# SPILLOVER EFFECTS OF SUBSIDIES IN THE 21ST CENTURY. THE ROLE OF MONOPOLISTIC, DYNAMIC, CENTRAL, AND HIGH-GROWTH SECTORS

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## Abstract:

In this paper we analyse the spillover effects of subsidies in a quantitative model with Bertrand competition, profits, diffusion of ideas between regions and sectors, and learning-by-doing in manufacturing. The traditional economic view of the spillover effects subsidies claims that subsidies harm countries providing subsidies and help other countries favouring consumers and downstream sectors in other regions and harming producers in other regions with the first effect dominating. Furthermore, countries providing subsidies tend to be worse off because the fiscal costs and the increase in prices for consumers dominate the gains for producers. Still, policy makers typically are interested in promoting their own manufacturing production for various reasons: (i) to reap monopoly profits in winner takes all industries (monopoly sectors). Because of the increased importance of digital technologies such as artificial intelligence and the pervasive role of network externalities, this reason plays an ever more prominent role; (ii) to promote central industries with large spillover effects to other sectors. Because of the increased importance of general-purpose technologies this is also on the rise. (iii) to promote production in dynamic industries with large learning-by-doing effects. (iv) to promote industries with strong growth potential thus enabling countries to appropriate monopoly profits. (v) to promote industries with strategic (security) interests. In a multi-polar world this reason to promote industries is also on the rise.