



Working Paper Series

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Global Geopolitics, and sustainable transitions*

by

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Political economy issues in the (post?) European Green Deal era, Global Geopolitics, and sustainable transitions

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This short note reflects upon the current macroeconomic and geo-political situation in the attempt to deliver some integrated insights on the multiple transitions in a changing world. It focuses on structural long term trends and short term developments. It builds upon basic macroeconomic theory, environmental economics and policy theories, innovation theories. It is developing on 5 integrated elements.

Some conceptual references are in EEA (2019, 2021, 2024), Zoboli et al. (2020), Antonioli et al. (2022, 2025), Diaz Lopez et al. (2023), Bernardi et al. (2024).

1. The current ‘trade war’ or trade based (tariff based) USA ‘strategy’ is based upon different economic and political motivations. First, the increasing fragility of the USA as a (former) super economic power. As other high-income countries, the group of emerging countries has increased the economic share of global GDP, and still show significant external surpluses that are reinvested in the western world (fossil fuel rents, trade surpluses). Second, on the other hand, the USA are still the military pillar of the western world, partly due to the second world war equilibria and the (legitimate) peace based setting the EU defined after the war. This is a big question mark today, namely the necessity of the EU to be military independent from the USA in the new global setting. Connected to this, an important source of economic and political instability is the (unattended) collapse of the Russian empire. Russia is a fossil fuel-based economy that, contrary to China, has not developed a significant economic model. The current war-based economy is a tragic consequence, and maybe the only way to sustain Russia from a political and economic point of view: a big factor of global disequilibrium. The future is uncertain, but Russia has not reinvested oil rents in economic development pillars (innovation, education), so far¹. Going on, the USA military expenses were for decades a main pillar of the structural trade deficit and consequential weak dollar (after the Vietnam war and collapse of the gold standard system). The 80’s witnessed a very weak

¹ On economic development facts and figures, always check the fantastic UNDP site in the Human development part.

Dollar (The mid 80's Plaza agreements to sustain it). The dollar was very weak in connection to wars. The negative trade balance is deriving from the high consumption of US consumers, driving up imports, in front of a weak manufacturing sector. The (only?) way to rebalance this structural fact is the future increase of a new consumption mass, connected to China and other emerging areas, driving global consumption and GDP. This is a possible long term trend towards a new equilibrium.

2. Against this background, the Trump strategy seems to face some usual trade off and some constraints. Macroeconomic theory and historical evidence are easy and clear. The main trade off is the usual unavoidable growth / inflation one. Higher tariffs, migration flow restrictions are inevitably increasing US prices. Adding to that the 'FED monetary policy' issues (limiting the central bank independence, to eventually use money supply expansion to boost growth in the short term), the overall economic policy appears delivering inflation pressures. Easing monetary policy to boost growth (current growth is negative in the US) will weaken the dollar, conveying additional inflation in an usual manner (a weak currency may readjust trade balances if import/export price elasticities are coherently in line with it, referring to the Marshall Lerner condition, but sooner or later it creates some inflation). The currency based / trade-based strategy is thus inevitably leading to some inflation: it is not surprising that even the FED (which has inflation and employment as targets) is not adopting an expansionary monetary policy. Inflation was a key element in the electoral debate. Thus, this seems the biggest wall in front of the US economic policy. The second is the fact that China (owning 15% of US debt) and other economies with trade surpluses are necessary to buy US treasury bonds and those countries need the USA to invest surpluses. This is an increasing connection behind the scene and apparent clashes. The USA need China and vice versa. To mitigate currency losses due to a weak dollar, China needs to buy dollars. The story goes on up until the 'consumption' shift happens: in the next decade, 1.5 billions people enter the middle class club (80% in South East Asia). This is going to be a strong driver for USA and European goods: a global economic and social change. The global society will bend more and more east-bound, with the former 'advanced' economies showing reduced shares of GDP.
3. China is always acting with patience and waiting in a Confucian way. It has problems (demographic transition mainly). It acts as a single unity, with centuries of culture and economic development and a mixed capitalistic system with a centralised core. It has hugely invested in Africa for economic and political reasons. China shows in 2022 R&D on GDP higher than the European average for the first time, much higher if one looks at countries like Italy, Spain, France. This is a new figure to monitor, namely if and how this overall R&D figure will produce innovation adoption and diffusion, a key element of a structural change based on knowledge diffusions throughout regions, sectors and territories.
4. What about Europe in its (post?) Green Deal phase? (EEA, 2024). Knowing that the lack of unity in foreign policy, fiscal policy, etc.. and the now over bizarre and tragic unanimity rule (e.g. fiscal issues) are constraints for its action the new global world, the EU should

continue its path towards multiple sustainability targets and competitiveness. Human development figures are on average very good and attractive for global citizens (health, education, gender). Environmental policies should be interpreted, following the Porter legacy (Costantini and Mazzanti, 2012; Cainelli et al. 2020), a driver of innovation and competitiveness (Musolesi et al. 2025). Environmental policies, the Green Deal a clear examples, are also industrial policies² (as the Biden administration also showed). Still, on the environmental side, even if the EU has improved in several environmental domains its performances due to the introduction of regulations back in the 90's, relevant environmental issues remain to be addressed (Pollution in urban areas and some parts of the EU, creating economic losses in productivity (OECD, 2025³); biodiversity losses, land use, etc..)

5. R&D efforts intrinsically involve cooperative efforts. R&D is always a mixed public-private good, linked to profits for the agent who invests and some spillovers, that could also be huge. To tackle challenges like climate change mitigation, circularity, twin transition, health, space missions (an historical key example of cooperation among human beings, in the real and utopian worlds of novels and movies), among others, cooperation among firms, regions, sectors and countries is necessary. That is why protectionism was and is a lose – lose strategy in the long run.

This statement by nobel prize Amartya Sen, which connects to the previous citation of UNDP human development dimensions, introduces the final paragraphs.

The market economy has depended for its own working not only on maximizing profits but also on many other activities, such as maintaining public security and supplying public services - some of which have taken people well beyond an economy driven only by profit. The creditable performance of the so-called capitalist system, when things moved forward, drew on a combination of institutions that went much beyond relying only on a profit-maximizing market economy and on personal entitlements confined to private ownership.

Europe should finally set a credible path towards 5% private and public R&D on GDP. This is a kind of 'at least' medium term goal (e.g. increasing 0,3% per year), in front of the figures shown by Asian players and the peaks of excellence still present in the US in some sectors. Much higher if we do include education and training. It is now well below the 3% Lisbon agenda target, after 20 years. 20 years of mild increases or stagnation in R&D. R&D expenses should focus on high tech for sure, involving health, knowledge-based sectors, supporting the green transition of old sectors (e.g. steel, chemical, etc.), boosting new

² Giordano C. et al. (2025), La politica industriale dell'unione europea tra crisi e doppia transizione, Occasional papers 931, Banca d'Italia, Roma (text in english).

³ Dechezlepretre A. and Vienne V., The impact of air pollution on labour productivity: large scale micro evidence from Europe, OECD science, technology and industry working papers, n.14

start-ups, stimulating firm's cooperation (SMEs) and sector interdependence. Defence expenditures could also be connected to R&D, again avoiding economic policy trade off.

Cooperation and knowledge are the pillars of societies, in the past, now and in the future. Alex Langer died 30 years ago in the middle of a tragic war. He talked about peace and just transition back then. He outlined the social and political pillars of the ecological transition. He also asked for UN blue helmets intervention to save Sarajevo and Bosnia, which was hard (to admit) for a pacifist green leader.

Through Knowledge based investments, increasing its political union and further enhancing common investments in European tangible and intangible infrastructures, Europe can continue its path bringing together pacifism (as cooperation), decarbonisation and circularity, the Green Deal, industrial policies based on the support of techno-organisational innovations. Human development, with the education, health, gender and equality dimensions should remain a lighthouse to further develop the European model of society and capitalism (based among other things on high taxation and strong provision of public goods by the State⁴). A lighthouse that can attract investments and people for exchanging and sharing knowledge with other models.

A knowledge based global society is a cooperating society since the challenges faced by humans need skills, technologies, competences that are not possibly possessed by single countries or sectors, even if they are big. A knowledge-based society is more likely to be peaceful and more equal, if we support the various dimensions of innovation and we sustainably share the value added between wages and profits. A sustainable society is an investing society. It invests in man-made, human, social, natural capital to compensate the intrinsic depreciation and further enlarge the stock. Human and social capital are truly the pillars of economic and human development both in low income and high income societies. The difference with respect to the last century is that more and more human challenges (global warming, AI) involve cooperation of efforts. A globalised society needs better regulations, but can create convergences, through exchanges of technology and intangible capitals. The (different) forms of capitalism, the different forms in which societies and countries are organised could develop by maintaining some cultural and institutional features (one size does not fit all), while grasping some new stuff from other models. This is not naïve. It is certainly not easy given the nature of human beings. Challenges are tough; tackling climate change is more difficult than reducing local pollutants, following Noam Chomsky it is probably the most difficult challenge human societies have ever witnessed.

⁴ *I first heard of the council intention to demolish the library center, along with the bookshop and the nineteenth century turrets and the concrete space and [...] to be replaced with private luxury flats, a greatly reduced library, retail space, and no bookshops (Steve, the owner, could not afford the rise in commercial rents). And so I recognize myself to be an intensely naive person. Most novelists are, despite frequent pretensions to deep sociopolitical insight.*

It is a short story about debt [...] Some people owe everything to the bank accounts of their parents. I owe the State. Put simply, the state educated me, fixed my leg, and gave me a grant that enabled me to go to the University. It fixed my teeth and found housing for my veteran father... [...] my subsidized sports center and my dr's office, my school music lessons, my NHS glasses, etc. (from North West London Blues, chapter in Feel Free (2018), by Zadie Smith.

Even if cooperation along various dimensions is not the preferred game in the short term of things, it remains true that a non-cooperating global society is a lose-lose world. The economics and politics at the end produce negative outcomes for most if not all agents. Economic, political, social, mathematical disciplines among others state this through solid theories. Now more than ever, good science should lead the way.

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