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Article

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Editorial

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Progressive perspectives in times of polycrisis

Editorial to the special issue

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The world is experiencing a global polycrisis. The constituent crises include, among others, climate change, geopolitical conflicts, economic insecurities, as well as growing social and political polarizations. These are not merely simultaneous crises. Rather, they are interconnected, forming feedback loops that might enhance the state of crises. As a result, the polycrisis as a whole is more dangerous than the sum of its parts.

Climate change is progressing and showing its negative effects on humanity ever more clearly. At the same time, it is presenting national economies with economic challenges as it necessitates the development and global diffusion of new technologies to reduce carbon emissions and mitigate environmental damage. However, the very process of decarbonization induces profound structural changes as countries transition from brown to green economies. These changes are unfolding not only in Europe but also globally.

At the same time, governments around the world are trying to secure future prosperity through an active industrial policy in the race for future key technologies. This is leading to geopolitical tensions, as governments are trying to assert themselves in this race, not always in a cooperative but frequently in a conflictive manner. Governments try to gain advantages over other countries by erecting and expanding trade barriers for their own markets or using their fiscal capacity to dominate competitors. This conflict exists between many countries or even regions. The conflict between the USA and China is the most obvious one. The global competition for critical raw materials and technological dominance is prompting nations of the Global North to engage with countries in the Global South. However, the historical background of exploitation and unequal exchange, as well as renewed efforts to reach trade agreements using similar methods as in the past, undermines trust and could jeopardize the possibility of sustainable, long-term partnerships that would support mutual development and global justice.

The economic insecurity that emerges from geopolitical conflicts and structural changes is, at least to some extent, causing social and political polarization. However, the social and political polarization also stems from other societal changes. New conflicts over political and social goals are emerging, particularly in Western societies. On the one hand, there is a growing demand for a better work–life balance and greater gender equality that calls for shorter, more flexible working hours. On the other hand, persistent income inequality continues to fuel a rat race, compelling individuals to overwork in order to achieve a higher social status—despite diminishing returns to well-being.

This special issue addresses the current state of the polycrisis. It was written following the 28th annual conference of the Forum for Macroeconomics and Macroeconomic Policies (FMM). The contributions within this volume explore how these crises have emerged, providing insights into their individual origins and the broader systemic context. In doing so, they not only describe the development of specific crises such as geopolitical conflicts and economic insecurity but also highlight the complex interconnections between them. These interrelations illustrate how one crisis can amplify or trigger another, forming a network of mutually reinforcing disruptions. Moreover, the contributions seek to identify potential pathways toward overcoming these crises.

The first two papers analyze the geopolitical conflict between the Global North and the Global South and the tensions within the EU. In 'Learning from the mistakes of the past', *Annamaria Simonazzi* analyzes the origins of the growing disillusionment with the European project. She describes the diverging trajectories of central vs. peripheral countries in the European Union that are interdependent, yet differ in their productive capacities. While providing a long-term view from the start of the European project until today, her focus is on how inadequate policy reactions to past crises increased economic disparities within and between European countries. She stresses that not only asymmetrically implemented policies by core countries contributed to divergences but also their replacement by technocratic rules and the disregard of social effects. In the face of current geopolitical and geoeconomic challenges, she emphasizes the need to learn from past mistakes and to recover the original idea of Europe to make it beneficial to all people.

Hansjörg Herr points to the 'Crisis of globalization and imperialist structures': countries in the Global South could reduce absolute poverty, but did not catch up to GDP per capita levels of the Global North. According to him, this is in line with trade theories: concentrating on absolute and comparative advantages leads to an international division of labor that forces less developed countries to produce goods with little development potential. Internal and external economies of scale prevent a catch-up process. Asymmetric power relations in global value chains lead to disadvantages for suppliers in the Global South. In addition, exploitative structures between developed and less developed countries that resemble imperialism before World War I in a number of dimensions have intensified since the neoliberal revolution in the 1980s. Only a comprehensive industrial policy and an alternative model of globalization could change the crisis of globalization.

Subsequently, the following two papers focus on the emergence of societal, economic, and political problems as well as the difficulties in overcoming the so-called 'middle-technology trap' in the Western economies. In his contribution, *Giovanni Dosi* argues that the social democratic pact, which provided workers with a share in wealth after World War II, was dissolved in the 1970s–1980s. The socio-economic transition triggered three major transformations: deindustrialization, decoupling of wages from productivity, and globalization. These developments increased inequality by benefiting capital and high-skilled workers while harming low and middle incomes. New technologies reinforced these imbalances, for example, by intensifying control over workers. To make matters worse, the world faces rapid climate change. To address these crises, Dosi calls for reasserting social conflict as a political force. Democratic control must be restored by reconnecting decisions with those affected and resisting unaccountable technocracies. Militarization is no solution. Instead, a socially just Green New Deal is urgently needed – one that addresses ecological collapse and inequality. Its costs must be borne by those who have benefited most, through fair, progressive taxation.

In his contribution, *Peter Bofinger* proposes a New Schumpeterian Growth Theory (NSGT) as a response to Europe's structural innovation deficit. He criticizes neoclassical growth theories for framing innovation as gradual, risk-free, and independent of finance and agency. Drawing on Joseph Schumpeter, NSGT emphasizes the disruptive character of innovation, its inherent uncertainty, and the key roles of entrepreneurs, bankers, and public institutions. Unlike traditional supply-side approaches, which marginalize the state, NGST sees proactive government involvement, as financier, risk-taker, and creator of new markets, as essential. Empirical evidence from Asia, especially China, underscores the potential of such an approach. Credit creation and state-guided industrial policy are viewed not as distortions, but as prerequisites for technological transformation. For Europe, Bofinger argues, escaping the 'middle-technology trap' requires abandoning passive market reliance in favor of a strategic industrial policy grounded in a dynamic, finance-driven model of growth.

Closely linked to the question of economic prosperity is the debate about social participation, equal rights, and working hours. In Western economies, this question is increasingly being posed not only as a conflict between labor and capital but also as a conflict between wage earners. *Till van Treeck* argues in his contribution that the rich world has long reached the social limits to growth, which were presciently seen by key figures in post-Keynesian economics. Reducing working hours, therefore, may have a greater potential to increase people's life satisfaction than more economic growth. One of the obstacles to a reduction in working hours is the 'rat race' for relative income. The rat race is exacerbated by high wage inequality, weak collective bargaining institutions, and low quality of public services. Results from a representative survey of German workers show that, despite the rat race, public support for measures to reduce working hours, such as the four-day week or a social service period, is high in Germany. Compared to the United States, the German political economy still can be characterized as a coordinated market economy, in which wage inequality is lower, collective bargaining plays a larger role, and public services are more widely available.

The interview with *Robert H. Frank*, conducted by *Till van Treeck*, picks up on the connection between income inequality, positional externalities, and long working hours. The interview discusses the contribution of Robert H. Frank as one of the founders of behavioral economics. The approach developed by Frank differs in key respects from today's mainstream in behavioral economics. The latter emphasizes above all the cognitive limitations of individuals and places individual decision-making aids such as nudges at the center of its policy recommendations. Frank's work, on the other hand, has been dedicated to the development of a positional model of individual behavior, where different variants of ruinous status competition (such as the rat race on the labor market associated with long working hours) can only be overcome through forms of collective action.

The contributions to this special issue draw from the plenary sessions of the 28th Conference of the Forum for Macroeconomics and Macroeconomic Policies (FMM), held in Berlin in October 2024.