

Abstract

This report defines and catalogues public subsidies to companies. In addition it surveys the empirical literature concerned with evaluation of the effects of producer subsidies. Some of the most important conclusions are:

1. Producer subsidies are not transparently reported in Sweden, in particular in comparison with countries like Germany that publish an annual "Subsidy Report". Our mapping is in several respects more comprehensive than previous attempts. We have collected new data on counties' support to companies and have recalculated the extent of municipalities' subsidy payments. Previous surveys have often been based on budget proposals or the national accounts entry "transfers to enterprises". Here we begin with a thorough definition of producer subsidies and add up actual expenditures. Frequent discrepancies between ministries' and subsidy-providing agencies' accounting have required detailed investigation. In spite of these efforts we have not been able to render an entirely complete account of producer subsidies. Some subsidies, for which expenditure data proved impossible to calculate, could only be described. A reasonable conclusion is that state agencies should use a common accounting standard that distinguishes better between producer subsidies and other expenditure. Counties and municipalities should also provide more transparent statistics.

2. Producer subsidies have not decreased over the past decade. Expenditure on producer subsidies in real terms culminated in the recession year 1993/94. This exceeded subsidy expenditures in 1982/83 - the apex of the previous recession - by a wide margin. On average producer subsidies exceeded SEK 50 billion per annum (in 1994 prices). This can be compared to revenue from company taxes of only SEK 20 billion per annum.

3. Many countries, among them Sweden, expressed an ambition throughout the 1980's to cut subsidies that conserve existing structures in the business sector in favour of subsidies that support innovation. To some extent this ambition has led to actual redistributions. Yet, the

share of producer subsidies given in support of innovation, roughly defined, is higher now than it was ten years ago.

4. Our survey of empirical studies on the effects of producer subsidies yields a pessimistic picture. Most studies render small effects, some even produce negative effects that counteract policy goals. These pervasive results suggest that producer subsidies currently are too generous.

Subsidies that conserve production structures are often found to have negative effects such as increasing unemployment in the long run. Various forms of employment subsidies often appear to render small positive effects, but it remains unclear whether the value of these effects exceed costs.

5. Our survey of empirical studies reveals a peculiar contradiction. International and Swedish scientific studies often find only small effects of subsidies using fairly sophisticated methods. In contrast, subsidy providing agencies' own studies often point to large positive effects – usually based on rather suspect methods. We recommend an independent overview of the quality of public agencies' own evaluations.

6. Administration of producer subsidies can be improved. A large number of different subsidies are given by a large number of different agencies, many of them with the identical goals. Thus administration of subsidies is extremely decentralized. Such decentralization could be valuable if it provided experience with a wide variety of different approaches. In reality however, the various approaches are rarely properly evaluated. Therefore the various experiments never yield reliable information on what works well, and the potential benefits of decentralization are lost.

At the same time potential gains from centralization are not exploited either. Among these would be

- better coordination among subsidy providers,
- allowing subsidy applicants to apply with a single application, and
- a standardized evaluation procedure that allows comparison between subsidy providers.

We recommend a reorganisation that better exploits the potential benefits of both decentralization and centralization. Some elements of this are that subsidy providers use a common database that omits the need for each subsidy provider to which an applicant applies to collect duplicating information on the project. Further, such a database would allow applicants to apply only once, and then be electronically forwarded to subsidy providers of their choice. Finally, an independent evaluation procedure is essential. This should be applied with some degree of uniformity so that different subsidy providers' effectiveness can be compared.