

Subsidies, an economical framework

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The subsidies to the energetic sector have had very big increases in the last years. During the year 2006 destined in this concept \$ 4 billion, whereas in 2007 it overcomes the \$ 8,3 billion, being more of \$ 19 billion the distributed ones during 2008 (ASAP, report February, 2009, (1)). The evolution in level growth of the expense destined for subsidies to the energetic sector derived from the policy taken forward seems to be difficult to support in the medium term. At first, in principle, for the year 2009 the initial credit (CI) is of \$ 15,224 billions.

Nevertheless if we take the items as earned, that is to say as executed, the expenditures during 2008 overcome scantily the \$ 18 billion. Therefore, though the fall of the subsidies is 23 % if we take the CI 2009 against the budgeted (CV) 2008, if we take the CI 2009 against earned (CD) during 2008 the fall seems to be substantially minor, of only 15 %.

On the other hand, if we look separately at the items of the year 2009 we notice strong reagreements, whereas CAMMESA loses 20 %, if we measure CI 2009 against CD 2008, the Binational Entity Yaciretá gains 154 %. This is an indication that would reveal a strong instability in the policies followed in the sector, exposing the need of a more detailed analysis to study his reasons. The fall of 55 % of subsidy to the producers of crude oil basically can be explained by a price effect.

CAMMESA's contribution explains 94 % (2) of the fall of the subsidies of the CI 2009 against CD of 2008, which indicate that other variations are mere reclassifications. If we look to a panorama where there might exist a minor growth of energetic demand due to an economic growth also substantially minor, actually (always without CAMMESA), we should analyze, if in fact, for unit of consumed energy, the subsidies do not rise, or, at least, stay in the same level.

The question that appears is that, what is going to happen once the crisis has been overcome. If during the crisis the subsidies cannot go down (and probably even rise); the topic is to think what will happen when the demand of energy go to follow again the economic growth.

Due to the numbers that we exposed, the policy of subsidies increasingly increasing to the energetic sector might not go on of having a transitory character. In this respect the economic theory offers certain useful tools to examine the form of use of the resources that are possessed:

A) We must pay attention to the possible fact that a system of focused subsidies raises the cost of administration due to the major complexity of admission of the beneficiaries for the administration and the costs that the own beneficiaries must confront to be able to accede to the benefit. Especially it is necessary to observe if the population -target of the subsidies- accedes really to this benefit.

B) It is necessary to analyze which are the activities that generate a major multiplier effect; which are the activities that, in greater measure, can push forward others. This idea has certain complexities, for example, it is possible to seek to multiply the employment of the population or multiply activities that leave a major infrastructure and these criteria can be contradictory between them.

C) In addition it would be necessary to analyse which activities generate the major increases of productivity, in relation to the process of production of the own industry.

D) In case of those who pays the taxes that finance a transitory increase of public expenditure; some economic theory makes clear that an intertemporal substitution in consumption would take place. Due to the fact that the wealth will be greater in the future, the consumers will try to increase his consumption today taking credit, which would increase the interest rate and, in this way, harm the processes of investment. This idea is important to consider in circumstances where the economy is in situations near to full employment. In addition, the question that we must do is, if those who pay this tax have or want to have access to the credit market.

E) If we see to the subsidies from the point of view of the beneficiaries; a transitory reduction of taxes would produce, at first, an also transitorily increase of the saving; due to the fact that in a future this reduction will not exist and/or because they are going to have to pay with future taxes for the current reduction. Then, if this major saving is not absorbed by the credit market, there will take place a negative effect on the economic activity. In relation to the most relegated sectors of the society there would be necessary to observe that they are not in the habit of having access to the credit market (be like offerers or demanders); but in principal, they must spend all his revenue, therefore this negative effect would be not given in relation to his expenses.

F) If the restriction of currencies is operating strongly, this one will be another criteria to consider; it should favour the activities that generate major quantity of currencies, or that diminish the need of this. There also must be weigh up, that, in addition, the budgetary restriction in case of restriction of currencies can be greater that in other scenarios.

Till now we have been presenting some guides that the economy shows us for the assignment of resources. The analysis can spread to presenting some limits of these criteria, and also, to reject others less useful. In this respect, we can see that the criteria of assignment present often difficulties of quantitative measurement, as for example the effect of such expenses in education where the quality is a crucial variable. In the same line of investigation, it does not seem to be useful to distinguish between public and private sector, the public sector needs energy for irreplaceable investment expenditures (in infrastructure) and the private sector for the activities in which it is efficient or in activities in which probably will be efficient in the future (comparative dynamic advantages).

We can see that the question is one of extreme complexity, with some criteria that probably are superposed to others, but they are useful at the moment of planning policies; given a constrain of always scarce resources.

- (1) All the statistical information belongs to this report except when the opposite is said.
- (2) Contribution of a particular item (i) to the total change of the subsidies in the moment t with base in the moment j = $\frac{\text{subsidy } i \text{ t} - \text{subsidy } i \text{ t-j}}{\text{total subsidies t} - \text{total subsidies t-j}}$