

Public defence Ph.D. in Applied Economics: Business Engineer by Caroline Buts

The public defence of the Ph.D. in Applied Economics: Business Engineer for Caroline Buts will take place on **Friday May 4th 2012** at 4pm on the Etterbeek-campus of the Vrije Universiteit Brussel, Pleinlaan 2, 1050 Brussels in Building D, level 2, room D2.01.

The Ph.D thesis is called "Essays on the Economics of State Aid" (Promoter: Prof. dr. Marc Jegers)

Please confirm your attendance by Monday April 30th to [Mia Hofman](#)

Abstract:

Essays on the Economics of State Aid

Within the European Union, governments are not free to act at will when providing aid to firms or industries. The European Commission has the task to review proposed aid measures of EU Member States. The PhD consists of five essays studying the economics of State aid. The first essay explains the legal background of EU State aid policy and econometrically reviews the decision making practices of the European Commission with regard to State aid cases. The most important determinants of the Commission's decisions are the year of notification and the format of the aid: more recently notified aid measures have a higher possibility of receiving a positive decision, and State aid plans under the form of a scheme or a horizontal measure are more often evaluated positively, whereas ad hoc types are not.

Questions are being raised about the welfare standard used when evaluating Member States' aid plans. More specifically, a shift from a focus on producers and markets toward broader welfare measures, including the effect on consumers, is called for. In response, the second essay models the effect of subsidies, one specific State aid measure, on consumer's surplus. A duopoly in Bertrand competition is studied. The effect of granting a subsidy to either one or both duopolists is calculated and compared to a situation without aid. This model allows a quantification of the effect of subsidies on consumers and thus measures the impact of this aid measure on the end-user of a product or service. In a case analysis, this can be added to an evaluation of the competition effects and the cost of the subsidy to broaden the welfare standard used. The next two essays look at the influence of State aid on market shares at the beneficiary as well as at the industry levels. The third essay empirically studies the effect of subsidies on market shares. All capital grants recorded in the firms' financial statements are taken into account. We find a positive correlation between the total amount of subsidies going to a firm and the evolution of its market share. In other words, companies receiving high amounts of subsidies experience an increase in their market shares. A noticeable effect becomes visible two years after the subsidies have been granted. The fourth essay builds on the previous one to look at the effect of subsidies on industry concentration. The analysis confirms that subsidies are positively correlated to changes in concentration. Industries receiving high amounts of subsidies thus experience a shift towards less intense competition.

In search of a possible explanation for the continuing high subsidies, inspiration was found in the voting literature. The last essay studies one possible motivation for granting subsidies. Voting literature puts subsidies in relation to (expected) electoral results. When studying spending on subsidies, it becomes clear that governments seem to believe that they are able to influence voters by granting subsidies. Flemish election results are studied in combination with data on the amount of subsidies going to firms. A positive correlation makes clear that constituencies with firms receiving higher subsidies give more electoral support to incumbent parties. The findings of the five essays are finally combined to suggest improvements to the current European State aid framework