STATE AID WITHIN THE FRAMEWORK OF COMPETITION POLICY

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Abstract
Control of state aid is of increasing importance in the context of European competition policy in order to maintain a fair level of activity of all enterprises participating in the European markets, regardless of the Member State in which they reside. The theoretical fundamentals of state aid are important to be studied and applied. Were distinguished and described the main approaches in the evolution of economic theories in the field of State aid. Criteria were established to determine the government's actions as state aid and intervention methods analyzed.

Keywords: *competition policy, state aid, intervention methods, theoretical fundamentals*

JEL classification:

1. Introduction

European Union policy in the field of competition is one of the pillars on which rests the economy of the European area, built on the principle of "market economy with free competition", under the Treaty on European Union. In this context, studying the fundamentals of State Aid and understanding the necessity of its monitoring has an important role in implementation the competition policy in associated states. Thus, since the

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signing of the Treaty of Rome in 1957, the policy on the state aid is an integral part of competition policy and the European Commission is responsible for the prevention of undue distortions of competition through the provision of the state aid by the Member States.

2. State Aid: main concept

Economic theory defines the failure of the market as a situation in which social surplus is more within alternative resource allocation than the in the equilibrium market. Identifying the situations of failure is very important. One cannot speak of a positive effect on the welfare of society, if there is not a situation of failure. In the context of the costs associated with the use of the relevant state aid, the effect can be more negative.[1]

About the impact of state aid on competition, we conclude, that this tool does affect the profitability of competitors and consumer welfare. In the first case we are talking about the negative impact but the second impact may be much more positive. The second aspect is more difficult to assess. In economic theory, consumer welfare is often defined as the excess of consumer demand in all markets, i.e. the difference between what he is willing to pay for the goods and the real value of the goods. State aid, although a widely used tool in the case of failures in the market, often may not be the most effective tool to remedy the situation. (Heidhues, P. and R. Nitsche, 2006) In some cases, more appropriate to use other tools, such as taxes or regulatory standards. If there is evidence that, by the use of alternative tools can achieve at least the same result, priority should be given to them. For example, if we talk about the failure of the market situations, manifested in environmental pollution, government could allocate state aid to which the undertakings would buy air purification installations. Alternatively, the government could impose by tax pollutants emissions to motivate businesses by acquiring the appropriate settings.

Unable to abstract from the adverse effects of state aid, manifested in their impact on the market. Thus, aid may lead to certain anti-competitive results that ultimately have a negative impact on the consumer.

3. The reflection of the issue of state aid in economic theories

We address three areas:

[1] Dewatripont, M. and P Seabright, "Wasteful public spending and state aid control", Journal of the European Economic Association, April-May 2006, Vol. 4, No. 2-3, 2006, Pages 513- 522.

1. theoretical aspect, concentrating on the goals and effectiveness of state intervention in the national economy;
2. aspects of the theory of competition, to assess the impact of state aid;
3. theory of international trade, an analysis of state aid policy in the international context.

a. Goals and effectiveness of state intervention

There are two basic theorems on social welfare, stipulating the conditions under which the market mechanism fits into the efficient allocation of Pareto. The first describes the conditions under which any competitive economy produces effective Pareto distribution of goods and services. The second relates to the circumstances in which Pareto efficient allocation can be achieved through the transfer of resources . (V. Pareto, 1964) These theorems mention two integral components of well-being: efficiency and equity. The basis of these principles can be identified methods to improve social welfare through the intervention of the state, namely:

- By state contribution to the growth efficiency of the national economy;
- Redistribution of free resources of the state so as to ensure social needs.

Economists, welfare theorists, believed that government intervention increases economic efficiency when it is directed at correcting market failures. So, (Stiglitz, 2000) believes that "The first fundamental theorem of welfare economics defines six conditions in which the market is not Pareto efficient. These so-called market failures are a set of propositions for the activities of the government ". (Stiglitz, J.E., 2000)

The main conclusion of the approach through the prism of efficiency as follows: until the anticipated benefits exceed the costs of intervention, public policy should focus on improving the functioning of the market mechanism by correcting inefficiencies.

In regard to the approach through the prism of equality, it is necessary to proceed from the premise that markets function determines the effective distribution of wealth. At the same time, in real economy, the results of the process may be unfair to different participants. The government can intervene in order to ensure fair market outcomes.

Reallocation of resources - the main subject of government intervention regard to state aid. Practice shows that the effects of fair state aid often inherent in public education, health and infrastructure. On the other hand, state aid for research and development cannot be considered fair about competition in a particular market. Unfair effects can appear very often in the case of aid to develop unfavorable areas or help firms in difficulty, under conditions of high risk of distortion of competition.

Thus, according to the theoretical approach, economic policies should aim at a fair distribution of wealth among consumers. This is the basis of feasibility of state aid.

b. In terms of theories of competition

State aid is seen from a different point of view, namely, through the prism of its impact on the competitive environment.

The traditional theory believes that competition risks being distorted if there are changes in the structure of the market, which will alienate her from perfect competition. In this context, state aid determines the growth of the market share of some companies and the loss of others. Also, due to state aid, company recipients can build barriers to entry for other companies. Accordingly, due to its use, can be significant changes in the structure of the market that, according to traditional theory, will lead to a distortion of competition.

Keynesian theory (30s): At the beginning of XX century Western economies began to grow rapidly, and the market began to be dominated by monopoly. Market could no longer be regarded as free, and the competition was no longer perfect. Under these conditions, appears a new vision of the market economy, the founder of which was the English economist John Maynard Keynes. Thus, according to Keynesian theory, the state holds a very important role in economic activity, namely to correct economic imbalances.

Harvard School (1930-1970) promotes the idea that "practiced competition" will be distorted, subject to influence the profitability of competitors and consumer welfare.

Chicago School (70th years) is considered a criterion of distortion of competition the decreasing of market efficiency. (Stigler G., 2000) Thus, if there are situations of market failure and, consequently, the efficiency falls, the state can intervene through the tool to help recover from the failure and restore order.

Behavioral approach presented by Adam Smith (XVIII century) believes that competition risks being distorted if was violated moral and legal principles of business. Smith promotes the idea that from free-market competition will benefit the whole of society by maintaining low prices for goods, by motivating manufacturers to produce a large variety of goods and services.

Approach through the prism of the entrepreneur (80th years), their representatives, Kirzner, I. and J. Schumpeter considers competition being distorted, if entrepreneurs activity is not based on innovative ideas. The basic idea, promoted by the school in relation to competition, is that the development of competition in the market is possible only in conditions of innovation and technological progress. Thus, the state can make a significant contribution to the creation of conditions for the development of competition and protection of normal competitive environment through the promotion of state aid for research and innovation.

Brussels School (1957) can be considered as probably one of the most important contributions to the development of modern competition policy pursued by the European Union, as the principles promoted by the school, are the basis of the chapter on competition Treaty of Rome. Thus, the Brussels school supports three principles underlying competition policy, respectively political, economic, moral and social. Regarding the risk of distortion of competition, the Brussels school argues that it materializes, if is affected at least one single market, resources are allocated inefficiently and do not respect the principle of justice.

A new approach to state aid (Massimo Merola, Bonelli Eredi Pappalardo, (2004)

This new approach to state aid characterizes countries with a high level of development. Thus, one of the pillars that guide the government in reforming policies on state aid, is the introduction of more effective economic instruments for analyzing the impact of state aid. Measures that can be taken in mind the introduction of more effective tools for analyzing state aid, were as follows:

- Implementing the balancing test. It is to evaluate the positive effects of government aid against the potential negative effects on competition;
- A more precise definition of the situations of market failure and the need to revive problematic areas to optimize measures of state aid and reduce the level of risk;
- Adequate justification for the state assistance and procedures for allocating assistance is transparent conditions.

In the theory of international trade considerations for state aid contained in the postulates of the role of government policy in promoting the development of international trade.

More specifically, E. H. Chamberlain, in the context of international trade theory formulated the principle of product differentiation. On the basis of this principle in international trade he shows the active behavior, forecasting, and in some cases the evolution of demand in the right direction. According to this economist, product differentiation is a source of monopoly power that manifested by some elements of individualizing the corresponding commodity: trademark, patent, model, packaging, color, etc.

At the same time, due to international trade, and the following two relevant theories:

Alternative theory. Motivation state aid, perceived as a method of reducing market imperfections suggests that the strategy of the state is to create a market with perfect competition. When a particular country is able to influence the world price, the theory suggests that there is a combination of taxes and subsidies, which maximizes the welfare of the state. Competition between states is a strategy game where everyone has an interest to favor manifestation of artificial dominance of local firms in order to obtain oligopolistic income to the detriment of foreign competitors (the theory of strategic trade policy). As a result of the presence in certain sectors of performance and research and innovation, the government can artificially create barriers to entry of foreign business entities to venture reached a level sufficient to autonomously run the external factors that are favorable for the national economy. (Liebowitz, S.J.; Margolis, Stephen E., 1994)

Countries applying the strategic preferences lead to a less favorable situation than that which produces free competition between countries. For these reasons, institutions have been established by the type of the WTO, whose mission is to limit the protectionist behavior in international trade.

Evolutionary theory. According to this theory, the role of the state is in intervening to balance all the actions and behavior on the roar in mind the general enabling environment for the development of the market. This can be achieved through a number of tactics:

- Encouraging firms to exploit various technological options in order to identify the most effective one;
- Change the relative costs of various options through subsidies and to obtain an equilibrium that maximize social welfare;

- Encouraging firms to diversify produced benefits for the avoidance of potential technology locks.

To determine the nature of public assistance, you can refer to the three approaches, namely: Relative approach based on the principle of favored.

This approach focuses on the measurement of an entity favored over another by providing state aid. This approach refers to the selective advantage that gets the company receiving public assistance, and that can grow into a distortion of competition. However, under this approach, in order to determine whether distorts competition state aid, you must first determine its effect on welfare.

Comparative approach based on the transfer of resources. Unlike the first approach, the present analyzes selective advantage that the company gets from the disbursement of funds to companies from the same country. Coverage appropriate approach is broader than in the first case of the considerations that analyzes financial transfers to individual firms in the context of national economy, and not in the context of a particular market. At the same time, this approach has the advantage of identifying measures with a negative impact on the competitive environment in the country, focusing on the macro-level, and not only on the differences existing in the market. However, there are certain drawbacks in respect of this approach, the most significant of which is that it cannot be effectively applied when the boundaries of the relevant market beyond geographic borders.

4. Conclusion

According to the study we observed that high impact state aid has on competition. Theoretically, any assistance provided to the business entity distorts competition, as it reduces the costs of the recipient and gives it an advantage over its competitors. State aid is financed from public resources, on the basis of taxpayer’s funds, so that the provision of such assistance to businesses means their reducing from other sectors, such as social, educational, public, etc. Very often provided state aid contributes to a violation of the market mechanism, primarily due to lack of economic reasoning and clear justification. There are the following serious problems related to the effect of state aid on the competitive environment:

- undermines confidence in the principles of justice, that can lead to social or economic strength;

- as a result of the bankruptcy of competing companies also suffer the businesses from related sectors;
- economic entity with a dominant position, which receives state aid, independently of the others can raise the price of traded goods without reducing its revenue from sales.

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