

# Public Support to Industry

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*The OECD has recently completed the third phase of a project which aims to increase the international transparency and comparability of government support to manufacturing industry. The results point clearly to the persisting importance of subsidies as an instrument of structural policies in the OECD area. Can such subsidies still be justified, particularly in view of their distortion of trade and competition?*<sup>1</sup>



Carlo Borlenghi/Sea and See

Subsidies have long been associated with economic inefficiency. They hamper the efficient allocation of resources and can distort international trade and competition. They also place a heavy burden on public budgets which nowadays are increasingly stretched.

Government support and industrial subsidies are defined by the OECD to cover all measures of financial support from central or sub-central government to manufacturing industry which result in a net cost to government (box, p. 12). The financing instruments for which the net cost can be calculated are grants, loans, guarantees, infusions of equity capital and tax concessions. Public support to manufacturing industry in the OECD countries is delivered either directly, through a vast range of programmes imple-

mented by central, regional or local tiers of government, or indirectly, by intermediary agencies or institutions. Most of these programmes are available exclusively to manufacturing industry, although a few others are open also to non-manufacturing enterprises.

To analyse government support, the OECD classified it in ten categories, identified by their objectives:

- sectoral policies
- crisis aid
- R&D and technological innovation
- regional development
- general investment incentives
- support to small and medium-sized enterprises (SMEs)
- labour and training<sup>2</sup>
- exports and foreign trade
- energy-efficiency
- environmental protection.

The OECD analysis covers the major developments in public support to domestic industry from 1989 to 1993, when the economic and geo-

political environment was marked in particular by:

- the accelerating globalisation of industrial activities
- the conversion of military production after the end of the Cold War
- deteriorating budgetary situations in almost all OECD countries
- a changing pattern of industrial policies from a sectoral to a more framework-oriented approach<sup>3</sup>

1. Public Support to Industry, available free of charge from the Industry Division of the OECD Directorate for Science, Technology and Industry.

2. Programmes initially reported to the OECD project under this policy heading were withdrawn from the main database and represented in an annex, since many of the instruments involved have mainly social-policy objectives; there are also uncertainties as to the final beneficiaries of such programmes.

3. Rauf Gönenç, 'A New Approach to Industrial Policy' and Hanspeter Gassmann, 'From Industrial Policy to Competitiveness Policies', *The OECD Observer*, No. 187, April/May 1994. See also Mario Cervantes, 'Helping Industry Help Itself', *The OECD Observer*, No. 200, June/July 1996.

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## BACKGROUND

### Whence the Data?

The OECD is collecting data on direct and indirect programmes of government support to manufacturing industry. The primary objectives are to improve international transparency and to compare the trends and patterns of such support across the OECD. The OECD publication *Industrial Subsidies: A Reporting Manual* describes the definitions and methodologies used.<sup>1</sup>

Beginning in 1986, three rounds of data collection have been carried out, covering 1982–86, 1986–89 and 1989–93.<sup>2</sup> To date, the OECD's database on industrial-support programmes contains detailed information on approximately 1,450 support programmes applied in 24 OECD countries, as well as in the Slovak Republic, which participated as an observer (Greece and Luxembourg did not take part in the exercise, and Hungary and Poland were not OECD members when the third phase of the project was finalised). In addition to the data on support programmes, information was collected on public R&D contracts, intermediary R&D institutions and civilian and military procurement which can all serve as indirect means of public support.

The figures in the OECD database refer exclusively to manufacturing. Whenever actual expenditure data relating to manufacturing were not available, estimates were made jointly by the OECD and national government experts.

• emerging international discipline on subsidies in the final stages of the Uruguay Round negotiations.

All of these trends suggest a shrinking role for public subsidies directed to manufacturing industry. And indeed the general expectation was of a fall in support. Instead, government support in the OECD area grew by 25% in nominal terms from 1989 to 1993 (Table 1) – an upward trend that should be even more marked when data from 1992 and 1993 for certain large tax-concession programmes become available. In the event, support declined only in a third of the 25 participating countries, and it grew in the other

Public support was calculated in terms of Gross Government Budget Expenditure (GGBE) and Net Cost to Government (NCG). GGBE measures the total amount of funds transferred to beneficiary companies or the total amount of uncollected tax liabilities from them per year by each programme. NCG measures the difference between the cost of funding a programme and the revenue generated for the public budget by the same programme in any given year.

The OECD's strict, programme-based, bottom-up approach makes it the sole source of information on support to manufacturing industry. Figures in surveys published by other international organisations are derived at least partly either from national accounts or government statistics which, in addition, do not isolate the share of total support that goes to manufacturing. Moreover, the information collected by the OECD undergoes a 'peer review' to ensure that the data are internationally acceptable.

1. *Industrial Subsidies: A Reporting Manual*, OECD Publications, Paris, 1995.

2. *Industrial Support Policies in OECD Countries, 1990*; *Industrial Support Policies in OECD Countries, 1986–89, 1992*; *Public Support to Industry, 1996* – all available free of charge from the Industry Division of the OECD Directorate for Science, Technology and Industry.

two-thirds. The main reason for the increase appears to be because of regional-development policies, where spending almost doubled.

In real terms, public support increased between early 1989 and late 1993 by 1%. The manufacturing support rate, measured as the share of nominal support in manufacturing GDP, was 1.09% in 1989, and 1.15% in 1993 – a growth rate of 5.5% overall – although the rise in this indicator is likely to have been curtailed more by the growth in manufacturing GDP than by collective policy efforts to curb industrial support.

The trend as a whole masks considerable diversity in spending under the range of policy

programmes. Reductions in sectoral aid, investment incentives and SMEs were largely outweighed by stronger support in all other areas.

Support to regional development, exports and trade, and R&D played a prominent role in net spending. The large financial volumes and the number of programmes in sectoral aid, crisis aid and exports and trade promotion at the end of 1993 is a problem that in large measure has yet to be tackled. In view of the structural adjustment policies adopted and the stronger international discipline being brought to bear on subsidies, a more marked shift away from sector-, enterprise- and product-specific assistance towards 'horizontal', interdisciplinary policy areas would have been expected.

Almost 50% of sectoral programmes is concentrated on three ailing industries – steel, ship-building and textiles (Table 2) – which account for only 9% of manufacturing GDP in OECD countries. Measured for both direct and indirect support, the aircraft and space industries lead other sectors (Tables 2 and 3).

Crisis-aid subsidies given directly to large firms – whether publicly or privately owned – are nonetheless likely to occupy a lower place on the political agenda, since the emphasis in crisis aid is shifting to SMEs that are experiencing difficulty, with the funds increasingly provided by regional and provincial governments. Programmes providing support to SMEs as either their primary objective (359) or secondary goal (194) constitute more than a third of all the programmes reported, reflecting the growing recognition of the contribution of small business to job-creation.

Concentration of support in a few programmes is particularly evident for R&D and technological innovation. The ten largest programmes consumed more than 50% of total direct R&D support reported for the years 1991 and 1992. Most of these programmes are directed towards general research objectives, such as funding of technology parks or venture capital, international co-operation or support for hiring personnel. Almost 40% of all R&D programmes directly promote selected technologies, chiefly micro-electronics and information technology, energy-saving, new materials, space and aero-

Table 1  
Reported Expenditures  
and Programmes by Policy Objective, 1989-93

Policy Objective	Programmes	NCG <sup>1</sup> in current prices; million dollars				
		1989	1990	1991	1992	1993
Sectoral	147	4,449	4,923	5,813	5,194	3,388
% share	10.2	12.1	11.7	12.1	11.1	7.4
Crisis Aid	53	1,625	668	875	585	3,188
% share	3.7	4.4	1.6	1.8	1.3	6.9
R&D and Technological Innovation	269	6,369	7,864	9,102	9,976	8,677
% share	18.7	17.3	18.7	19.0	21.4	18.9
Regional Development	213	8,510	9,803	14,049	14,863	15,386
% share	14.8	23.1	23.3	29.3	31.8	33.4
Investment	148	2,953	2,805	2,767	2,396	2,594
% share	10.3	8.0	6.7	5.8	5.1	5.6
SMEs	359	5,432	6,031	4,340	4,693	3,750
% share	25.0	14.7	14.4	9.0	10.0	8.1
Export and Foreign Trade	118	6,883	8,973	9,920	7,813	7,268
% share	8.2	18.7	21.4	20.7	16.7	15.8
Energy-efficiency	64	436	620	840	866	1,443
% share	4.5	1.2	1.5	1.8	1.9	3.1
Environment	66	249	338	276	329	333
% share	4.6	0.7	0.8	0.6	0.7	0.7
<b>Total</b>	<b>1,437</b>	<b>36,906</b>	<b>42,025</b>	<b>47,983</b>	<b>46,717</b>	<b>46,028</b>

1. Net cost to government.

Source: OECD

navics, and biotechnology.

In addition to 148 schemes offering incentives for investment, 96 programmes promoting investment as a secondary policy-objective were reported, particularly in regional development. Indeed, 765 programmes of the 1,437 reported to the OECD have the stimulation of investment as their goal. They absorbed 37% of total public support to manufacturing industry in 1989-93. Such schemes appear to be a domain of sub-central tiers of government and reflect intensified competition among them for creating new businesses or attracting investment to their area.

Table 2  
Support to Selected Industries, 1989-93  
million \$

	1989	1990	1991	1992	1993
Shipbuilding	2,114.6	1,957.1	2,304.0	1,815.0	1,337.7
Steel	187.9	255.3	66.0	47.0	38.2
Textiles	153.4	101.7	95.0	85.4	45.8
Aircraft	464.9	607.4	366.9	502.7	340.7
<b>Total</b>	<b>2,920.8</b>	<b>2,921.4</b>	<b>2,831.8</b>	<b>2,450.1</b>	<b>1,762.4</b>

Source: OECD

energy inputs and more efficient production technologies.

## Qualitative Features

Defence procurement, R&D contracts, contracts awarded by space agencies and intermediary R&D institutions such as national industrial research centres (which can serve as indirect means of public support) channel far more financial resources to manufacturing industry than direct support (Table 3). Even if the support element in the panoply of indirect measures is only a very small percentage of the total, it is still substantial. Since there is as yet

no agreed methodology for measuring the amounts involved, its relative importance as a policy instrument has yet to be established and, more particularly, how much support it channels to manufacturing industry.

Only 4.4% of all the support programmes identified by the OECD limit access to these programmes to domestically owned enterprises. Export credits and export-credit guarantees merit further scrutiny in view of their financial volume and their uneven distribution among countries.

The policy objectives of energy-efficiency and environmental protection as part of the new paradigm of sustainable economic development may have been the driving force behind the shift towards programmes supporting the use of cleaner or renewable-

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Table 3  
Direct and Indirect Support  
to Manufacturing Industry, 1989-93  
billion \$

	Reported Expenditure					Total 1989-93
	1989	1990	1991	1992	1993	
Direct support (1,437 programmes)	36.9	42.0	48.0	46.7	46.0	219.6
R&D contracts to manufacturing industry	19.3	17.8	17.5	16.7	17.2	88.5
Space agencies: contracts awarded by/procurement of	4.9	5.9	5.6	6.5	6.4	29.3
Public support to intermediary R&D institutions	0.8	0.9	0.9	1.0	1.0	4.6
Defence-procurement expenditures	209.7	221.4	234.3	210.2	207.3	1,082.9
of which:						
Goods	169.1	178.2	188.7	168.9	166.9	871.8
R&D	28.9	30.0	28.4	29.0	29.5	145.8

Source: OECD



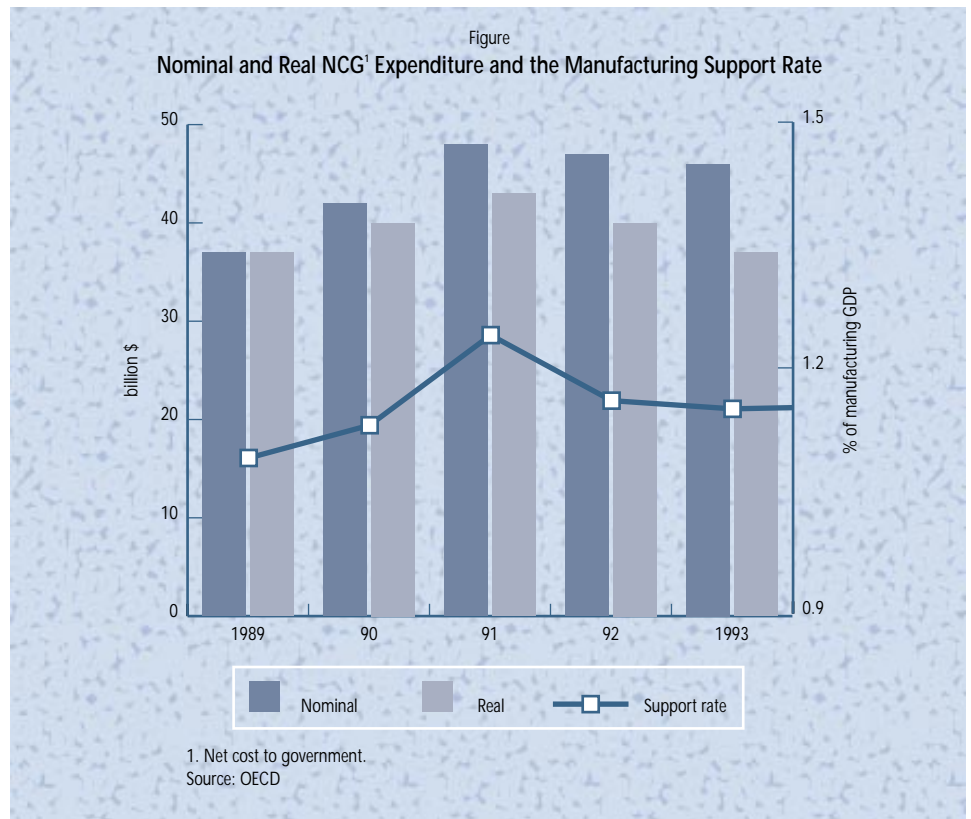
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be addressed. But the longevity of operational support schemes established under guise of crisis aid, R&D, and exports and foreign trade deserves closer examination – normally, such schemes should operate on a shorter-term basis.

The role and the development of support from sub-central strata of government are difficult to analyse in view of the gaps in the data, especially for the major federal countries. Moreover, there is much less statistical information available for sub-central support than for centrally managed support. The figures in Table 4 therefore underestimate the amounts involved. Centrally managed programmes represent 45.2% of the total reported; and regional, local and other sub-central programmes together account for 36.6%. The contrast in spending is much sharper where, on average, centrally financed programmes account for 80% of the total and sub-central programmes represent 6%. In addition, public and/or private institutions managed 8% of the total reported expenditure.



This OECD project will go on to develop analysis that is more country-specific. Examina-



tions of individual countries are planned; these will build on the existing and updated reportings as well as on additional background information, thereby allowing for a clearer understanding of national support policies. In addition, the analysis, which is currently more a question of fact-finding, will in the future be more policy-oriented and thematic, addressing questions related to the efficiency of support programmes. A first category in which such analysis will be undertaken is R&D and technological innovation.

An improved evaluation of support policy would have several advantages. First, it could

increase the general awareness that industrial-support policies should deliver the results desired of them, and generate information on best practice to this end. It could strengthen government resistance to pressure from lobbies. And in general, it could result in a more efficient use of public resources. ■

Table 4  
Central and Sub-central Support, 1989-93

Management	Programmes	NCG <sup>1</sup> in current prices; million dollars				
		1989	1990	1991	1992	1993
Central	650	31,076	34,074	39,770	37,320	32,300
Joint central/ sub-central	91	1,043	1,279	2,178	2,753	5,949
Local	144	512	762	796	876	898
Regional	52	872	1,016	1,010	917	796
Sub-central	330	767	827	743	981	696
Private institution	22	1,227	1,549	1,158	1,426	2,481
Public institution	124	1,192	2,250	1,984	1,771	2,503
Public/private institution	7	77	102	107	122	126
Unclassified	17	140	169	239	551	279
<b>Total</b>	<b>1,437</b>	<b>36,906</b>	<b>42,025</b>	<b>47,983</b>	<b>46,717</b>	<b>46,028</b>

1. Net cost to government.  
Source: OECD

## OECD BIBLIOGRAPHY

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