

THE MACROECONOMICS OF A STEADY-STATE ECONOMY

PHILIP LAWN LAWN

FLINDERS UNIVERSITY.

To achieve the goal of sustainable development, most ecological economists believe it is necessary for nations to make the transition to a steady-state economy (SSE). Much of the macroeconomics of a SSE elucidated by ecological economists has focused on notions of: (a) maximum sustainable scale – the largest physical scale that can be sustained by the supporting ecosphere; and (b) optimal scale – the scale of the economy at which any further growth increases costs more than benefits and thus reduces a nation's net welfare. There are good reasons for this. Firstly, growth beyond the maximum sustainable scale should always be avoided since nothing is of benefit in the long-run if it is unsustainable. Secondly, growth beyond the optimal scale – which is reached prior to the maximum sustainable scale – reduces the welfare of a nation's citizens. Thirdly, an understanding of the 'ecological' and 'economic' limits to growth is of little use if there is no way of determining if such limits have been reached. Consequently, the macroeconomics of the SSE has centred largely on what indicators might best approximate the ecological and 'economic' limits to growth (e.g., the Ecological Footprint in the former instance, and the Genuine Progress Indicator in the latter).

Although steps taken to ensure ecological sustainability and distributional equity can promote macroeconomic stability – after all, ecological unsustainability and social unrest are hardly conducive to stability – a stable macroeconomic setting still requires appropriate macroeconomic policy setting on the part of governments. Furthermore, since I believe that much of the physical infrastructure required by nations to transition to a SSE will have public goods characteristics, achieving sustainable development will require governments to play a very active fiscal role in coming decades. Unfortunately, ecological economists have had very little to say about macroeconomic policy setting. I believe this is largely due to the fact that most ecological economists accept the mainstream view of public finance. In this paper, recent developments in 'modern monetary theory' are outlined in order to support what I believe are some key macroeconomic policy underpinnings of a SSE.