot not expect. Our bodies and minds are extensive configurations of expectations.
- When our expectations are **not met**, we feel the pain of a 'negative reward prediction error' - a dopamine dip that provides an emotional marker for us to adjust our expectations in light of a (negative) new learning about the world.

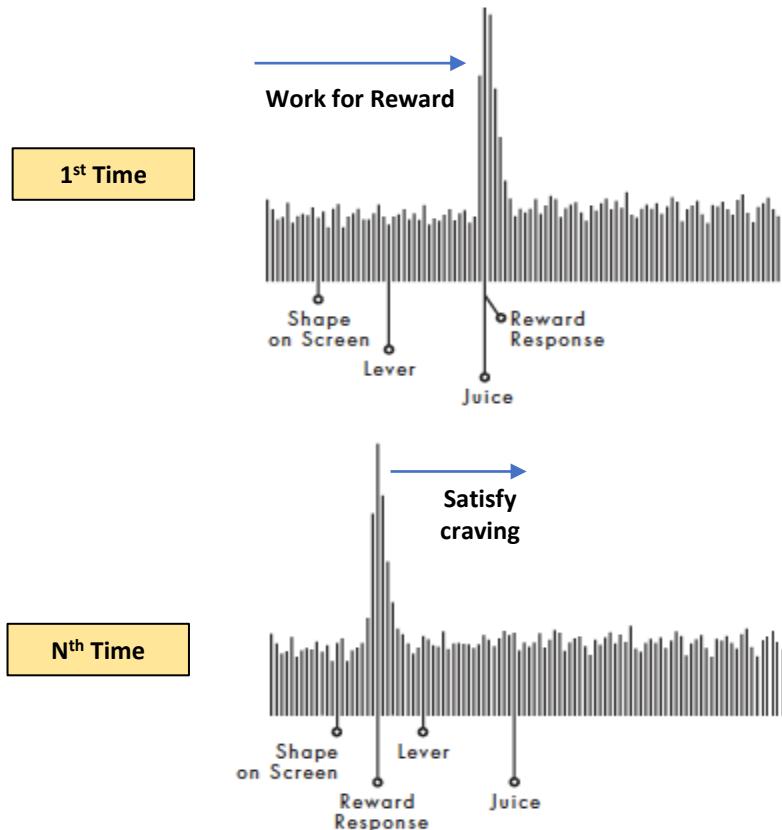
Initially (**top**), the monkey's brain dopamine spikes after working to receive the juice. Over time (**bottom**), the 'reward response' is felt immediately after the cue and generates an expectation, or craving, that the body is induced to fulfil. (At a neurological level, the brain converts a reward process into a more powerful loss aversion motivation). (DuHigg, 2012)

[For completeness: Learning from Mistakes is a ‘Downer’]



- An unfulfilled expectation (or ‘negative reward prediction error’) induces a dopamine low, which is experienced as irritation, frustration, feeling down, ‘if only...’, etc.
- ‘Learning from mistakes’ has to be painful to be an effective process.

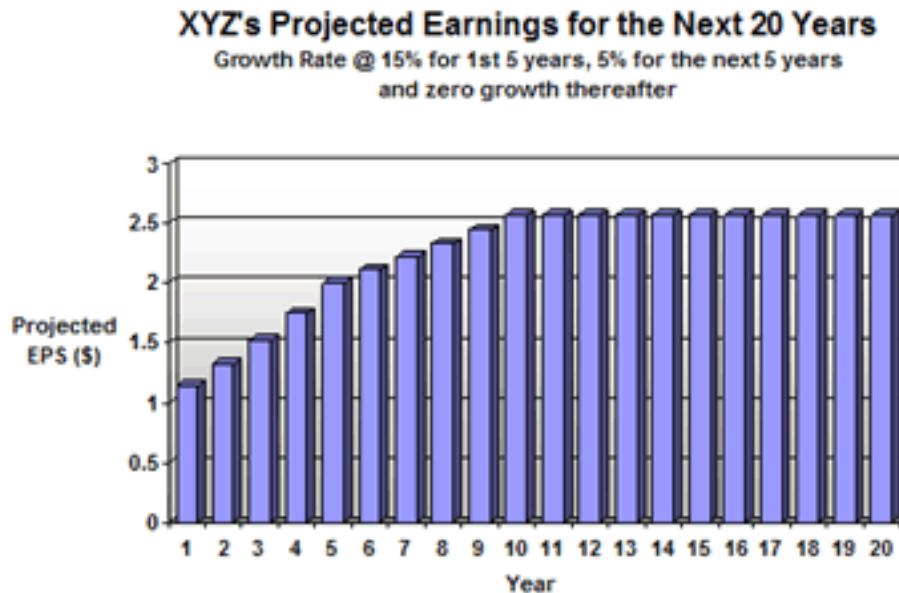
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- When our expectations are **not met**, we feel the pain of a 'negative reward prediction error' - a dopamine dip that provides an emotional marker for us to adjust our expectations in light of a (negative) new learning about the world.
- Such 'learning from mistakes' is beneficial, but it works by being unpleasant to experience. Not only do we learn from individual mistakes, but we 'meta-learn' that learning from mistakes is an uncomfortable process... so we try not to make mistakes!
- In order to avoid the pain of negative reward prediction errors, much of our behaviour has the character of trying to make happen in real life what our brains have already raced ahead and assumed is going to happen. We try to 'meet our expectations' or satisfy cravings.
- **Individually**, our expectations are encoded (embodied, **embrained**) in our neurons...

Our Collective Expectation of the Future is Encoded in Asset Prices

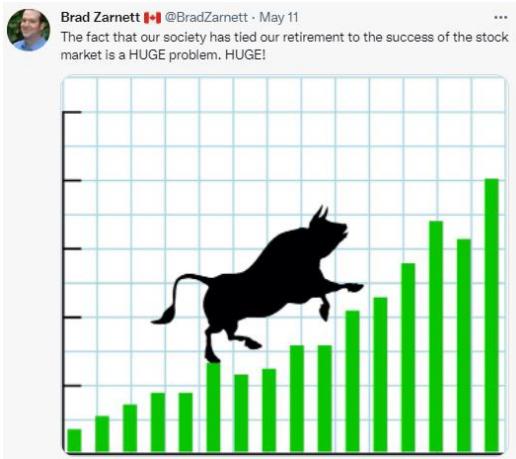


- **Collectively**, many of our expectations of the future are encoded in asset prices.
- Asset prices reflect discounted *expected* future cash flows.
- Asset holders have 'mentally banked' a certain expectation of the future.
- Executives at public companies effectively turn up to work to try and realize the future for their company that the stock market has already raced ahead to expect.
- The 'negative reward prediction error' of erroneous stock market expectations is a decline in asset prices, with associated pain of loss in wealth.
- To avoid the pain of asset price declines, we strive to act in the world so that the future foretold by asset prices becomes true.
 - Employees work to sustain or increase their share prices.
 - Economic officials try to sustain asset values.

We are Telling Ourselves Two Stories of the Future In Two Different Languages



... in tension with...



- **So, we are simultaneously telling two different stories of the future in two different languages:**
 - Explicit aspiration for a 'net zero' future; and
 - A non-net-zero future encoded in our asset prices.
- Fundamental tension
 - New policies and norms that might help us are profoundly expectations-changing in their nature, e.g. by being earnings and growth-reducing.
 - Yet, the first duty of investors is capital preservation (i.e. no decline in asset values), which is a major constraint on how fast we can change expectations.
 - Even more fundamental: new policies and norms, such as a carbon tax, are property-altering or –compromising, while 'saving' is the instinct to conserve property.
- 'Sustainable investing' is a concept deeply ridden with internal tension.
- **The problem is not changing the future, it is 'changing the now' of our expectations encoded in asset prices.**

Conclusions

The 'ESG Phase' of Our Adaptive Response is Fast Unravelling



Deutsche Bank Replaces DWS's Woehrmann After Greenwash Raid

- Woehrmann will be replaced by Deutsche Bank executive Hoops
- Deutsche Bank and DWS offices were raided on Tuesday

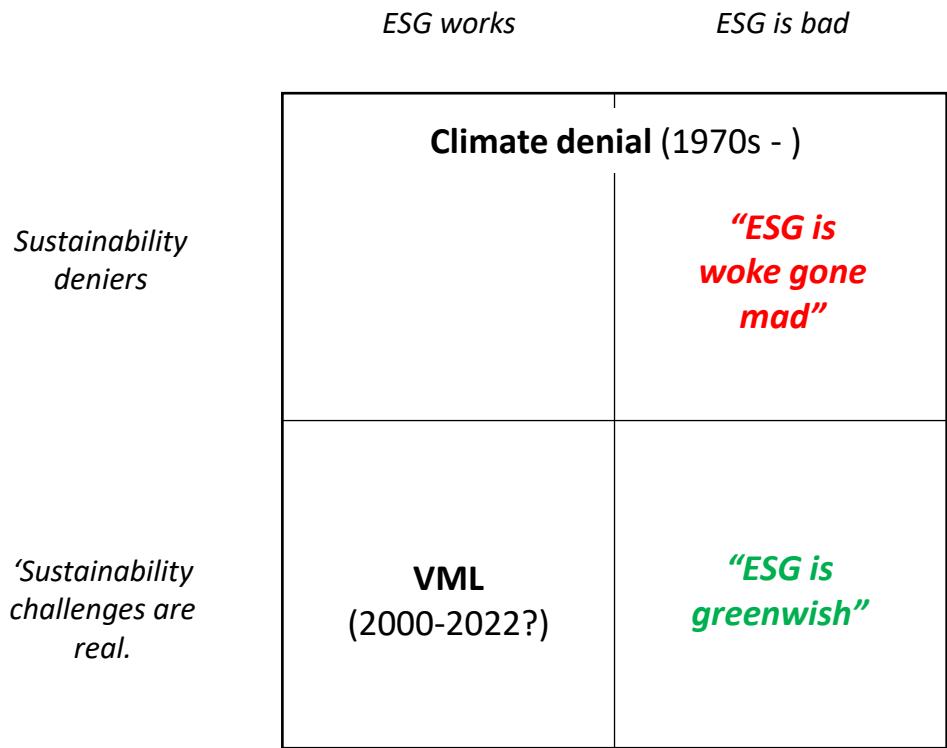
Exxon is rated top ten best in world for environment, social & governance (ESG) by S&P 500, while Tesla didn't make the list!

ESG is a scam. It has been weaponized by phony social justice warriors.

5:09 PM · May 18, 2022 · Twitter for iPhone

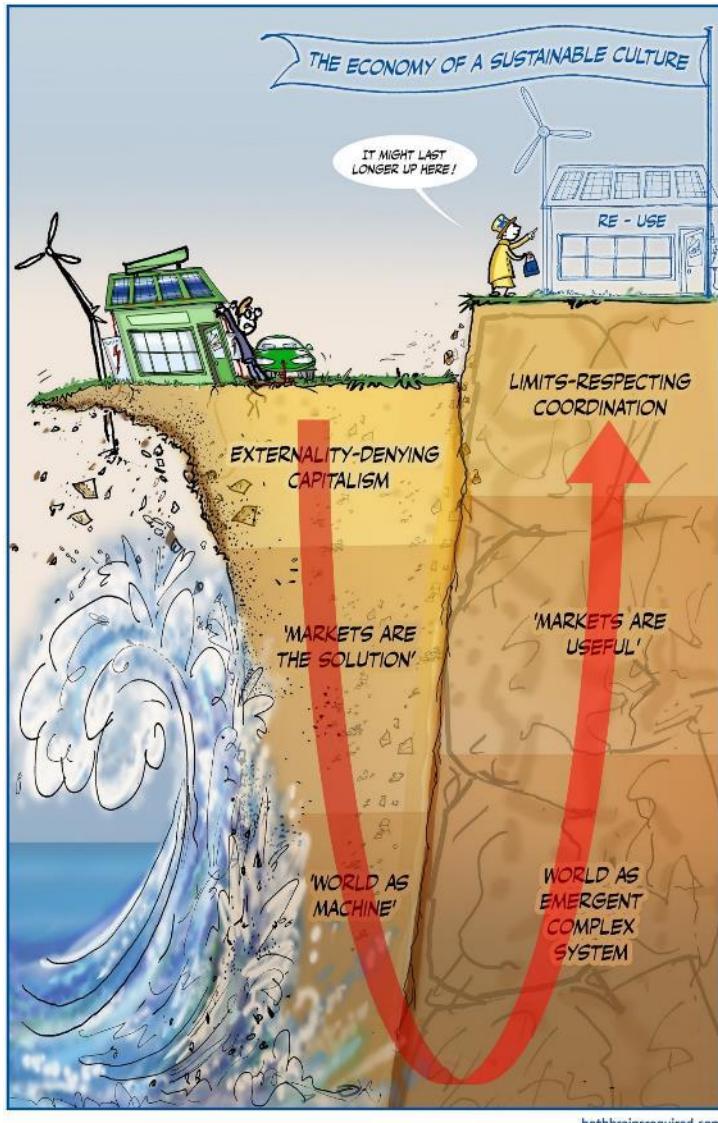
- The ESG paradigm is fraying
 - The insufficiency of VML and the dissonance of trying to meet sustainability challenges with only 'win-win' thinking is revealing itself in various ways.
- Recent examples:
 - Stuart Kirk's (Head of Responsible Investment at HSBC) comments
 - Tesla's omission from S&P ESG Index and Musk's reaction
 - DWS CEO resignation after 'greenwash raid'
 - Caroline Dennett, Shell consultant, accusing Shell of 'double talk' on climate.
- I believe these are markers of an early 'ESG phase' of adaptive response to the Anthropocene starting to break down.
- Unravelling of greenwash.

ESG is a proxy battleground for difficult moral change



- ESG is fast-emerging as a proxy battleground for the innately political and moral challenge of sustainability, which has been camouflaged as a market issue.
- Inevitably, in a system of market primacy, fundamental issues do not disappear but surface to play out in the market arena
- Difficult dynamics loom:
 - More and more genuine 'greens' are calling out ESG and VML strategies as 'greenwish', insufficient, a 'deadly distraction' etc.
 - At the same time, climate deniers are denouncing ESG as the costly and unnecessary involvement of corporations acting to meet political goals.
- Unavoidably, 'greens' criticising ESG and VML are ostensibly supporting climate deniers' (very differently motivated) criticism of ESG, but there seems no way to avoid this if VML strategies are proving insufficient.

Concluding Thoughts



- Arriving at a sustainable culture requires a collective unlearning and relearning of how our socio-economic system works and how it has come to be the way it is.
- Sustainability is a property of the whole, not the individual parts.
- The goal should not be a 'sustainable economy' but the economy of a sustainable culture.
- Alas, at this late stage, sustainability is now much more of a moral challenge than a market opportunity. Continued insistence that it be a market opportunity may simply be the means by which we postpone acceptance of a difficult moral obligation.

Thoughts and Words Can Lead if We Take Them Seriously

“If you change your thinking,
but not your behaviour,
you haven’t really changed your thinking.”

Anon

OR

“Your beliefs become your thoughts,
Your thoughts become your words,
Your words become your actions,
Your actions become your habits,
Your habits become your values,
Your values become your destiny.”

Gandhi

Appendix



How do we handle this
individually?
We project out.

Fossil Fuel Industry is to Blame?

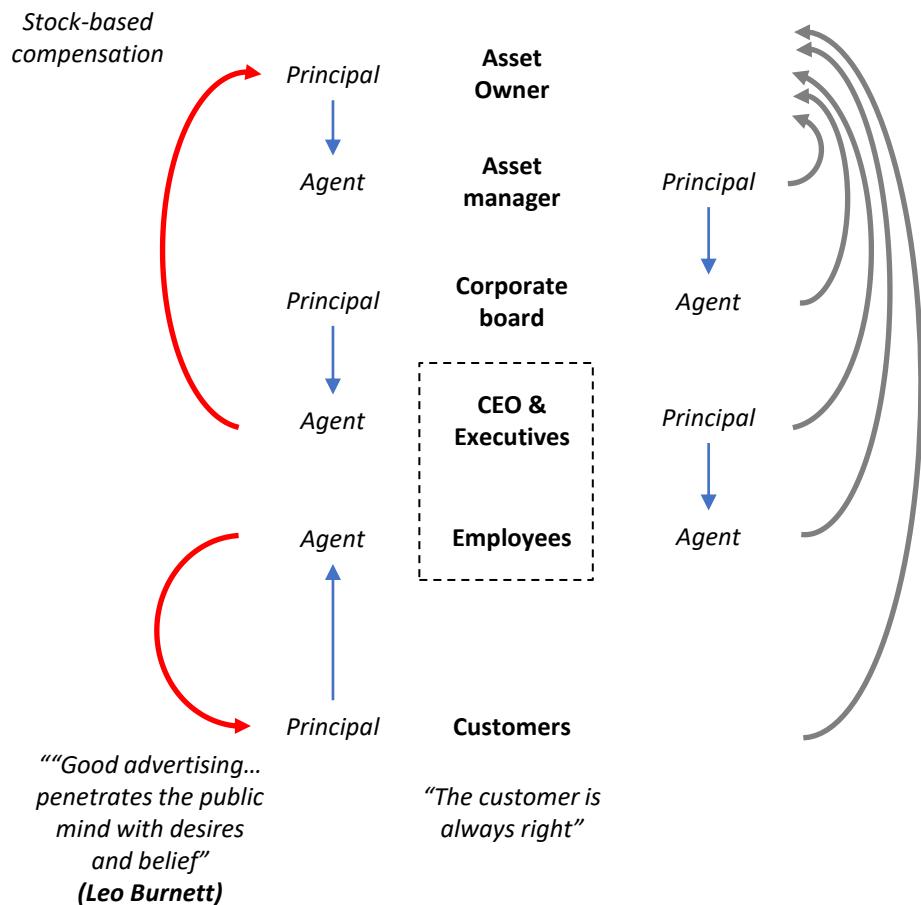


I know I've been saying this nonstop for over a decade, but it only gets truer every day: The fossil fuel industry threatens everything. By everything, I mean everything. The sooner we end it, the better the outcome for the long future of our species and life on Earth.

6:37 PM · May 13, 2022 · Twitter Web App

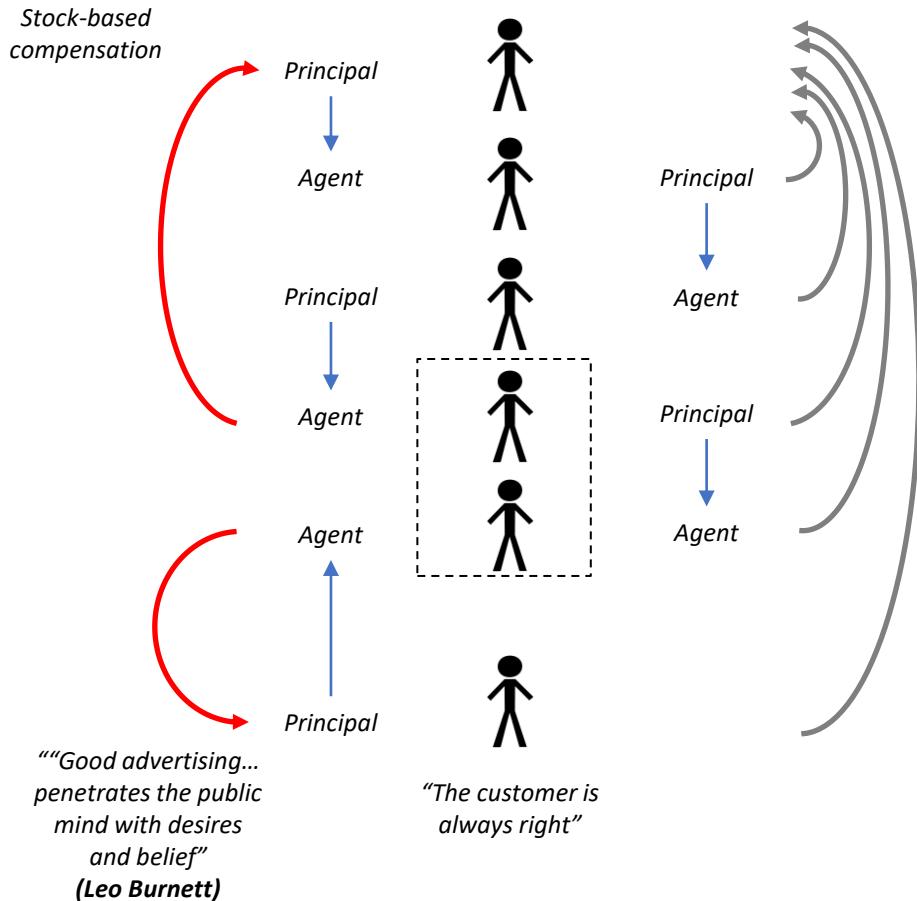
- Selectively blaming climate change on just the fossil fuel industry is a classic instance of psychological projection, now enacted at societal scale.
- “Psychological projection is the process of misinterpreting what is “inside” as coming from “outside”. (Wikipedia)
 - It is ‘blame shifting’, even ‘shame dumping’.
- Yet, fossil fuel demand is not something ‘outside’ of us, it is ‘inside’ us.
- We hope we might be able to carve off and ‘strand’ some fossil fuel assets, but many more of our assets and behaviours are compromised.
- The sustainability challenge is not ‘out there’, it is ‘in us’.

‘Principal-Agent Loops’



- A formal market system facilitates responsibility-shifting through principal-agent chains.
- As mere ‘agents’, larger responsibility falls elsewhere in the system?
- Whole system bends towards growth-driven profit-maximization through e.g., advertising and shareholder-based compensation loops.
- Yet, *in toto*, principal-agent relationships are ultimately circular in nature.
 - We may be e.g. asset manager ‘agents’, but we are also asset-owning ‘principals’.
- Results in much circular, intra-system, passing of the buck and the widespread feeling: ‘...but what can I do?’.
- **Where does principle – ‘le’ – enter the system?**

'Principal-Agent Loops'



- **Underneath the familiar roles – 'manager', 'employee', 'consumer' etc. – are human beings capable of exercising system-changing moral choices.**