

Different definitions of subsidies cause big differences in recorded figures on government subsidy spending

Elimination of existing information deficits and improved evaluation could enhance efficiency of subsidies

The application of different national and international definitions of subsidies is the reason why the recorded amounts of subsidies in Austria vary widely (Grossmann, 2018).¹ Depending on the definitions used, central government subsidies amounted to between EUR 6.9 billion and EUR 15.7 billion in 2016, and subsidies paid out by regional and local governments totaled between EUR 1.4 billion and EUR 7.5 billion. Given the differences in definitions and a lack of comparability (e.g. of subsidy instruments or the sectoral classification of recipients), interpreting data on subsidy levels requires in-depth knowledge and additional information. Greater transparency in the Austrian system of subsidies in terms of objectives, resources and impact could enhance the efficiency of subsidies and prevent instances of multiple subsidies. To this end, the transparency database set up jointly by the central and regional governments could be gradually expanded and the existing instrument of the regulatory impact assessment pursuant to the Federal Budget Act 2013 could be optimized.

The Austrian system of subsidies has repeatedly been presented as a prominent example of an area of joint tasks and expenditure across all levels of government that holds a high potential for enhancing efficiency and cutting costs (see, for instance, Court of Auditors, 2016 and 2015; Pitlik, 2012; or Fiscal Advisory Council, 2018).² This is essentially attributable to the system's **lack of transparency with regard to the objectives, amounts and actual impact of subsidies**, which also impedes a strategic approach to subsidization in Austria that is consistent across all levels of government.

The level of subsidies depends to a large extent on the **choice of subsidy instrument, the design of the tax system** and the type and scope of governmental tasks (outsourced tasks and inherent responsibilities). Figures on subsidy spending are largely determined by the **definitions and sectoral classifications** that are used. As a result, the **recorded amount of central government subsidies** ranged from EUR 6.9 billion (based on the European System of Accounts (ESA) 2010) to EUR 15.7 billion (based on the Federal Budget Act 2013) in **2016**. Under ESA 2010, the scope of subsidy instruments (essentially **direct subsidies** or transfers to the **corporate sector**)³ and the classification of significant recipients of subsidies as part of the government sector (e.g. public transport operators) limit the figures recorded for subsidies to third parties. In contrast, under the Federal Budget Act 2013, subsidies comprise primarily indirect subsidies (such as tax breaks like lower tax rates provided by the Value Added Tax Act), which account for around 75% of total subsidies. (In addition, subsidies under the Federal Budget Act 2013 also include benefits for households.) The amount of **regional and local government** subsidies to the corporate sector recorded for **2016** ranges from EUR 1.4 billion (based on the 1997 Budgeting and Accounts Regulation) to EUR 7.5 billion (based on ESA 2010).

International comparisons of national levels of subsidies are usually based on **ESA 2010**. These data suggest that, **compared to other euro area countries**, the level of subsidies granted to the corporate sector in Austria is **average**. According to this data source, Austria's **total government spending on subsidies for the corporate sector** amounted to EUR 14.6 billion in 2016,⁴ with the category “**economic affairs**” receiving the largest share by far (EUR 5.0 billion), followed by “**social insurance**” and

1 Grossmann, B. 2018. Subsidies in Austria: definitions, spending levels and suggestions for improving efficiency (available in German only, see www.fiskalrat.at)

2 RH-Bericht Reihe Bund 2015/17 and Reihe Bund 2016/22; Pitlik, H. (2012). Darstellung der Unternehmensförderungen in Österreich und Identifikation von Einsparungshebeln; Fiscal Advisory Council. 2018. Fiscal Rules Compliance Report 2017-2022.

3 The term corporate sector is used in a broad sense (i.e. private sector excluding households).

4 Sum of subsidies (D.3), current international cooperation and miscellaneous current transfers (D.74 and D.75) and capital transfers (D.9).

“**human health activities**” (EUR 2.1 billion each). These figures do not include EU subsidies for Austrian manufacturers in the amount of EUR 1.1 billion, which are granted above all to the agricultural sector and constitute only pass-through funds in Member States’ budgets.

Different institutional setups (in addition to some leeway in accounting) make international comparisons difficult. For instance, the level of public subsidies (under ESA 2010) depends on the sector classification of quasi-public organizations (e.g. on whether transport infrastructure operators or healthcare and education providers are considered as part of the government or the private sector). While funding flows between government entities (e.g. central government funds to the Austrian Federal Railways’ infrastructure and passenger subsidiaries (ÖBB Infrastruktur and ÖBB Personenverkehr)) do not constitute subsidies but intergovernmental transfers, financial flows to third parties (e.g. local private railway operators) are recorded as subsidies to the private sector.

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**, thereby yielding information that could feed into a shared **database**.

The “**transparency database**,” launched in 2010 on the initiative of the Federal Ministry of Finance, operates on the basis of a very broad definition of subsidies, a number of different objectives as well as individual personal and business data. Designed as a comprehensive information, monitoring and control tool, the database has repeatedly been **criticized** – e.g. by the Court of Auditors and some regional governments – for the way it has been **organized and implemented so far**. For instance, the database so far does not cover important target areas of regional and local government subsidies because the administrative burden of supplying the relevant data is considered to be too high. Furthermore, the information stored in the database (e.g. subsidy amounts) is hardly accessible to the public. The usability of the **transparency database** could be enhanced by its **gradual expansion and the requirement to make the information accessible to the public** (in compliance with data protection law). A first priority could be to **identify multiple subsidies**; for this goal to be achieved, it does not appear to be absolutely necessary to store individual personal and business data.

A more **in-depth policy discussion about the benefits and costs** of individual subsidization measures requires **detailed information about subsidy programs offered by the various levels of government and the EU** (e.g. targets broken down by impact categories, planned and actual budgetary costs, characteristics of recipients like economic sector and company size as well as actual impact), and this information should be open to the public. At present, **exhaustive (external) expert evaluations** of individual subsidies (e.g. research grants, financial incentives for households to hire contractors for renovation and upkeep work) are provided only **in some cases** and not always accessible to the public.

The **regulatory impact assessment pursuant to the Federal Budget Act 2013** is a suitable instrument that could also be applied to all significant subsidy measures and programs, even – in a simplified form – to those provided by regional and local governments. Information related to the impact of subsidies (impact targets, measures and indicators) has been an integral part of central government budget estimates since 2013; as a rule, this information is subjected to an ex post review. However, there is a need to improve both **ex ante regulatory impact assessments and ex post evaluations**, e.g. in terms of uniform quality standards, choice of impact indicators and methodological changes in ex post evaluations. Furthermore, the current 5-year deadline for ex post evaluations in general should be reduced in the areas of subsidies. The main results should feed into a publicly accessible **database**.

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