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Editorial to the special issue

Macroeconomics of socio-ecological transition

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The year 2022 marks the 50th anniversary of the Meadows Report ‘The Limits to Growth’. Half a century later, social inequalities, climate change and environmental pollution call into question all the more urgently the sustainability of current modes of production and consumption, as well as the policies underpinning them. Macroeconomists in both orthodox and heterodox traditions have long focused on economic growth as the central means to raise living standards, promote development in the Global South and ease distributional conflicts. Critics of this approach have pointed to the potential incompatibility of economic growth with the limits of a finite planet and have argued that economic growth is not always conducive to well-being and might have adverse effects on distribution – within and between countries, generations and classes. Social and environmental goals may sometimes be conflicting but may also complement each other in other instances.

What can macroeconomists contribute to this debate and how can they learn from other disciplines? How does global capitalism shape the environment and climate? What can macroeconomic policies do to facilitate a just transition towards a sustainable economy and how can we assess their effectiveness? What are the feedback effects of distributional issues and ecological developments on the macroeconomy? How can changes in consumption patterns help economies respect planetary boundaries and what are their macroeconomic implications? How to improve macroeconomic modelling by including social and ecological dimensions? The present special issue addresses these questions and draws on selected contributions to the 25th conference of the Forum for Macroeconomics and Macroeconomic Policies (FMM) on ‘Macroeconomics of Socio-Ecological Transition’, which was held in Berlin from 28 to 30 October 2021. Four articles by altogether ten authors cover specific aspects of the macroeconomics of socio-ecological transition.

The contribution by Yannis Dafermos and Maria Nikolaidi shows how a systems-based analysis can help in identifying climate policy mixes that have the potential to

address the climate crisis without undermining macrofinancial and social stability. The systems-based analysis put forward by the authors relies on the combined use of ecological, macroeconomic, financial and social indicators for assessing climate policies and takes explicitly into account feedback loops and dynamic interactions between systems. The authors argue that this approach moves beyond the straightjacket of cost-benefit analysis that has been at the core of standard climate-economy models. In their paper, they use an ecological Stock-Flow Consistent (E-SFC) model to illustrate how a systems-based analysis can be deployed to assess macroeconomic, financial and sufficiency policies for climate mitigation. A key conclusion of the analysis is that the simultaneous achievement of ecological sustainability and macrofinancial and social stability requires the combination of several climate policies, including policies that change our environmentally destructive consumption norms. According to Dafermos and Nikolaidi, isolated climate policies are unlikely to be sufficient for achieving the socio-ecological transformation of our economies.

Using the results of an agent-based integrated assessment model, Francesco Lamperti and Andrea Roventini analyze what climate policies are more effective at achieving decarbonization without destabilizing the macroeconomy and the financial system. The authors argue that carbon taxation – a policy that has been traditionally promoted by orthodox economic approaches – is not an effective tool for achieving decarbonization: although high carbon taxes can lead to a large reduction in emissions, they can at the same time create an unemployment crisis and result in financial instability. On the contrary, the authors argue that command-and-control regulation and innovation policies that support green investment should be at the core of decarbonization strategies. Examples of such policies include regulation banning fossil fuel power plants, standards imposing electrification and public subsidies for green plant construction and green R&D. Their agent-based analysis shows that the implementation of such policies in combination with a small carbon tax can lead to a smooth transition to an economy that is compatible with the targets of the Paris Agreement. Lamperti and Roventini also point to the beneficial role of climate finance policies, as long as such policies are implemented simultaneously and as part of broader climate policy packages.

The contribution by Antoine Godin, Anda David, Oskar Lecuyer and Stéphanie Leyronas examines how to incorporate a strong sustainability approach in development trajectories. After a brief history and definition of the concept of (strong) sustainability, the article summarizes the current debates in the literature, pointing to some inconsistencies and proposing a way out, based on three guiding principles for a strong sustainability approach: (i) no substitutability between natural and manufactured capital; (ii) a multidimensional measurement (including trade-offs and synergies) of sustainable development; and (iii) the social construction of ‘good’ development trajectories. These principles are then exemplified by three case studies on a multidimensional inequality framework, an indicator of environmental sustainability gaps and a multidimensional vulnerability index to the low carbon transition. The authors conclude with a plea for a participatory approach to defining and shaping sustainability policies.

Vera Huwe and Miriam Rehm investigate whether post-Keynesian economics is well-equipped to address the ecological crisis we face today. They argue that the ecological crisis can be characterized by three interlinked dimensions of ecology, inequality and the economic system, and against this background describe how major economic theories conceptualize that crisis. They show that the neoclassical conceptualization of global heating is inadequate and has contributed to decades of political inaction. They subsequently discuss the post-Keynesian framework, its modelling framework and economic policy concepts, and suggest that major building blocks of post-Keynesian thought are conducive to

addressing the ecological crisis if configured accordingly. Yet, some contradictions remain, which mainly arise from the growth imperative of capitalism and political power. They argue that more attention should be paid to resolving the residual contradictions and indicate advances in the broader Political Economy and Ecological Economics literature that may serve as a starting point.