

The effectiveness of regional aid in special economic zones in Poland

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Income tax breaks for companies investing in the Special Economic Zones (SEZs) have been a key scheme of regional investment aid in Poland since 1994, with an average annual budget of approximately EUR 500 million. As an important component of regional policy in Poland it is aimed at decreasing the regional socio-economic disparities via public support of new investments and new job creation by companies located in the SEZs. To the best of our knowledge the literature on SEZs has not captured yet the effects of individual tax breaks. The study will fill a knowledge gap on these issues at the firm level. The study will seek to determine whether the theoretical arguments which suggest that regional policy intervention enhances performance and productivity growth have any basic in empirics.

Presented research aims to provide a statistically robust evaluation of the impact of income tax breaks on growth of output (sales), investments, employment, productivity and on profit of firms located in the SEZs in Poland using counterfactual approach. Income tax breaks are the eldest constituent of regional policy in Poland, and nowadays alongside of European Structural and Investment Funds determine firms' investments and job creation in less developed areas. At the end of 2016, the zones were placed in 179 cities and 287 communes, with the total area of 21 462,6 hectares. From 1995 (the first operative year), through to 2016, firms located in the SEZ invested a total of around EUR 28 billion and created some 225,500 new jobs. From 1998 to 2015 firms' tax breaks reached almost EUR 5 billion.

The paper makes several contributions to the literature. First it contributes to the EU regional policy debate in important ways. The review of the literature shows that most prior studies are based on Italian, French and UK data. The firm-level evidence on the effectiveness of enterprise support in emerging economies is virtually non-existent. Presented research aims to fill this gap by providing firm-level evidence from Poland, widely considered an important new EU member states' economy. The evidence will have the potential to make regional policy more effective and more cost effective.

Second, the research is an attempt at understanding of the mechanisms by which impacts occur. It is crucial to assessing the effectiveness of public actions on regional growth. Regional policy that does not lead to an increase in productivity and thus competitiveness is destined to fail in the long run.

Third, from an empirical standpoint, presented research overcomes two important data limitations of prior studies that stemmed from Polish Statistical Office data or Ministry of Development datasets. We use data that come from two sources: a Ministry of Development dataset containing information on firms located in SEZs over the period 2011-2015 and financial statement dataset (Amadeus) covering the period 2006-2015.