

STUDY COMMISSIONED BY THE FISCAL ADVISORY COUNCIL



**Subsidies in Austria: definitions,
spending levels and suggestions
for improving efficiency**

Key results and conclusions

Bernhard Grossmann

Vienna, August 2018

SUBSIDIES IN AUSTRIA: DEFINITIONS, SPENDING LEVELS AND SUGGESTIONS FOR IMPROVING EFFICIENCY

KEY RESULTS AND CONCLUSIONS OF A STUDY COMMISSIONED BY THE AUSTRIAN FISCAL ADVISORY COUNCIL¹

Bernhard Grossmann

Vienna, August 30, 2018

Greater transparency is key for increasing subsidy efficiency in Austria

- **Austria's public subsidy system** suffers above all from a **lack of transparency**, given the variety of subsidy definitions for different subsidy programs, the institutional variety of subsidy providers and subsidy instruments, the lack of mandatory coordination among the individual funding bodies as well as a lack of comprehensive reporting requirements for all levels of government.
- **Aggregate figures for subsidies** offer **important insights** into **public spending patterns** and the potential fiscal **leeway** and serve as **input** for **further analysis** but fail to produce meaningful results on **the effectiveness and efficiency** of individual **subsidy measures**. The method of choice for such assessments would be **specific cost-benefit analyses**.
- **Detailed evaluations** of **individual subsidy programs** (objectives, budgetary costs, characteristics of subsidy recipients and achieved effects) **have not been carried out widely** and/or are **not publicly accessible**. Individual subsidy measures (e.g. research subsidies, subsidies for hiring professional tradesmen for renovation or maintenance jobs) have rarely been **evaluated** extensively (by external **experts**). **Ex post assessments** required in the context of the **regulatory impact assessment** of central government rules and initiatives pursuant to the Federal Budget Act 2013 have often been carried out with long time lags (a 5-year deadline applies) and at varying levels of quality.
- **Determining subsidy spending levels requires clear definitions** as a starting point. As **numerous (national and international) definitions** exist for subsidies granted in Austria, it is difficult to consolidate the corresponding information into the **consistent database** needed for an **analysis of the subsidy landscape across all levels of government**. Data consistency is also likely to present a great challenge for the **transparency database** initiated by the Federal Ministry of Finance – a challenge that has not been met yet.
- **Subsidy reports** published by the central government and some regional governments contain relevant information, but **no uniform reporting requirements or standards** apply for data coverage and definitions. Harmonizing data coverage and involving all levels of government would help establish a **regular reporting framework** that provides the **information** needed to feed a corresponding database.
- **Government budgets at all levels of government** should quantify the amount of **direct subsidies** provided, broken down by spending area and purpose and target sector (enterprises, households and quasi-public organizations). Currently, for instance, **local government subsidies are rarely disclosed separately or in full**, among other things because the relevant parts of the fiscal framework laid down in the Budgeting and Accounts Regulation 1997 are not mandatory for local governments.

¹ Grossmann, B. (2018). Förderungen in Österreich: Definitionen, Volumina und Vorschläge zur Effizienzsteigerung. Vienna (see www.fiskalrat.at). Opinions expressed by the author of this study do not necessarily reflect the viewpoint of the Fiscal Advisory Council.

Interpreting public subsidy figures requires additional information about the underlying data as well as in-depth knowledge

- Notwithstanding the uniform fiscal framework and consistent statistical reporting, the available public subsidy figures very much reflect the existing **accounting leeway** and the **institutional variety of subsidy instruments and programs** (e.g. it makes a difference whether local governments run the kindergarten or subsidize a private operator; or whether they grant entertainment tax concessions or opt to levy entertainment taxes but grant offsetting direct subsidies).
- The large number of **quasi-public enterprises** (public enterprises reclassified as private organizations or removed from government budgets) – such as utilities playing an important role at the local government level – would imply that the levels of subsidy spending are actually higher than disclosed and makes it harder to distinguish between subsidies proper, shareholder contributions and service charges. Against this background, the use of **indicators** reflecting **public spending including subsidies to third parties**, broken down by different **spending areas**, would increase the transparency of **spending aggregates**.
- **Identifying subsidy recipients** is invariably a question of subsidy **incidence**, i.e. boils down to determining the actual beneficiaries. However, available analyses often fall short of identifying external effects or the trickle-down impact of subsidy programs (e.g. housing subsidies or subsidies for energy-efficiency renovation will benefit not only subsidy applicants but also the contractors involved and the manufacturing industry).
- Depending on the **subsidy definitions and sectoral classification systems** used, **central government subsidies** ranged from EUR 6.9 billion (subsidies to nonfinancial corporations in line with the European System of Accounts (ESA) 2010) to EUR 15.7 billion (based on the definitions used in the Federal Budget Act 2013 and including some subsidies to households) in **2016**.
- Depending on the underlying statutory or statistical framework, **corporate subsidies granted by regional and local governments** ranged from EUR 1.4 billion (corporate subsidies pursuant to the Budgeting and Accounts Regulation 1997) to EUR 7.5 billion (in line with ESA 2010) in **2016**.

Targeted gradual expansion of monitoring functions and coverage would make the transparency database a more powerful tool more quickly

- The Court of Audit concluded in June 2018 that the **transparency database** set up under the Transparency Database Act 2012 is a **complicated monitoring tool** that suffers from data overload (**variety of benefits** covered) and **shortcomings in the data collection logic**. For instance, the monitoring purpose for which the data are collected and the underlying **definitions have not been identified**.
- Currently, reporting suffers from **incomplete coverage** (e.g. of municipal subsidies or major regional government subsidies) or **reporting exemptions** (e.g. coverage does not extend to payments made to government units, municipal cooperatives and hospitals). These shortcomings limit the meaningfulness of the transparency database and its monitoring function.
- **Access to the transparency database is highly limited for all stakeholders** (policymakers, processing and monitoring bodies and the general public). This leaves very little room for evaluations and meaningful reports (in compliance with data protection law).
- The **limited coverage** of subsidy overlaps among the different levels of government restricts the **meaningfulness** of the transparency database, as undesired instances of **multiple subsidies are not identified adequately**. However, such information would be instrumental for ensuring better coordination of subsidy powers and programs, and for avoiding overlaps and deadweight effects.
- **Gradual expansion**, i.e. collecting information on additional subsidy providers, subsidy areas or objectives without requiring individuals or individual companies to be identified in general or in all areas, would make the **transparency database** a more **powerful tool**. After all, such data are not

necessarily essential for identifying multiple subsidies and overlaps between subsidy programs. Rather than establishing a dedicated subsidy database for basic and applied research funding, as intended, the transparency database should be enhanced by integrating a corresponding module.

Enhanced regulatory impact assessments could help overcome the existing lack of information

- In order to facilitate **deeper policy discussions** of the **benefits and costs** of major individual subsidy measures, the **existing instrument of regulatory impact assessment** (RIA) pursuant to the Federal Budget Act 2013 could be used more widely for ex ante and ex post assessments of central government subsidies and – in a simplified manner – also for ex ante and ex post assessments of major regional and local government subsidies.
- Current **RIA assessments** provide results of **varying quality** and limited **meaningfulness**, in particular with respect to the efficiency and effectiveness of subsidy measures. Improving the quality of such information and documenting the key details in a **standardized form** in a “transparency database” would turn the database into a valuable **source of reference**.
- The Federal Budget Act 2013 provides for a **5-year deadline** for ex post evaluations, which means that important **findings** about effectiveness, resource allocation etc. become available **with large time lags**. In this respect, reducing the deadline to a maximum of 3 years would appear feasible.