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**Beyond Additionality: Are Innovation Subsidies Counterproductive?**

by Alessandra Catozzella, Marco Vivarelli

(May 2011)
short version published as ' The possible adverse impact of innovation subsidies: some evidence from a bivariate switching model' in: Economics Bulletin, 2012, 32 (1), 648-661

**Abstract:**
Building on a standard policy evaluation literature mainly aimed at estimating the additional effect of subsidies on either firms' innovative expenditures or innovative outputs only, this paper tries to move one step further, combining the two (input and output) dimensions of innovation into a unique efficiency perspective. To this aim, the impact of public funding on the ratio between innovative sales and innovative expenditures (innovative productivity) is estimated using a sample of firm-level data drawn from the third Italian Community Innovation Survey (CIS). A bivariate endogenous switching model has been developed in order to free the analysis of any ex ante sources of sample selection and firm heterogeneity, at the same time getting rid of the two sources of endogeneity potentially affecting the results, i.e. the possible simultaneity between subsidy allocation and the qualitative composition of the innovative output, as well as the endogeneity of public support with respect to innovative performance. Results show that innovative productivity is negatively affected by the innovation subsidy; far from 'doing better' as a result of government intervention, supported firms appear to exhaust their advantage through merely increasing their innovative expenditures.

**Text:** See Discussion Paper No. 5746

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