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State Aids

This issue is largely, but not exclusively, devoted to current problems in the field of state aids to trading bodies. Most people can probably agree on two fundamental propositions governing the grant of state aids. First, in a free market, granting state aids to individual traders almost always results in a distortion of competition. Second, there may be some cases in which an economic consideration, such as the need to help industrial development in a backward region, overrides the benefits of free competitive conditions.

Yet substantial aids are given by the Member States to individual corporations, whose economic role is to provide goods and services, make a profit, attract investment and compete with other traders. If a corporation succeeds in carrying out this role efficiently, it does not need state aids. If it fails to carry out this role efficiently, it does not deserve state aids. The military maxim, "never reinforce failure", surely has its economic counterpart. Nevertheless, the volume of state aids in the European Union is still immense, as the article and accompanying tables show on pages 210 to 214 of this issue.

One of the obvious reasons for the granting of state aids is local political gain. Even the countries most committed to free and competitive trading conditions have their "pork-barrel" politicians, whose popular support may wane dramatically if local industries are closed and unemployment spreads. They can be forgiven (up to a point) for pressing public authorities either to make funds available, or to reduce tax burdens, for industries teetering on the brink of bankruptcy. A related reason for granting state aids is local, or national, prestige. For national and provincial governments, it is unthinkable that a prestigious national or local corporation should go under: there is a reminder of the Credit Lyonnais case in the Berlin Bank case described in this issue (see page 208).

Several of the elements explaining, though hardly justifying, state aids are present in the cases reported in this issue. Relatively few cases reach the Court of Justice. One of the exceptions is the subject of a recent statement by the Commission: it concerns the German Government's failure to execute a Commission Decision declaring aid to Erba Lautex illegal. As the firm went bankrupt, in spite of aid amounting to DM 120m, a new company, Neue Erba Lautex, was formed and has itself received further state aid. The Commission has decided to take Germany to Court and to treat "the two legal entities as forming a single economic unit". On the face of it, the Commission has a good case.

However, the Commission is still too accommodating; and it can also have a hard task sometimes when it tries to ensure recovery of state aid paid illegally, as the report on the Belgian Mirabel case shows (see page 215). Perhaps, with more transparency and more of what the Commission gamely calls "peer pressure" from other Member States, improvements in national state aid policies will begin to make themselves felt. ■