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Extent and Effectiveness of the Slovenian Policy of Subsidising Companies

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### Summary

The question of whether subsidies are harmful or beneficial has been widely discussed in the economic literature. According to the still predominant arguments and empirical evidence, subsidies do more harm than good to market economies by distorting the operation of the free market. However, subsidies can stimulate economic competitiveness and benefit economic growth and development, provided that the objectives of subsidising are set appropriately, that their recipients are efficient, and that the amounts of granted subsidies are adequate. Since subsidies also serve as an alternative mechanism for tackling other economic problems, they are also used in cases when they are not highly effective as regards economic growth and development, but represent the lesser evil in comparison with other economic instruments at hand.

Slovenia's share of subsidies in its gross domestic product is higher than the EU average. Its effectiveness, however, is not sufficiently well researched. The paper analyses the effectiveness of subsidies in Slovenia based on data from the annual accounts of companies and sole proprietors. A comparison of the performance of companies that receive subsidies and those that do not within the same industry shows that, on the whole, the recipients of subsidies generate lower value added per employee. On average, subsidised companies perform worse than their non-subsidised counterparts. This suggests that subsidies are granted to weaker companies and/or that they do not produce the desired effects. A more detailed analysis has shown that many subsidies are granted to companies that provide public services. Only 75 companies in Slovenia receive a regular annual subsidy. These companies have a dominant position in their branches as regards the achievement of value added and employment, and therefore have a decisive impact on the performance of the industries they operate in. At the same time, subsidies also affect competition in these branches. The lack of competition affects other, especially smaller, companies.