# Preface

Reinhard Neck

Department of Economics,
Klagenfurt University,
Universitätsstrasse 65–67,
Klagenfurt A-9020, Austria
E-mail: Reinhard.neck@uni-klu.ac.at

**Biographical notes:** Reinhard Neck is a Professor of Economics at Klagenfurt University, Austria. After studying at the University of Vienna, he was a Research Assistant at the University of Fribourg (Switzerland) and the Vienna University of Economics and Business Administration (Austria), a Professor at the Universities of Bielefeld and Osnabrück (Germany), a Research Fellow at Harvard University (USA) and a Visiting Professor at the University of Ljubljana (Slovenia) and Stanford University (USA). He has (co-)authored 30 books and 260 articles in journals and edited volumes on topics in macroeconomics, quantitative economic policy and other fields of economics.

The recent financial and economic crisis have seen the most severe downturn in the business cycle since the Great Depression of the 1930s. To prevent further stagnation of output and growing unemployment as a result of that crisis, many governments have resorted to unprecedented expansionary fiscal policies. While these actions seem to have succeeded in triggering a recovery in affected economies, they have resulted in considerable increases in public debt as higher government expenditures and/or lower taxes have mainly been financed by budget deficits. The question arises as to whether these policies can be reversed in the future so as to return these economies to sustainable time paths.

INFER, the International Network for Economic Research, devoted a workshop to this very question on 29 and 30 September 2009 in Klagenfurt. Organised by the Department of Economics at Klagenfurt University and supported by the University's Research Council and the Faculty's *Förderverein*, economists from different countries discussed various problems arising from the increase in public debt that resulted from the fiscal policy measures after the crisis. The best presentations were then selected through the usual refereeing process of the *Int. J. Sustainable Economy* and are published in this Special Issue of the journal.

In the context of public finance analysis, sustainability means avoiding a political or economic crash, in particular state bankruptcy. Although the concept of sustainability originated in the context of environmental protection, it is much more general, calling for some balance between the present and the future. Graciela Chichilnisky was among the first to lend this notion precision by proposing an axiomatisation of the concept of sustainability and showing that it transcends the basic economic model of intertemporal decision making. Her paper is included in this issue to illustrate the wide applicability of the idea of a sustainable economy. The other five papers deal with topics more closely related to the public finance theme of the conference, with particular emphasis on the situation in Europe.

The paper by Servaas Deroose, Christine Frayne and Lucio R. Pench provides an overview of the situation of public finances in the European Union, emphasising the consequences of the crisis. Unfortunately, some European countries did not manage to reduce government debt during the boom years preceding the crisis, which makes it even more difficult for them to return to sustainable budgets afterwards. One reason may have been the very limited success of the main device for restraining the expansionary bias of government budgets in Europe, namely the Stability and Growth Pact of the EU. Servaas Deroose, Martin Larch and Andrea Schächter show that, at times, fiscal policies even had pro-cyclical effects, which may have been due to too optimistic forecasts, among other reasons. One proposal to improve fiscal policy performance in Europe and to reduce the danger of unsustainable debt developments therefore calls for the use of EU forecasts instead of national ones, because, as shown by Carlos Fonseca Marinheiro, the former are mostly more reliable than the latter.

The last two papers point towards aspects of the development of public finances which are often ignored but which may have strong, and mostly dangerous, effects on the public sector's debt position. As shown by Fabrizio Balassone, Jorge Cunha, Geert Langenus, Bernhard Manzke, Jeanne Pavot, Doris Prammer and Pietro Tommasino, the fact that European societies are ageing aggravates the pressure upon governments' borrowing requirements, making the medium-run targets of the Stability and Growth Pact (which many governments do not consider to be easily achievable) even less ambitious than actually required. In their study on Germany, on the other hand, Bettina Fincke and Alfred Greiner remind us that not just central states are called upon to deal with debt problems, but that lower geographical and administrative units in federal states also contribute to the piling up of public debt.

Altogether, the papers in this Special Issue leave us with the impression that a return to long-run sustainability, although very much required, will be difficult to achieve, given the tendency of democratically elected governments to fulfil their voters' demands for higher public expenditure and/or lower taxes. Institutional reforms, such as those which are proposed in several of the contributions, will have to be enacted in order to secure the viability of the European model of the social economy and the advantages of economic and political integration in Europe.