

Evaluation of Building Savings Subsidies in the Czech Republic

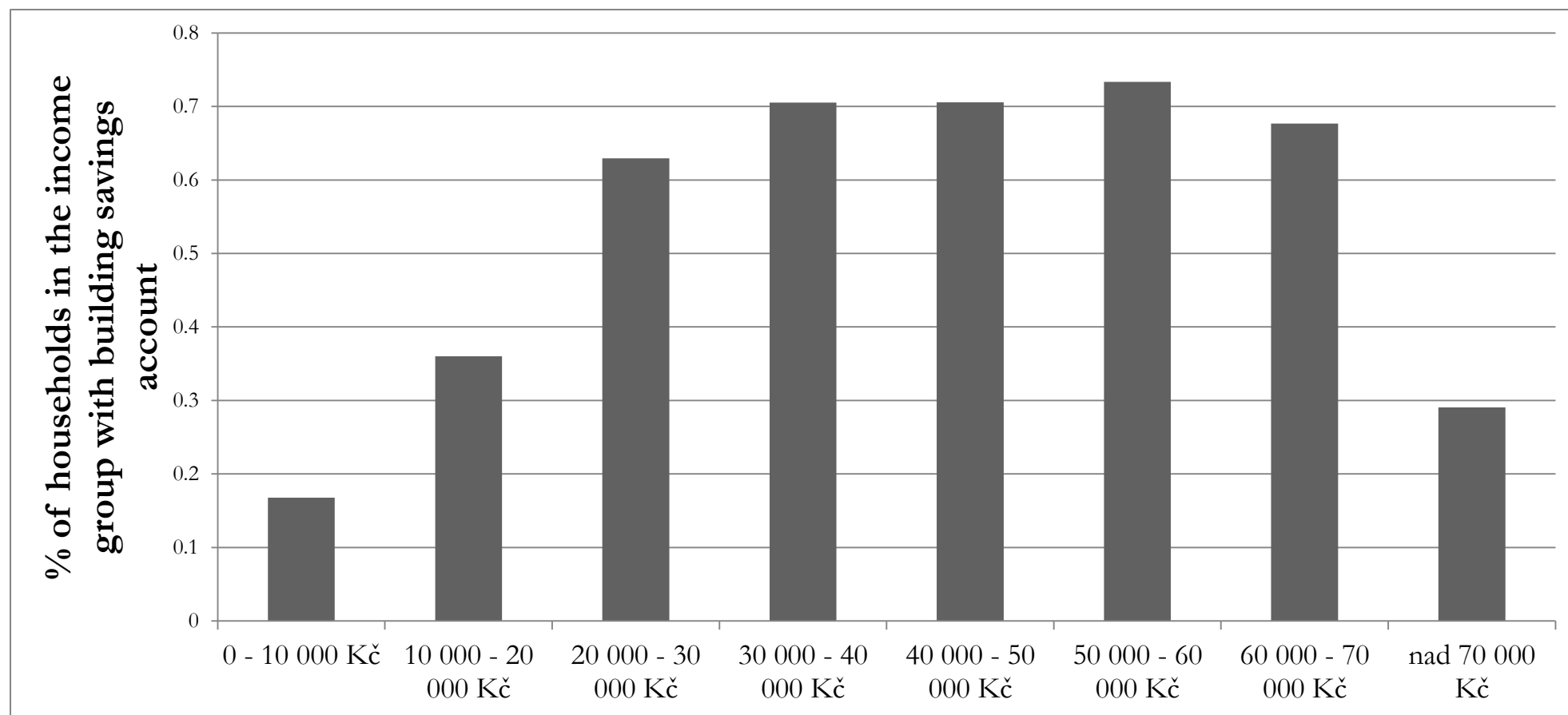
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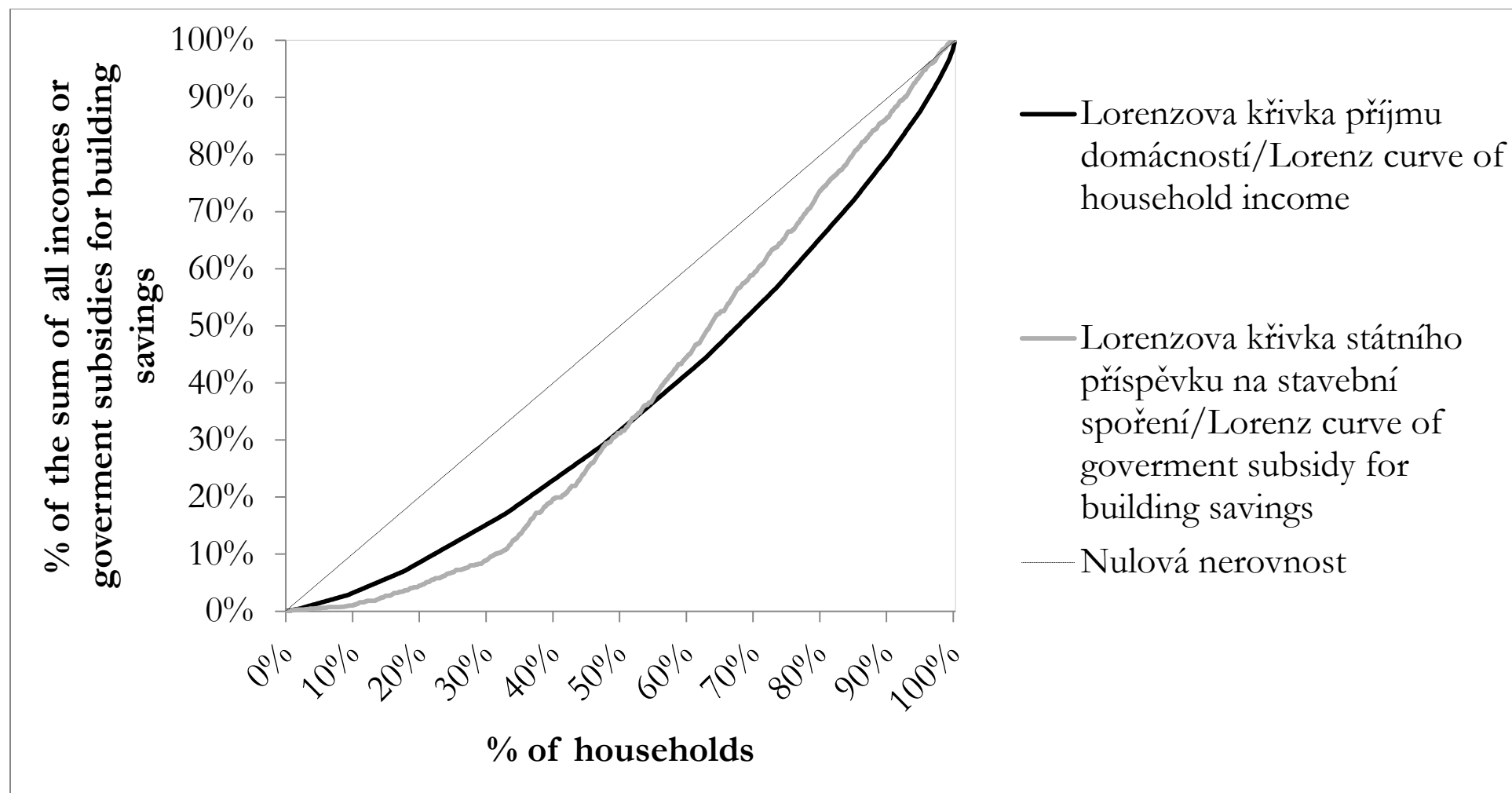
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THE PERCENTAGE OF HOUSEHOLDS USING THE BUILDING SAVINGS BY INCOME GROUPS.



Data: Factum Invenio, 2008, a representative sample of Czech population.

LORENZ CURVES.



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The subsidies to the building savings accounts are:

Wasteful: One can purchase anything with the subsidized savings, not only housing-related

Inefficient: The subsidies do not increase the savings of most of the people receiving it, and the value they create is lower than the costs

Counter-effective: the subsidies even supports borrowing, via the so-called bridge loans which are being used by customers who did not need to accumulate savings before taking the loan.

Income Regressive: The high-earners benefit more from these subsidies

Inequality increasing: The inequality increases due to the subsidies, especially for the lowest-earners

Costly: Direct budget costs of CZK 13.5 billion in 2010.

Redundant: The same objectives can be achieved at lower costs.

Policy recommendations

Proposal: Phase out the subsidy, no to regressive taxes or abrupt cancellations, yes to a gradual phase-out consistent with behavioral economics.

Rationale: Because the costly subsidy is wasteful, inefficient, regressive and inequality increasing.

Timing: Start as soon as possible as adjustments on the expenditures side are crucial for a sustainable fiscal policy, which is a short as well as long term objective, and have longer lasting effects than consolidations relying primarily on raising taxes