Making subsidies work: rules vs. discretion

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Overall

- *Efficient use of public funds* → important (lasting) topic and RQ
- *Nearly all calls/applications, detailed scores, register data* → impressive data and sample size
- *Regression discontinuity* → convincing identification strategy
- Rich analysis and valuable contribution
- Well written, clear and coherent – recommended reading!

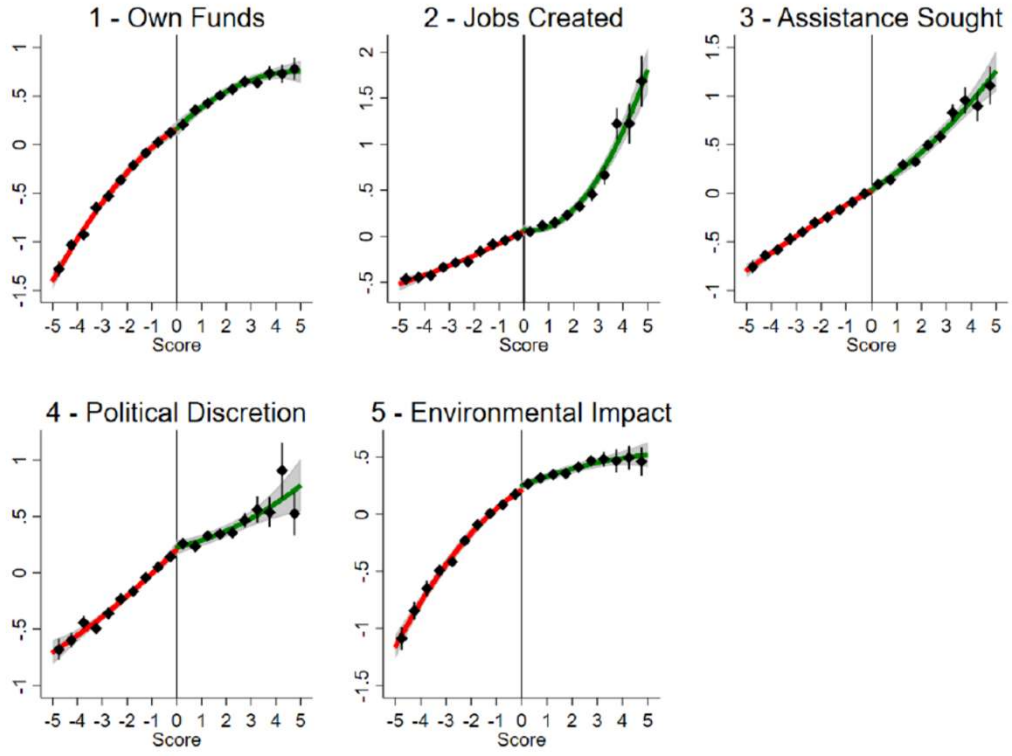
The programme

- Were any cross-region projects allowed? Firms co-operating?
- How many successful applications failed to get all instalments? How many received several subsidies?
- Were subsidies **earmarked**? Fully flexible use?
- How applicants estimated new jobs ex ante?
  → Relative magnitude? **Any job/wage commitments required?** Potential penalties?
- Very large **share** of successful projects (ca 33,000 out of 75,000 projects) → Low competition? Prior screening (selection bias)?

Scoring

- Construction of scores
  - Standardized (de-meaned) by components, equal weights
  - But the **range**/variation of values differ! Note trimming at [-5;5]
    → Implicit weight higher for employment?
    → Relatively less variation in discretionary component

Figure 5: *Balance of the score components*



Scoring cont.

- Was the discretionary component decided **independently** or **after** scoring the objective criteria? Could discretion completely 'undo' objective scoring?
- Firms scoring **high** on the objective criteria and **low** on the discretionary component (Fig 13) → How easy for politicians to shun promising projects?
  - Show also joint density distribution
  - Which segments used for the 'optimal' scenario?

The approach

- Anything particular about those without **balance sheet** information? Potential selection bias?
- Some though limited **attrition** (Table 2)
  - Try also a balanced panel with i) only those surviving up to t+6, ii) all present in t=0 and setting employment (close) to 0 if exits later?
- Could also separately estimate the largest cells (by sample)?
  - "*project quality likely varies mostly between cells rather than within*"

Results and interpretation

- Employment → timing or **anticipation** effect (catching up)?
- **Cost** of new jobs (178k per job / 54k per job-year)
  - Seems very large! How compares to the average wage cost?
  - But could it (ever) be low? Otherwise jobs would be created already?
  - Fig 12 → too much (easy) money to priority regions?
  - Did the program pay off? No?
- Link between the **size** of call and the discretionary component? E.g. larger budgets → more chance for corruption?

Figure 4: *Balance of firm characteristics one year before the call*

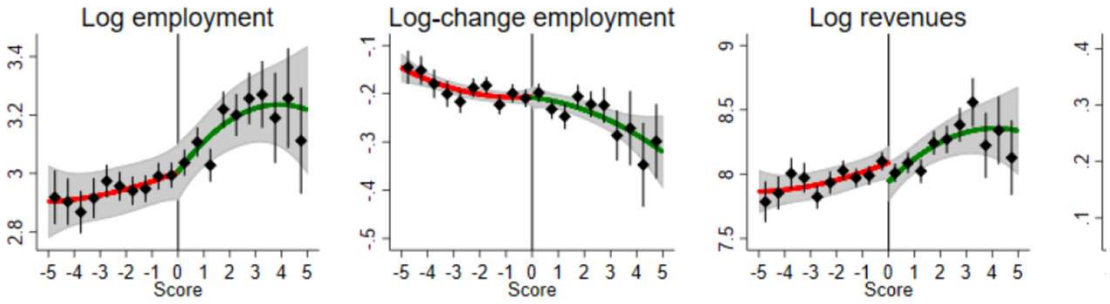


Figure 7: *The effect of the L488 subsidy on firm employment*