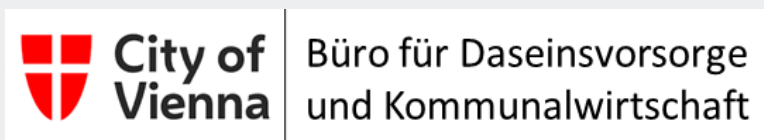


Answers to the Crises – Investing or Cutting Spending at the European, National and Municipal Level?

Role and Relevance of Public Investments in Infrastructure and Services of General Interest

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Abstract

Against the background of the economic effects of the war in Ukraine, the ongoing economic sanctions against Russia, the impact of the COVID pandemic and the resulting wider structural challenges, what direction should economic policies be taking in the coming years?

There had already been a paradigm shift in macroeconomic policies before the outbreak of the pandemic and the subsequent economic crisis. Back then many research departments of leading international institutions had already drawn conclusions from the last economic crisis, namely that the recommendations on how to avoid the mistakes of the past regarding economic policy point to the danger of a premature shift to economic policies that are dominated by restrictive budgets, austerity measures and overly restrained monetary policies.

Austria managed to withstand the financial and economic crisis of 2008-2009 better than many other members of the euro zone. However, the crisis led to a chronic backlog of important investments, especially at the municipal level, resulting in a lack of funding going to the education, health and social services sectors. With this in mind, this policy note presents some selected measures that are in line with the new economic policy paradigm that promotes economic recovery while at the same time addressing structural challenges within society, in particular, when it comes to the areas relevant for the services of general interest.

With regard to this paper's focus on digitalisation and greening, services of general interest such as the construction of social housing, public infrastructure, education and social service are examined with particularly diligence. Furthermore, this policy paper provides proposals that deal with investment priorities and potential ways to contribute to the reduction of the dependency on fossil fuels such as (Russian) gas.

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Conclusion

The current crises – and last but not least climate change – confront the European Union, its member states and municipalities all over Europe on a local level with threatening economic and political challenges. Compared with many other members of the euro zone in the wake of the global financial crisis of 2008-2009, Austria pursued a relatively successful economic policy strategy. Nonetheless, at the municipal level a backlog of investments was allowed to accrue, severely affecting important services of general interest such as education, healthcare and social services. These gaps in investments in services of general interest and their negative impact on society as a whole and on economic recovery were mercilessly exposed by the COVID pandemic, resulting in more public awareness of the consequences of loneliness and unemployment. The ongoing Russian invasion of Ukraine reinforces the need to accelerate the exit from fossil-fuel energy in a dramatic way, with the goal of putting an end to the dependency on (Russian) gas and other fossil fuels.

On a fiscal level, a so-called 'golden rule' could contribute to stabilising economic growth by providing the necessary room for sustainable public investments, e.g. by loosening the rules regarding new public indebtedness. Based on the lessons learned in the aftermath of the economic and financial crisis of 2008-2009 and taking the continuing favourable fiscal policy environment with its low interest rates into account, public investments in the following services of general interest are particularly important at the moment:

- › public investments in the creation of affordable and socially mixed housing projects
- › furthering the thermal refurbishment of public and publicly owned buildings
- › investments in systems of public transportation, particularly within suburbs and smaller towns
- › expanding the digital infrastructure so that peripheral regions are covered as well
- › expanding the digitalisation of public administration, developing and extending digital services for the general population, strengthening cyber security where services of general interest are concerned
- › creating training and educational opportunities, in particular to bolster the digital skills and knowledge of women and those teenagers with low levels of formal education
- › strengthening the public health services

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