

Invitation

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DOCTOR OF ECONOMICS

by Pablo Muylle

**Government Influence and Economic Dynamics:
A Comprehensive Study of State-Owned Enterprises, Political Connections, and Import Competition in the European
Business Economy**

Supervisor:

Prof. dr. Bruno Merlevede

Thursday, 19 September 2024 at 17h00

In the "Faculteitsraadzaal", Campus Tweekerken, Tweekerkenstraat 2, 9000 Ghent

Please confirm your attendance no later than 8 September using the following link: <https://forms.office.com/e/S6sfRGfWFq>

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Abstract

Governments have a profound effect on people's lives, either directly by organizing public provisions (e.g. education, childcare, police), or indirectly by steering social and economic behavior through policies, subsidies, and taxes. Government intervention in the economy is subject to a trade-off between retaining sufficient economic freedom, typically considered to be more efficient, and, at the same time, attaining the desired objectives. The question of how much governments should intervene in the economy, however, has sparked a centuries-old debate. Furthermore, there exists substantial variation in the methods of government intervention used, and its efficacy in reaching the objectives envisioned. The objective of this doctoral thesis exactly lies in unraveling the economic effects of several methods governments use to influence the business economy, and this under various circumstances.

Chapter 2 discusses state ownership of firms as a significant form of government intervention in the economy. It sheds light on the prevalence and impact of state-owned enterprises (SOEs) in Europe using detailed firm-level data. The chapter reveals that government ownership has increased in the past decade, particularly in regions with lower economic development, weaker financial sectors, and less-established legal institutions. However, state-owned firms tend to exhibit poorer performance metrics such as lower total factor productivity (TFP), higher employment levels, higher wage costs, and lower profitability. Interestingly, stronger legal, financial, and political institutions, along with business-friendly environments, mitigate the negative effects of state ownership on firm performance. Additionally, SOEs contribute to economic stability by exhibiting less volatility in employment and material purchases.

Chapter 3 describes political connections in private firms, i.e. the presence of politicians on the firm's boards, as another major channel of government influence over the business economy. Political ties enable firms to access resources, aiding positive governmental economic influence while maintaining private ownership's theoretical benefits, yet posing risks of political misuse. Adopting a broad definition of politicians, we identify a substantial share of Belgian firms being politically connected. These firms seem subject to similar negative pressure on performance compared to government-owned firms, with estimates remaining significant even for politically connected SOEs.

The adverse performance associated with state firms may extend beyond the state firm itself. On the one hand, there may be negative spillovers to private firms. On the other hand, governments could also strategically utilize their SOEs to provide certain economic benefits to the private economy. Chapter 4 evaluates the impact of government ownership among upstream firms (i.e. suppliers) on the decision-making processes and performance of privately held buyers. Innovatively, we approach this question utilizing firm-level transaction data. We find relatively minor importance of SOEs in the supply chain. We do, however, find that private firms with state suppliers portray lower profitability and productivity, as well as higher leverage and employment, even controlling for political connections as an alternative channel of potential government influence.

Chapters 5 and 6 look into the behavior of (networks of) firms in response to increased Chinese import competition, a major economic shock faced by advanced economies in recent decades. More specifically, we investigate the heterogeneous response of firms to a shock affecting a certain group of firms homogeneously. Chapter 5 examines the effect of import competition on the employment and survival of standalone firms and parents of parent-affiliate networks. While we find an adverse impact on both survival and employment, this relationship is subject to substantial heterogeneity. More productive and profitable firms, firms with lower leverage, and those with international affiliate networks showing greater resilience. We do not find that network maturity and industrial diversification are significantly related to employment reductions or exiting behavior following increases in import competition, and find ambiguous effects regarding turnover and capital intensity. Finally, we find no significant negative effect of Chinese import competition for SOEs, which may indicate that government ownership buffers for external shocks.

Given that corporate structures are becoming increasingly complex, Chapter 6 examines the effects of Chinese import competition on parent-affiliate networks. This is especially valuable given that shocks affecting a part of the network, may have an effect on other parts of the network, including on services affiliates, which are not directly affected by manufacturing import competition. Networks may also shift resources in response to the shock; we investigate potential shifts towards services entities and home country entities. Results point towards networks contracting, indicated by decreases in total assets, entity numbers, and operational scope across countries and industries, with negative repercussions on manufacturing entities' employment and sales, especially for less productive, highly leveraged entities closer to the parent, while service entities experience positive sales effects. Networks also exhibit a shift in resources towards services entities and home country entities, highlighting a home bias effect.

Curriculum vitae

Pablo Muylle (°1998, Oostende) holds the degree of Master of Science in Economics, obtained at KU Leuven in 2020. His research explores government intervention in the economy, concentrating on state-owned enterprises, politically connected firms, and the impact of global economic shocks on firm performance and stability. Pablo presented his research at various conferences and workshops, including the European Trade Study Group (Guildford, 2023), European Public Choice Society (Vienna, 2024), and FIW conference 'International Economics' (Vienna, 2024), as well as during the Paris School of Economics summer school, and at the faculty's Research Day. Chapter 4, written in cooperation with the National Bank of Belgium (NBB), has been published as a peer-reviewed NBB Working Paper.