Investment Crowding Out: Firm-Level Evidence from Northern Germany

Abstract:
The main objective of this paper is to estimate the extent to which firm investment is substituted (crowded out) by investment support policies granted under the European Union Rural Development Programme (RDP). The empirical analyses employed the difference-in-difference propensity score-matching approach, which allows several important sources of bias to be addressed, such as selection bias, simultaneity bias and functional form misspecification, from which many previous studies suffer. Using panel data of 1333 firms from the Schleswig-Holstein region in Germany, it is found that the crowding-out effect of the RDP is close to 100%, implying that firms use public support to substitute for private investments. Furthermore, no evidence was found that, due to the RDP programme support, firms would have brought forward their investments planned originally for a later period, rejecting the inter-temporal substitution of investments.

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Authors:
JERZY Michalek
CIAIAN Pavel
KANCS D'Artis

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