

Funding environmental programmes while also deliberately shrinking the economy is achievable with this new approach, research reveals

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Countries can fund important environmental and social programmes while also reducing overall economic activity if they follow certain steps, new research from Vienna University of Economics and Business (WU Vienna) has revealed.

Undertaken by Colleen Schneider, from WU Vienna's Institute for Ecological Economics, along with co-authors Christopher Olk and Jason Hickel, the study combines two economic concepts: "Degrowth," which is centred on bringing economic activity in line with environmental limits, and "Modern Monetary Theory" (MMT), which looks at how governments can use money effectively.

According to Schneider, combining these two economic theories effectively addresses the critical question of how states can finance ambitious social-ecological policies while maintaining macroeconomic stability during a reduction of economic activity.

The paper outlines a number of steps countries must take to successfully implement these two strategies simultaneously, such as imposing stricter rules for banks, tax reforms, measures to control prices, and providing public services and a job guarantee program.

The findings of this paper represent a significant step toward reconciling economic progress with ecological imperatives.

Reflecting on the implications of the paper, Schneider notes:

"Together, Modern Monetary Theory and degrowth can unite to unleash our political imagination, challenging the myths of perpetual growth and financial constraints. It's not an issue of the state's capacity; it's about its objectives and the power dynamics at play. A transition to degrowth demands democratising monetary and fiscal policies.

The evidence from the last decade is clear: it shows that no financial constraints would prevent the state from providing a job guarantee, shutting down fossil industries, preserving ecosystems, and building out universal public services. In the words of a popular climate justice slogan: "If the planet was a bank, you would have saved it already".

The paper, How to pay for saving the world: Modern Monetary Theory for a degrowth transition, has been published in Ecological Economics and can be accessed here (<https://www.sciencedirect.com/science/article/pii/S0921800923002318?via%3Dihub>).

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