Reviewing former critical analyses of subsidy policies in Europe

György Vas
Associate Professor at the Károli University of the reformed church,
Head of Finance Research Group

Abstract

Academic research on subsidy policies has expanded considerably over the past five decades, yet the literature remains fragmented across regional development, industrial policy, innovation economics, and cohesion studies. This paper reviews the principal academic critiques and theoretical debates concerning subsidy-based development strategies in Europe, rather than addressing political controversies; the analysis focuses solely on the long-term economic and institutional implications identified in mainstream scholarship. The historical experiences of Greece, Spain and Portugal represent some of the most significant regional convergence projects in modern European history. These countries received substantial Structural and Cohesion Fund transfers intended to modernize infrastructure, improve competitiveness, and reduce territorial inequalities. The literature consistently demonstrates that infrastructure modernization did not automatically produce sustainable productive convergence, weak governance capacity, fragmented administration, and clientelist structures constrain the long-term effectiveness of transfers. Another central debate within the literature concerns the effectiveness of innovation and SME subsidies, derived primarily from market-failure arguments. The Mezzogiorno programs in Southern Italy improved infrastructure and industrial capacity but failed to generate self-sustaining development, while in East Germany transformation after reunification revealed the limitations of rapid privatization and institutional transplantation. Subsidies can accelerate modernization, stimulate innovation, and reduce regional disparities, yet they may also reinforce dependency, encourage rent-seeking behavior, and crowd out private investment. Across diverse historical contexts, a broad academic consensus has emerged that financial transfers alone are insufficient to generate sustainable convergence. Long-term developmental

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success depends instead upon institutional quality, governance capacity, productive embeddedness, and the ability of regional economies to transform external support into endogenous growth.

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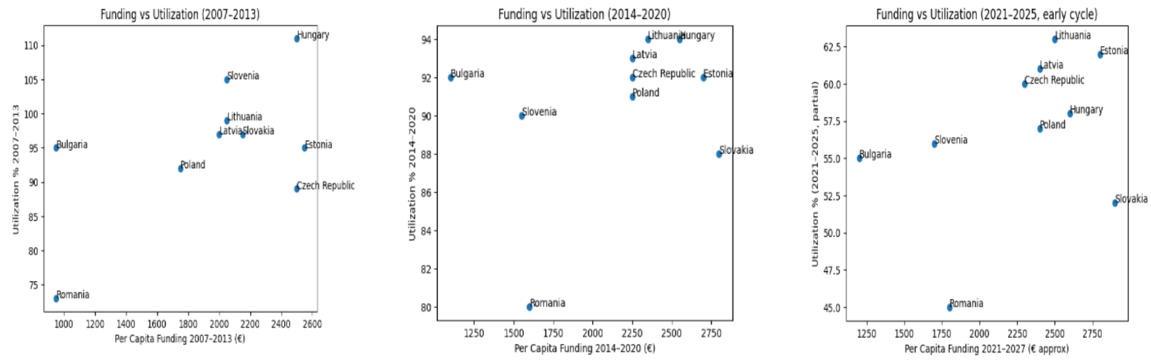
Introduction

Academic mainstream research concentrated analyzing mainly on nation-wide issues, a vast need emerges to overview critiques in scientific literatures of the last 50 years. It is worth to review the discussions on the subsidy policies historically and Europe-wide. It might impress academic scholars, how similar or different economic and business development was performed in large number of countries. This paper aims to cover solely the debates in academic literature while the political implications should remain far out sight. We might have a thorough academic discussion if we are able to identify successes within the funding frameworks and identifying several turning points, before we commit what Hungary should do differently after potentially the funds start flowing in again. Based on the most cited international contributions, this paper aims to highlight the debates and the analyzed examples wish to serve as a menu-table for further discussions.

Subsidies have been heavily part of the Hungarian economy for the last decades, however recently several disturbances occurred. This paper aims to review the long-run business development effects of former subsidy-policies by understanding the economic policy consensus and analysis on several former international interventions prior to the recent European Union's ecosystem for the newly joined member-states. The success of the South-Italian cohesion initiatives, which took place more than half-a-century ago, followed by the East-Germany economic integration starting in the 90's, or the Greek-Spanish-Portugal development programs have been researched and analyzed in details. Furthermore the analyses of South-Italy and East-Germany might contain relevant implications, plus certain conclusions on the long term effects as well. Summarizing the critiques of mainstream economic theory and research we may conclude how to tackle the possible challenges of the re-integration of European Union's funding opportunities. Since there are tremendous amounts of critiques internationally, the categorized presentation should contribute to better understanding the initiatives the local authorities should consider.

After completing two very successful 7-year planning period as definitive front-runner, Hungary faces a turning point in the third one. However, this downturn might be interpreted as consequence of different political circumstances in this paper simply the fact of the existence of vast number of problems is regarded. In the following table former socialist countries newly joined to the EU are plotted: the absorption level on the vertical axes on the vertical axes and per capita amount of subsidizations on the horizontal axes. The boxes highlight two completed 7-years EU planning periods, and the third one a mid-term position.

Table 1: Comparing absorption and per capita funding of newly joined EU-Countries (own calculations)



As it can be seen, Hungary has experienced two-times the highest absorption rate (above and near to 100%) combined with one of the largest per capita amount (approx. eur 2,5k) of total funding. In the third consecutive period, however it seemed that regional competitors clearly succeded to outperform. While the overall effect was regarded positive, excess GDP growth and modernization in general contributed to development of the Hungarian economy, several efficiency issues have been widely debated. I would argue that these quantitative data do not explain the positive long-term effect in economic development, the back-fall in the recent years should rather be interpreted as a turning point, therefore reviewing the major academic and scientific debates might be a relevant contribution.

1. Predecessors of current development policies

1.1. Early years

The historical experiences of Greece, Spain and Portugal within the framework of European Union subsidies represent a regional convergence projects in modern economic history. Since the 1980s[1], all three countries received transfers[2], but their developmental trajectories diverged significantly. The economies lagged in terms of productivity, industrial competitiveness, infrastructure quality, and regional equality. EU subsidies operated as developmental transfers intended to reduce disparities between Europe's prosperous core and its southern periphery. Monastiriotis and Rodríguez-Pose (2009) describe cohesion policy as an attempt to engineer "economic convergence through territorial modernization," rather than merely redistribute wealth.

[1] The entry point was when Greece entered the European Economic Community in 1981, while Spain and Portugal followed in 1986

[2] through (European Economic Community) and later the European Union, via the Structural Funds, Cohesion Fund, and the Common Agricultural Policy (CAP)

During the late 1980s and 1990s with the expansion of Structural Funds and Cohesion Policy under the Delors Commission, financing highways, railways, airports, telecommunications systems, water infrastructure, hospitals, schools, and urban redevelopment projects became relevant. In this period central funds reshaped both the physical and administrative landscape of the European countries, however, institutional outcomes proved considerably weaker. Featherstone and Papadimitriou (2008) emphasize that clientelism, fragmented administration, and politicized public expenditure diluted the long-term productivity effects of EU subsidies. As agricultural subsidies through the CAP, farmers across all three countries received direct payments and modernization support. Dimeli (2004) argues that CAP transfers in Greece frequently reinforced rent-seeking structures rather than encouraging structural reform.

1.2. Introduction of the Euro

The real turning point was the adoption of the "euro"[3]. Prior to monetary union, EU subsidies functioned primarily as developmental transfers. After euro adoption, however, low borrowing costs and access to integrated European credit markets dramatically amplified their effects. Southern Europe entered a prolonged phase of consumption growth, construction expansion, and rising public and private indebtedness. Spain experienced an enormous real-estate and banking boom linked to construction and tourism. Portugal accumulated slower but persistent structural imbalances accompanied by weak productivity growth. Greece expanded public expenditure and consumption rapidly despite limited industrial competitiveness and chronic tax collection problems. According to De Grauwe (2018), the architecture of the Eurozone intensified structural asymmetries because peripheral economies lost monetary flexibility while remaining less productive than the industrial core. In this interpretation, infrastructure modernization advanced faster than productive convergence.

The traumatic point was the 2008 global financial crisis and the subsequent Eurozone debt crisis, which exposed the structural fragility underlying Southern European convergence and revealed how dependent growth models had become on debt, construction, and external capital flows[4]. Academic interpretations emphasize domestic governance failures, clientelism, corruption, and fiscal mismanagement, particularly in Greece. Blyth (2013), argue that Eurozone institutional design and asymmetric monetary integration were equally responsible for destabilizing peripheral economies. The crisis fundamentally transformed the symbolic meaning of EU support: earlier subsidies had represented modernization, solidarity, and convergence; after 2008, European financial assistance became associ-

[3] Spain and Portugal joined the Eurozone in 1999, while Greece followed in 2001

[4] Greece entered sovereign debt collapse and required bailout programs coordinated by the European Commission, the European Central Bank, and the International Monetary Fund, Portugal also required assistance in 2011 but recovered more steadily and maintained greater political stability, Spain avoided a sovereign bailout but suffered severe banking crises and mass unemployment following the collapse of the housing bubble

ated with austerity, conditionality, and external oversight. A long-term structural transformation was the rise of tourism dependency by EU-funded infrastructure reinforcing tourism-centered development models, industrializing mass tourism at continental scale. Williams and Williams (1998) observe that integration into global tourism markets increasingly substituted for industrial convergence in Southern Europe. While tourism generated employment and foreign exchange, it also increased dependence on external demand, real-estate speculation, and precarious seasonal labor structures. EU subsidies were effective in accelerating physical modernization and integrating Southern Europe into continental markets, while long-term productive convergence proved far more uneven. Infrastructure could be transferred relatively quickly through capital investment, whereas institutional transformation, industrial competitiveness, and sustainable economic restructuring depended on deeper historical, political, and administrative conditions that varied substantially across the three states.

1.3. Implications and lessons to be learned

For the recently joined member states[5], however there was a vast need for grants directly, the theoretical justifications for SME subsidies[6] lie in the concept of credit market imperfections, asymmetric information and credit rationing. EU subsidies, such as grants, guarantees, and subsidized loans, are designed to correct market failures by relaxing financial constraints. From a theoretical perspective, this should lead to increased investment, innovation, and firm growth. EU subsidy policies are theoretically justified by financial constraints, but empirically suffer from imperfect targeting of those constraints. The effectiveness of public subsidies has been extensively examined across multiple strands of economic literature, particularly in the fields of innovation policy, SME development, and regional cohesion. While these studies differ in scope and methodology, they converge on a central insight: subsidies can generate positive economic effects, but these effects are conditional, heterogeneous, and often limited by structural and institutional constraints. A central question in the literature on public subsidies concerns additionality, namely whether public funding stimulates new private investment or merely substitutes for it. David, et al. (2000) framed the issue if public support stimulates or replaces private investment, providing one of the foundational skeptical perspectives, arguing that public funding may fully crowd out private investment under certain conditions. This critique shaped subsequent debates, particularly in European policy contexts. Busom (2000) refined this argument by introducing firm heterogeneity into the analysis, showing that approximately 30 per cent of the firms exhibit full crowding-out, while others genuinely benefit from subsidies. This finding challenged uniform policy assumptions and demonstrated that subsidies do not automatically generate new economic activity. Similarly, Czarnitzki and Hussinger (2004, 2018) find that subsidies generally

[5] All 13 member states with entry dates starting from 2004.

[6] The Small Business Act adopted in 2008.

increase private expenditures, but only partially, indicating the persistent presence of crowding-out effects. Their work demonstrates that while subsidies can increase investment among financially constrained firms, they often exhibit limited additionality, since many recipient firms would have invested anyway. This creates a selection problem: subsidies tend to be absorbed by firms that are already relatively strong rather than those most in need of support. Cerulli (2010), using more advanced econometric methods, concludes likewise that subsidies have a positive but relatively modest net effect because substitution effects frequently reduce the expected gains.

1.4. Subsidies for SME's

At the SME level, empirical evidence generally suggests that subsidies increase the likelihood of innovation activity, although concerns regarding a selection bias remain significant. Almus and Czarnitzki (2003), focusing on East German SMEs, demonstrate that subsidized firms are significantly more likely to engage in innovative activities. However, subsidized firms may differ systematically from non-subsidized firms, complicating causal interpretation. González and Pazó (2008) address this issue by showing that subsidies "crowd in" investment primarily for financially constrained firms, whereas larger firms tend to substitute public for private investment. These findings indicate that the effectiveness of subsidies depends strongly on firm-level financial constraints and absorptive capacity.

A meta-analytical work further reinforces the complexity of subsidy evaluation: David, et al. (2000) conclude that empirical evidence on public support remains mixed, reflecting methodological diversity and contextual variation across studies. Dimos and Pugh (2016), through a meta-regression analysis, similarly find that the average effect of subsidies on firm performance is positive but modest. This has led to recognition of an "input–output gap," where subsidies increase expenditures more reliably than they improve innovation outcomes, productivity, or long-term competitiveness. Pellegrini and Cerulli (2016) show that subsidies can increase productivity, although effects are often delayed and uneven across firms, while Huergo and Moreno (2017) demonstrate that subsidies contribute to innovation persistence by enabling firms to sustain innovative activities over time. Research on collaborative EU programs provides a more optimistic perspective by Czarnitzki and Lopes-Bento (2013, 2014) showing that participation in collaborative EU programs significantly enhances innovation performance while fostering network formation and inter-firm cooperation. Hottenrott and Lopes-Bento (2014) further demonstrate that EU funding tends to crowd in private investment, particularly through co-financing requirements in high-technology sectors. European Commission evaluations similarly report increases in productivity, firm survival rates, and market expansion among supported SMEs, although these findings often rely on quasi-experimental methodologies.

From a structural perspective, these dynamics are most visible in innovation systems and regional development policies. Public intervention is typically justified by market failures associated with knowledge spillovers and financing constraints, particularly for SMEs engaged in high-risk innovation activities. However, the literature repeatedly emphasizes that financial transfers alone are insufficient. Institutional quality and governance capacity are critical determinants of success. Becker et al. (2010, 2013) demonstrate that EU regional subsidies produce measurable growth effects primarily in regions with strong governance frameworks. In weaker institutional contexts, effects are limited or absent. Rodríguez-Pose and Garcilazo (2015) reinforce this conclusion, arguing that poor governance significantly reduces the effectiveness of EU funds through inefficient allocation and weak absorptive capacity. This tension is particularly important within EU cohesion policy. Crespi et al. (2016) find that cohesion policies generate stronger effects in less-developed regions, suggesting that subsidies can contribute to reducing regional disparities in case of the regions least capable of effectively utilizing funds due to institutional weakness. The literature therefore highlights a central paradox of cohesion policy: regions most in need of support are frequently those least equipped to transform financial transfers into sustainable economic development.

At the firm level, additional studies reinforce the heterogeneous nature of subsidy outcomes. Bronzini and Iachini (2014) identify positive regional spillover effects associated with innovation subsidies, linking firm-level support to broader regional innovation ecosystems. Moffat (2016), focusing on the United Kingdom, finds that SME subsidies can improve local employment outcomes, although broader productivity gains remain uncertain. Howell (2017) demonstrates that early-stage grants can significantly accelerate startup growth, particularly under conditions of technological uncertainty, suggesting that subsidies may be especially effective when targeted at genuinely constrained firms operating within supportive innovation environments. Subsidies can stimulate innovation, increase investment, strengthen collaborative networks, and support regional convergence. Yet they also risk financing activities that would have occurred anyway, generating only partial additionality while reinforcing existing inequalities between firms and regions with differing institutional capacities.

The regional-development literature adds a further critical dimension to the analysis of EU subsidies. Rodríguez-Pose and Fratesi (2004) argue that cohesion policy in Spain frequently oscillated between developmental objectives and compensatory social policy. Their analysis demonstrates that investments directed toward transport infrastructure and productive environments generated stronger long-term developmental effects than subsidies focused primarily on current transfers or compensatory spending. In this interpretation, regional policy could stabilize disadvantaged territories without fundamentally transforming their productive structures. The effectiveness of EU funding therefore depended heavily on institutional and territorial conditions. Becker et al. (2010; 2013) find that EU Structural Funds contributed positively to regional economic performance where absorptive capacity and institutional quality were stronger. Similarly, Rodríguez-Pose and Garcilazo (2015) argue that governance quality significantly conditioned the returns generated by EU investment. Regions with weaker administrative capacity frequently obtained lower productivity gains despite receiving comparable levels of funding.

De Lucio et al. (2010) argue that innovation policy across Spanish regions continued to operate through a largely "linear" model of innovation despite rhetorical commitments to networked and systemic innovation frameworks. Policy remained heavily focused on technology transfer and institutional expansion rather than the development of integrated innovation ecosystems. This created a mismatch between policy design and the distributed nature of regional innovation systems. The entrepreneurship literature similarly emphasizes the importance of regional variation and institutional ecosystems. Ács et al. (2014) argue that entrepreneurial performance in Spain cannot be understood through national averages alone because substantial regional disparities exist in entrepreneurial quality, institutional capacity, and innovation ecosystems. Their "bottleneck" approach suggests that entrepreneurship policy must target specific institutional constraints rather than relying on generic national prescriptions. Aparicio et al. (2016) argue that regional governments and universities in Spain function not merely as regulatory actors but as "public entrepreneurs" capable of generating knowledge environments conducive to new firm creation. Their findings demonstrate that public-sector expenditure, university staffing, and institutional support systems positively influence entrepreneurship outcomes. They reject narrow market-centered interpretations of entrepreneurship policy and emphasizes the developmental role of public knowledge institutions. The significance of EU subsidies evolved over time.

During the 1990s, a substantial share of EU funding was devoted to physical infrastructure projects, including highways, ports, airports, telecommunications, and the AVE high-speed rail network. These investments contributed to declining transportation costs and stronger integration into the European Single Market. However, critics argue that infrastructure-led growth also became linked to Spain's broader construction and real-estate boom, particularly during the pre-2008 expansion. EU-supported investment often coincided with speculative growth patterns that masked underlying weaknesses in productivity and technological competitiveness. By the 2000s and 2010s, Spain increasingly shifted toward innovation-oriented and sustainability-focused uses of EU funding. Policy priorities expanded to include digitalization, green transition policies, research and development support, entrepreneurship promotion, and regional smart-specialization strategies aligned with broader EU industrial objectives. Scholars increasingly interpret Spanish development as a sequence of institutional recombination in which privatization, labor-market reform, industrial policy, regional development, and entrepreneurship policy remained deeply interconnected. Privatization did not eliminate strategic state concerns; labor-market flexibility did not produce a unified flexible labor market; industrial policy did not disappear but became selective and territorially uneven; and entrepreneurship policy increasingly depended on public knowledge institutions and regional innovation ecosystems. The central disagreement within the literature therefore concerns the location of Spain's principal developmental bottleneck. Some scholars emphasize strategic ownership and industrial coordination, others labor-market dualism and precarious employment, while still others focus on regional governance, innovation systems, or entrepreneurial ecosystems. Across these debates, however, a broad consensus has emerged that long-term convergence depended not merely on market liberalization or fiscal transfers, but on the institutional capacity to generate sustained productive upgrading, innovation, and territorially embedded development.

2. A more historical point of view

To identify earlier European models of development, such as Southern Italy during the 1950's-1970s, the Cassa per il Mezzogiorno should be analyzed, which represented one of the earliest large-scale regional development experiments in post-war Europe. The major dispute evolved if market dynamics reinforces existing regional inequalities or tends to reduce them. In the context of post-war Southern Italy externally driven industrialization, in which large-scale industrial investments remained weakly integrated into the local economy as the concentration of strategic investments intended to generate broader economic linkages, the absence of strong institutional capacity showed that without deep structural transformation, regional inequalities tend to reproduce themselves over time.

Through extensive public investment programs, particularly those administered through the Cassa per il Mezzogiorno, Italian policymakers sought to reduce the persistent economic divide between the industrialized North and the predominantly agrarian South. While these interventions generated measurable improvements in infrastructure, industrial output, and modernization, they ultimately failed to achieve sustained economic convergence between the two regions. A central theoretical framework for understanding this outcome is provided by Myrdal (1957) conceptualized a cumulative causation, i.e. economic development tends to generate self-reinforcing advantages in already prosperous regions, concentrating capital, skilled labor, innovation, and productive investment. In the Italian case, industrial capital and technological dynamism remained concentrated in Northern regions, while the South struggled to develop comparable productive capacities despite substantial state transfers. While market integration and capital inflows alone are insufficient to guarantee regional convergence in the absence of broader structural transformation, Graziani (1979) argued that much of the industrial expansion in the South was externally driven and only weakly embedded within local economic structures. Large-scale, capital-intensive enterprises, frequently state-owned firms created employment opportunities but generated limited linkages with local suppliers, entrepreneurs, and regional production systems. This was: "cathedrals in the desert", isolated industrial complexes that remained disconnected from the surrounding regional economy. The Mezzogiorno case thus illustrates how external investment, when insufficiently integrated into local production networks, can generate growth without broader developmental transformation. Rosenstein-Rodan (1943) model, the "Big Push" theories of industrialization emphasized large-scale and coordinated public investment as a mechanism for overcoming structural underdevelopment. Although this approach improved infrastructure and expanded industrial capacity, it failed to produce autonomous and self-sustaining growth processes. Economic activity remained highly dependent on continued state intervention and public transfers.

Acemoglu and Robinson (2012) contend that inclusive political and economic institutions are essential for long-term development, while North (1990) emphasizes the role of institutional frameworks in shaping economic incentives and performance over time. It highlights the importance of incentive structures within subsidy-based development models, in many cases, firms responded primarily to the availability of public subsidies rather than to competitive market signals, contributing to inefficiencies, rent-seeking behavior, and long-term dependency on state support. The limitations of the Mezzogiorno strategy significantly influenced subsequent shifts in regional development theory toward place-based approaches. Barca et al. (2012) argue that effective regional policy must be tailored to local institutional conditions, productive capacities, and territorial specificities rather than relying on uniform, top-down investment strategies. In broader comparative contexts, particularly within developing regions, the implications of this perspective include the importance of supporting local entrepreneurship, strengthening regional value chains, enhancing institutional quality, and promoting context-specific development strategies rather than relying exclusively on external capital injections. Ultimately, the experience of Southern Italy demonstrates that capital investment without corresponding institutional development often produces dependency, inefficiency, and limited structural transformation. The Mezzogiorno case remains a foundational example within regional development literature of the limits of state-led modernization in the absence of strong local institutions, embedded productive networks, and endogenous economic capacities.

The next major widely researched topic was the economic transformation of the former East Germany, concerning privatization, institutional transfer, labor-market restructuring, industrial policy, regional development, and entrepreneurship. The literature emphasizes the interaction between ownership transfer, institutional asymmetry, wage formation, state intervention, and regional productive capacity in shaping the long-term developmental trajectory of East Germany. A major strand of scholarship focuses on the role of the Treuhandanstalt and the rapid privatization of formerly state-owned enterprises. Carlin (1994) argues that many critics underestimated the severe cost and demand conditions under which East German firms operated following reunification. Her position does not claim that privatization was intrinsically sufficient for successful restructuring, but rather that inherited firms were suddenly exposed to Western competition under economic conditions that rendered many of them immediately uncompetitive. Roesler (1994) gives a more critical interpretation, arguing that the Treuhand's operational logic transformed "non-viability under immediate western competitive conditions" into "non-viability as such", stating that privatization policy elevated rapid divestment into the overriding criterion of economic policy, subordinating questions of gradual modernization, selective preservation, and socially manageable restructuring. More recent empirical research complicates both strongly technocratic and strongly anti-Treuhand interpretations. Mergele, et al. (2021) demonstrate that privatization outcomes were not entirely arbitrary: firms with higher pre-privatization productivity were privatized more quickly and exhibited significantly higher survival probabilities, they find little evidence supporting the strongest versions of the "killer acquisition" thesis, since West German ownership was generally associated with improved survival outcomes rather than systematic closure. These studies also demonstrate that ownership transfer contributed significantly to the long-term East-West wealth gap, because the most productive firms were rarely transferred into East German ownership. Privatization therefore had distributive and territorial consequences extending far beyond narrow efficiency considerations. Employment guarantees frequently distorted firm-size decisions and increased exit risks, yet they also generated stronger employment growth and higher long-term productivity. The debate suggests that socially motivated constraints within privatization were neither merely distortive nor purely protective; rather, they altered the developmental trajectory of restructuring by creating tensions between short-term allocative efficiency and long-term productive upgrading.

A second major debate concerns wage formation, labor-market adjustment, and the transplantation of West German institutional arrangements into eastern economic conditions. Burda and Hunt (2001) place wages at the center of East Germany's adjustment difficulties but frame the issue more broadly as one of incomplete regional integration. Their analysis identifies persistent labor underutilization, productivity stagnation, and continuing dependence on large-scale fiscal transfers from West to East Germany. A third pillar of scholarship focuses on industrial policy and business-development strategy. Carlin (2010) reframes East Germany less as a conventional transition economy and more as a case of asymmetrical regional incorporation. Her concept of "replication" is especially influential: West German institutions of wage bargaining, labor regulation, and social insurance were rapidly transplanted into the East without the productive complementarities that had historically sustained them in the West. Investment subsidies alone could not compensate for this mismatch between institutional costs and productive capabilities. Röhl (2000) examines whether regions such as Dresden had accumulated sufficient institutional density, universities, R&D infrastructures, and innovative enterprises to generate an "innovative milieu." Rosenfeld, Franz and Heimpold (2000) similarly argue that genuinely innovative industrial clusters remained relatively rare in East Germany and were concentrated primarily in a limited number of agglomerated regions. Their work suggests that cluster policy can succeed only where pre-existing institutional thickness, network structures, and innovative capacities already exist, thereby rejecting generalized and territorially indiscriminate development strategies.

Conclusion

The academic literature on subsidy policies demonstrates that financial transfers, although capable of accelerating modernization and supporting economic restructuring, are insufficient to produce sustainable convergence or long-term developmental transformation. Across the diverse historical experiences a recurring pattern emerges: the effectiveness of subsidies depends less on the scale of financial intervention than on the institutional, productive, and governance structures within which such interventions are embedded. The literature on SME's and innovation subsidies states that public support can increase expenditures, innovation activity, and collaborative networks, empirical evidence consistently demonstrates that subsidy outcomes are heterogeneous and conditional. Crowding-out effects, imperfect targeting, and limited additionality remain persistent concerns. Subsidies tend to generate stronger results where firms face genuine financial constraints and where broader innovation ecosystems are sufficiently developed to absorb and utilize external support effectively. Consequently, governance quality, administrative capacity, and institutional coordination emerge as decisive variables shaping policy outcomes.

The experiences of, Greece, Spain and Portugal illustrate both the transformative potential and structural limitations of cohesion-oriented development policies. European Union transfers succeeded in modernizing infrastructure, improving connectivity, and integrating peripheral economies into continental markets. Transportation systems, telecommunications networks, public services, and urban infrastructure were significantly upgraded through successive funding cycles. Nevertheless, the literature repeatedly demonstrates that physical modernization did not automatically translate into sustained productivity growth or industrial convergence. The historical experiences of Southern Italy and East Germany further reinforce these conclusions. In Southern Italy, extensive state-led development programs generated important infrastructural improvements but failed to create self-sustaining regional growth, underdeveloped regions often remained trapped in structurally dependent positions despite substantial public transfers. Similarly, East German reunification revealed the limits of rapid privatization and institutional transplantation. While significant resources were mobilized to modernize the eastern regions, long-term convergence remained constrained by weak entrepreneurial ecosystems, asymmetrical ownership structures, and insufficiently embedded regional innovation systems. In both cases, external investment and subsidy-led modernization proved incapable of fully compensating for deficiencies in local institutional capacity and endogenous productive development.

A broader theoretical implication therefore emerges from the literature reviewed in this paper. Subsidy policies should not be understood merely as financial mechanisms, but rather as institutional development instruments whose success depends upon the interaction between state capacity, regional governance, productive structures, and entrepreneurial dynamism. Financial transfers alone cannot substitute for institutional quality, competitive industrial systems, or endogenous innovation capacities. Regions most in need of support are frequently those least equipped to transform subsidies into sustainable economic development, thereby creating a structural paradox at the center of cohesion policy itself.

For Hungary and other recently integrated member states, these historical experiences offer particularly important lessons. Future evaluations of subsidy policy should move beyond narrow indicators such as absorption rates or the total volume of transferred resources. Greater attention must instead be devoted to questions of long-term productivity, institutional strengthening, innovation capacity, and the creation of territorially embedded economic systems capable of sustaining development beyond funding cycles. The comparative evidence examined throughout this paper strongly suggests that sustainable convergence ultimately depends not on the existence of subsidies alone, but on the capacity of national and regional institutions to convert external financial support into endogenous and durable economic transformation.

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