

Abstract

The growth of the information and communications technology (ICT) industry over the last couple of decades, spurred by rapid technological changes within the fields of collection and distribution of information, has led to a noticeable shift in the modern policies implemented by governments hosting large IT corporations. Tax benefits, subsidies, labor law exemptions, and government purchases are a few ways how a country can make itself more attractive for new “Google” facilities and support the growth of the ICT sector. However, these policies may not always be beneficial for the economic growth and development of innovative sectors. In this thesis, I study the efficiency of government programs that target ICT firms and show that such support programs may be more suitable for developing countries. A general equilibrium model with innovative goods producers and capital tax provides the theoretical framework and intuition for why the effects of this tax are different for a developed and developing economies. I explicitly show that elasticity of substitution on innovative markets play a significant role for the efficiency of ICT support programs. I employ the IV approach to support my results for the sample of European countries from 1998 until 2020 and study the possible channels for the effect of the support programs on innovation producers. I show that ICT support programs insignificantly increase the growth for developing countries and significantly decrease growth for developed economies.