THE EFFECTS OF SUBSIDIES ON INVESTMENT: AN EMPIRICAL EVALUATION ON ICT IN ITALY*

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Working on a micro based data set this paper attempts to shed light on the effects of public grants on firms’ investments, with particular emphasis on ICT adoption. The results show that adoption of ICT is affected by both the industry and firm characteristics. We examine particularly whether subsidies are important in this process and whether there are differences based on firm size. A matching estimator for the average treatment effect is applied to explore the effectiveness of subsidies. Regardless of sector we find evidence that subsidies on average have a significant impact on both overall investment and ICT investment. The impact is more pronounced for small firms and insignificant for the largest firms. Subsidies spill over both to internal and external financial resources. Given the small average size of firms in Italy, we conclude that small firms should receive subsidies to stimulate investment.

JEL Classification: C21, D24, L23, O30.

Keywords: Information and Communication Technologies, Subsidies, Treatment effect, Nearest Neighbour Matching Estimator

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