



The impact of state aid on the survival and financial viability of aided firms[☆]



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ARTICLE INFO

Article history:

Received 3 June 2016

Accepted 16 August 2017

Available online 24 August 2017

JEL classification:

C41

D62

D73

G33

G38

H23

L52

L98

O52

Keywords:

Public policy

State aid

Ex-post evaluation

Survival analysis

EU

ABSTRACT

We estimate the causal impact of restructuring aid granted by the European Commission between 2000 and 2012 on the survival and financial viability of aided firms. Using a comprehensive dataset we find that restructuring aid decreases the hazard rate of a market exit by 58–68% and increases firms' average survival time by 8–15 years, depending on the definition of firm survival. We also find that aid receiving firms have a significantly higher probability to improve their financial viability than the counterfactual group in the longer run.

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[☆] The paper is based on the study “Ex-post evaluation of the impact of restructuring aid decisions on the viability of aided (non-financial) firms” produced within a framework contract with the European Union by a consortium consisting of WIFO (Vienna), ECORYS (Rotterdam), Idea Consult (Brussels), SPI (Coimbra), and ZEW (Mannheim). The opinions expressed are ours only and do not represent the European Commission's official position. The European Commission has the rights to the results of the study which can be downloaded here: <http://ec.europa.eu/competition/publications/reports/kd0116104enn.pdf>. We are grateful to the entire project team and the European Commission for helpful discussions in the course of the project. We are further indebted to Wolfgang Briglauer, Dirk Czarnitzki, Martin Hud, Ulrich Laitenberger, Eva Pichler, Christian Rammer, Michael Schröder and Douglas Thompson for helpful remarks on earlier versions of the paper.

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1. Introduction

The granting of state aid or subsidies is a traditional and important tool of public policy.² By reallocating funds - on a selective basis - to industries or firms, governments on the one hand may aim at compensating for market failures or market imperfections thereby improving market allocations and social welfare. On the other hand such selective reallocations are not only generally suspected of causing incremental societal costs by distorting competition and trade but may also be guided by less altruistic alternative governmental motives - such as, for example, the preservation of powers (see, e.g., Boycko et al., 1996; Hainz and Hakenes, 2012) - typically associated with negative welfare effects.³ This ambivalence in the motivations - together with increasing political pressure to reduce government spending - has led many countries to tie such transfers to the fulfillment of strict conditions.

For the European Union and its key objective of creating common European markets for goods and services, the control of state aid has always been of key interest. However, although the 1957 Treaty of Rome already included key provisions on state aid, it took until the end of the last century before the European Commission successfully started several stages of substantial reforms of the existing rules aiming at “less and better targeted state aid” (European Commission, 2005) and “good aid that supports growth” (European Commission, 2012).⁴ The general success of these initiatives - such as the 2005–2009 State Aid Action Plan and the 2012–2014 State Aid Modernization Reform - is reflected not only in the development and implementation of stricter and more transparent state aid rules but also in a shrinking significance of (non-crisis related) state aid transfers from 1.1% of GDP in 1992 to 0.49% of GDP (EU-28) in 2013.

However, despite its decreasing share, state aid continues to be an important tool of government policy in the European Union reflected in overall (non-crisis related) transfers of about 64.4 billion Euros in 2013.⁵ While a large fraction of European state aid is granted for so-called horizontal objectives covering areas such as environmental protection, regional development as well as research and development (including innovation), sectoral aid (excluding both agricultural and transport sectors) still accounted for about 10% of European state aid transfers in 2013. In fact, as part of its sectoral aid activities, the European Commission considers rescue and restructuring (henceforth R&R) aid as key policy tool to support firms in difficulty, aiming at avoiding their dissolution with all the expected negative (societal and economic) consequences such as loss of employment, technical know-how and expertise or disruption to important services. However, a necessary precondition for the granting of R&R aid by the European Commission in a specific case is a sufficiently high likelihood that the respective aided firm will return to viability after going through the compulsory restructuring process (thus avoiding “wasteful” public spending).

In this context, we estimate the causal impact of 56 positive restructuring aid decisions - reached by the European Commission between 2000 and 2012 - on the survival probability and financial viability of aided firms. Based on the construction of a non-aid receiving counterfactual group through a matching procedure, our application of survival models shows that restructuring aid increases a firm’s average survival time by 8–15 years and decreases the hazard rate by 58–68%, depending on the definition of firm survival. Subsequently, estimating ordered response models, we find strong support that, in the longer run, aid receiving firms have a significantly higher probability to improve their financial viability than the counterfactual group of non-aided firms. While we find that the granted aid measures were effective in increasing firm survival and long-term financial viability, we do not evaluate the efficiency of these measures. Though this would be a highly relevant extension of our research question it appears hardly feasible due to the substantial heterogeneity of the restructuring plans and the applied aid tools ranging from direct grants, different types of loans or guarantees to debt write-off and tax deferment etc. (see Table A3). This heterogeneity makes it hard to express the costs of aid in monetary units. Furthermore, it should be noted that the estimation of overall welfare effects is also beyond the scope of the paper for the same reasons.

The remainder of this paper is structured as follows. In Section 2, we provide an overview of the institutional background of R&R aid transfers in the European Union and briefly review the existing literature that has estimated the impact of R&R aid on firm survival and financial viability. Section 3 continues with the presentation of our econometric identification strategy. Section 4 gives a detailed description of our data set and Section 5 explains our matching procedure. In Section 6 we present our empirical results of, first, treatment effects at the end of our sample period (Section 6.1), second, survival models (Section 6.2) and, third, ordered response models (Section 6.3). The presentation of our estimation results is followed by a robustness section (Section 7) and a discussion of selected policy implications of our empirical results (Section 8), Section 9 concludes the paper with a review of its main insights and an identification of avenues for future research.

² As noted by the OECD (2010), there are no substantive differences in the definitions of “state aid” and “subsidies.” In the remainder of this paper, we will use the term “state aid” (referring to the official wording of the European Commission).

³ See also Dewatripont and Seabright (2006), who develop a model in which politicians fund projects that are wasteful in order to signal their diligence. For detailed overviews of the (efficiency- or equity-related) rationales for granting state aid in general and the existence of a European State aid control in particular, see Nitsche and Heidhues (2006) or Friederiszick et al. (2006).

⁴ See Kassim and Lyons (2013) for a detailed overview of the history of European state aid policy.

⁵ Sources: 1992 data stem from Tunali and Fidrmuc (2015) while 2013 data were retrieved from the European Commission’s State Aid Scoreboard (available at http://ec.europa.eu/competition/state_aid/scoreboard/index_en.html (last accessed on 22 July 2017)).

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