

## **Discussion Paper for the Sustainability-Oriented Renewal of Economics\***

*Gábor Meizer*

*Gergely Baksay – György Matolcsy – Barnabás Virág (eds.):*

*Új fenntartható közgazdaságtan – Globális vitairat*

*(New Sustainable Economics – Discussion Paper)*

*Magyar Nemzeti Bank, Budapest, 2022, p. 251*

*ISBN: 978-615-5318-51-1*

Re-organising the way societies and economies work in terms of sustainability is now a vital interest, in order to both address the complex challenges of the 21st century and make more permanent, effective and wider use of development opportunities. Although sustainability initiatives are beginning to gain momentum around the world, a more integrated, coordinated and focused approach is needed to achieve a sustainability turnaround, transforming sustainability into a guiding principle for economic thinking and policy action. The authors of the Discussion Paper<sup>1</sup> of the central bank of Hungary (Magyar Nemzeti Bank, MNB) have undertaken nothing less than to explore the possibility of renewing economics from a sustainability perspective, in order to support these reform processes, also building on domestic economic policy experience, and to launch a discussion of global significance on the synthesis of sustainability considerations.

Thanks to its integrative role in making decisions and shaping the future, economics can provide an adequate framework for achieving sustainability goals. To do so, however, the discipline needs to evolve both theoretically and in its application. Although the main issues addressed by economics, such as improving public welfare and the optimal management of resources, can be considered constant, the approaches to these issues have changed from one period to another, typically induced by crises. This was no different during the Global Financial Crisis of

---

\* The papers in this issue contain the views of the authors which are not necessarily the same as the official views of the Magyar Nemzeti Bank.

*Gábor Meizer is an Advisor to the Executive Director of the International Monetary Fund.*

*Email: gmeizer@imf.org*

The opinions expressed in this book review are those of the author.

<sup>1</sup> The Discussion Paper and the extended studies underlying its chapters are available on the MNB website (<https://www.mnb.hu/web/ujfenntarthato>), which also provides a platform to contact the authors for a broader discussion of the content.

2008–2009, which was a stark reminder of the unsustainability of the excessive financial market liberalization. While the series of shocks redirected a wide range of economic policies back towards rebalancing measures and highlighted the value of targeted growth-enhancing measures, the number of countries that have recognised the importance of a sustained commitment to structural reforms has remained small. Despite widespread economic growth in the 2010s, macro-financial fundamentals eroded in many dimensions, further exacerbated by the Covid-19 pandemic and subsequently the fragmentation caused by geopolitical tensions, while the macro-critical implications of the climate crisis are also rapidly mounting. A holistic rethinking of policies from a sustainability-centred perspective is essential to address multiple and interconnected challenges, but previous economic theories do not provide a comprehensive and adequate response. Both sustainability policies and the lack of such have a crucial impact on the ability to ensure price and financial stability, and thus deserve increased attention from central banks as well.

The Discussion Paper is based on an essay by György Matolcsy, Governor of the Magyar Nemzeti Bank. In his paper, he identifies 36 contexts within the framework of which a new sustainable economics can be built. The importance of the essay lies in the fact that it structures various insights on sustainability, which so far typically appeared on the margins of economics, with the relevant experience of economic policy and the relevant observations of co-disciplines in an arc of thought, and draws new conclusions – paying particular attention to the opportunities and risks arising from global megatrends that actively shape the future – based upon which the fundamentals of a renewed economic thinking can be developed. The broadening, deepening and logical linking of conclusions on sustainability is critical at a time when global debates on sustainability are actively taking shape, which adds to the importance of the paper.

The essay argues for a shift away from growth models based on quantitative factors towards a knowledge-based and innovation-driven growth model, which is organised around the idea of sustainability, and which looks beyond the redefined spatial structure and challenges of the present to a broader time horizon of the future and the public interest. While material resources are limited and in many cases can be consumed along with negative externalities, knowledge is constantly expanding through its “consumption”, and thus policies focused on expanding knowledge offer an unparalleled opportunity to make societies and economies function more sustainably through continuous development. However, the key to realising this potential and putting the principle of increasing returns into effect is to unlock bottlenecks, such as fostering talent as well as steering new technologies and digitalisation in sustainable directions. In the author’s view, this is what the 21st century is all about. Policies should, inter alia, increasingly focus on family and public interest approaches, guaranteeing access to the basic goods of life and

providing frameworks for circular economy, which also require a rethinking of the roles of states, with stronger stabilising, incentivizing and developmental characters. The author places human and community relations at the heart of sustainable economics as a whole, while proposing a holistic approach to sustainability issues by integrating relevant findings from the social and natural sciences. Given that social and economic relations are dynamically changing, with complex interactions and non-linear sequences, the continuous measurement and the transformation of these relations into data, a deeper understanding of network and platform organizational structures, and the feed-back of empirical results into theories are also of high priority, according to the author.

The Discussion Paper's 23 chapters aim to address the main issues in the arc of thought of this essay, such as (i) why there is a need to renew economics from a sustainable perspective; (ii) what the resources of the new economic model are; (iii) how "value" is produced in the 21st century; (iv) what the optimal balance between market and state is; and (v) what the deep structures behind economies are. The findings of the research papers included in the Discussion Paper can be summarised in the following points.

A common trend across a wide range of countries is the decline in growth potentials and the constraints to growth becoming more effective; among other things, this linked to key factors such as demographic megatrends, the rising burden of over-indebtedness and the negative effects of climate change. At the same time, humanity is living through a period of technological revolution that is more dynamic than ever before, opening up unprecedented opportunities for the effective reorganisation of economies and societies, but also posing reallocation risks in a period of so-called creative destruction. Given the complexity of these structural changes, it is essential to enhance multidisciplinary approaches by combining economics with disciplines such as network science, information technology, quantum physics, behavioural science and culture. The authors argue that systemic changes must be accompanied by the evolution of approaches in social sciences and a paradigm shift in economics.

As a key message, the Discussion Paper puts knowledge and value creation from knowledge at the heart of sustainable economics. In addition to ensuring access to information, experts therefore call for a reform of the education systems to unlock talent and creativity, and improve skills. They also point out that, in addition to the quantity of investment, the structure and quality of investment are also crucial. With due consideration to the opportunities of the digital transition, the critical importance of green programmes and the cornerstones of inclusive growth, they propose smart investments that foster both competitiveness and economic resilience.

While technological transformation can provide the main source of productivity growth, from a sustainability perspective it is also essential to encourage the widespread adoption of technological innovations and to close the digital divide. The combination of economic development, geopolitical changes and technological transformations also creates the opportunity for the further development of monetary systems, in which the still evolving concept of central bank digital currencies may play a key role. Increasing financial inclusion and efficiency, making economies more dynamic and resilient, are all identified as key aspects of the money of the future. There is also a strong need for well-diversified, balanced and widely accessible financing structures to promote sustainability goals.

Visions for a sustainable future can only be envisaged if the balance between humanity and nature is restored. This is a global challenge that calls for unprecedented cooperation in the international community. Carefully calibrated green programmes for climate protection, climate adaptation and transition risk management are needed, which also pay due attention to country-specific factors. In the section of the Discussion Paper on green policies, there is also an important call for a stronger emphasis on measures to encourage the green energy transition, alongside measures to penalise pollution. The Discussion Paper also highlights ways of effectively connecting supply and demand, including the characteristics of the platform economy, the sharing economy and the circular economy.

Advances in technology not only translate into an enormous increase in the amount of data, but also provide opportunities to process information in new ways. The authors are calling for the launch of a data-driven economy, which as a fundamental part of decision-making, will allow for significant efficiency gains and could thus become a key part of value creation. This requires both increased public involvement and cooperation across society. The authors stress the importance of measuring economic balance and growth more broadly, rapidly and reliably than today, which requires not only new approaches but also new methods and metrics. There is also a need for carefully designed and implemented data strategies that allow for better use of data with appropriate data protection safeguards.

The balance between the state and the market is a central issue in economics through the ages. According to the authors, a reorganisation of public policy towards sustainability is essential to achieve sustainability goals. Tax policy is a priority, which experts say must be transparent, family-friendly, growth-promoting, digital and green at the same time. The Discussion Paper points out that the cooperation between governments and market participants is crucial for the development of innovation ecosystems that support growth as well as the sustainable financing of economies. In this context, based on the example of the MNB, the authors also argue that central banks can be catalyst for green and other sustainability initiatives while achieving their primary mandate. Further, states have a crucial

role to play in creating a framework for inclusive growth, which also requires the promotion of social mobility. Since the high levels of income and wealth inequalities can significantly limit people's potential, the authors also explore policies to reduce inequalities. At a time when networks are becoming increasingly complex, building trust among economic actors is also of particular importance, and this issue is specifically addressed in the Discussion Paper, which points out, among other things, the role of social contracts in the success of economic policy reforms.

Understanding the deep structures behind economies is essential to underpinning sustainability initiatives. A key message of the Discussion Paper is that responsibility for the future is fundamentally a question of values, and the growth of outputs must therefore be in line with the enduring values of societies. But to do so, economics must also move beyond abstract models by reinforcing values-based character traits. In terms of demographic trends, the authors point out, among other things, that the globally growing populations but locally ageing societies induce fundamental changes, ranging from the transformation of the labour market and the changing consumption and savings patterns to the reassessment of the sustainability of large public care systems. The last chapter of the Discussion Paper deals with the tectonic shifts resulting from the emergence of a multipolar world order and shows how a "geofusion" approach can help us understand global macroeconomic trends.

While efforts to rethink economics for sustainability have been underway for at least 50 years (this is when a seminal report entitled *The Limits to Growth* was published), these initiatives have so far failed against the doctrines of mainstream economics. As the Discussion Paper points out, a renewed approach to economics may be able to provide an appropriate framework for these sustainability efforts, but this requires synthesising the relevant considerations in a new and constantly evolving theory. The Discussion Paper provides an exceptional logical framework for this debate of global significance, while at the same time containing a number of findings worthy of further reflection, and is therefore recommended not only for economists but for all readers who are interested in sustainability.