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# STATE AID AND SYSTEMIC CRISES: APPROPRIATENESS OF THE EUROPEAN STATE AID REGIME IN MANAGING AND PREVENTING SYSTEMIC CRISES

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**ABSTRACT:** *The purpose of this paper is to debate the material validity of State aid as a legally and economically rational mechanism to address systemic market crises. In the European Union, Member States shall only participate in the economy when they do so with the same rationality as that of a market investor. Apart from this, State intervention must be restricted to those situations where markets fail and it is necessary to artificially allocate goods and services. However, the 2007/8 financial crisis posed a new challenge for the legal perception of State aid: financial markets failed systemically, and Member States had to intervene to prevent the collapse of the current economic model.*

**INDEX:** 1. Introduction. 2. Rationale behind State aid control. 3. State aid and the financial and economic crisis – the Commission's response to the systemic crisis. 3.1. The financial crisis of 2008 – what is a systemic crisis? 3.2. Impact on the real economy and the European Temporary Framework. 3.3. Rescuing the financial system. 4. State aid and other policy responses in times of crisis: appropriate responses to a systemic challenge. 4.1. Market failures of the crisis and regulatory failures in their origin. 4.2. Implications of the Crisis Framework on EU State aid. 4.3. Suitability of State aid in managing crises: post-crisis regime. 4.4. Other policy responses for crises prevention. 5. Conclusion.

## 1. INTRODUCTION

The financial and economic crisis challenged not only the economic and legal perceptions of State aid control, but also the economic and political model that most western countries have engaged in. One of the core principles of a market economy points to the fact that, in a theoretical vacuum, competition

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