

Electoral cycles, political alignment, and subsidy allocation: Evidence from Germany*

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Abstract

We examine whether political alignment between county and state governments affects the allocation of Germany's largest place-based investment subsidy program. We combine approximately 51,000 GRW projects from 2000 to 2019 with hand-collected election and coalition data. Our county and year fixed-effects design separates changes in alignment from state and county electoral cycles. Alignment increases approved subsidy volume by 176%, approximately 3 million Euro in the average county-year, and raises the number of approved projects by 31% of its mean. Aligned counties also request 58% more support and submit 1.34 additional projects, which indicates that the allocation difference begins at the application stage and widens during approval. GRW-supported investment rises by 217%, while county employment increases by 1.1%. The alignment gradient strengthens with the county party's political power in the state government and varies across regions and program periods.

Keywords: Government subsidies, political alignment, financial intermediation

JEL Classification: H25, P16, G21

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1 Introduction

Place-based subsidies aim to overcome regional disadvantages, yet politically accountable governments allocate them. This paper asks whether partisan alignment between county and state governments changes the amount and number of investment subsidies allocated to firms in a county. The question matters because alignment has theoretically ambiguous effects. Our political network and information friction hypotheses predict that shared party control increases subsidies by improving coordination and the transmission of information. Our political compensation hypothesis instead predicts fewer GRW subsidies for aligned counties if state governments compensate political allies through other policies or career opportunities. Because lower information frictions should also generate more applications, comparing requested and approved support helps distinguish these mechanisms.

Political alignment must also be separated from political cycles. State and county politicians may independently adjust visible spending as elections approach, even when party control across tiers is unchanged. Conversely, alignment changes after staggered state and county elections and coalition negotiations, often at different points in the two electoral calendars. Our empirical model therefore includes the years before and after elections at both levels alongside the alignment indicator. This distinction connects the transfer literature on shared party control ([Solé-Ollé and Sorribas-Navarro, 2008](#), [Brollo and Nannicini, 2012](#), [Bracco et al., 2015](#)) to evidence that the composition of public policy and public-bank lending varies over electoral cycles ([Drazen and Eslava, 2010](#), [Englmaier and Stowasser, 2017](#)).

The studies that are closest to the present paper analyze politically allocated transfers or project funding. For Germany, [Quinckhardt \(2023\)](#) study infrastructure transfers to municipalities, [Schneider et al. \(2022\)](#) examine federal research and innovation grants, and [Bremer and Hetzel \(2026\)](#) show that alignment raises state-level public investment subsidies, especially late in electoral terms. We differ by studying the universe of firm-level projects in a single rule-based regional policy, the GRW program. The project registry lets us distinguish requested from approved support, subsidy values from project counts, and transfers from associated investment and county employment. This application-to-approval distinction is our main innovation: it reveals whether alignment is already associated with local project generation or emerges only when the state makes the award.

We combine roughly 51,000 GRW projects worth more than 22 billion Euro with hand-collected state and county election outcomes, state coalition composition, and regional controls. Aggregating projects to 315 counties that have been eligible at least once over 2000–2019 yields 5,872 county-year observations. We

estimate subsidy responses to political alignment based on within-county changes in alignment generated by staggered elections and coalition formation. County and year fixed effects absorb persistent regional differences and common shocks, while lagged state and county controls account for economic conditions that also determine program eligibility and aid intensity.

The results are statistically and economically large. Alignment is associated with a coefficient of 1.038 for approved subsidy volume and 1.411 additional approved projects, both significant at the 1% level. Applying the correction for a dummy in a semilog model proposed by ([van Garderen and Shah, 2002](#)), the first estimate corresponds to 176% more approved support, or about 3 million Euro relative to the average county-year volume of 1.7 million Euro. The project effect is about 31% of the county-year mean. Requested support is already 58% higher and counties submit 1.34 more projects when aligned, but the larger increase in approved value shows that the intensive-margin difference widens at the state decision stage. Associated GRW investment rises by 217%, approximately 21 million Euro, and county employment is 1.1% higher. Note that we do not interpret these results as a causal consequence of political alignment. Employment estimates describe instead an equilibrium regional association rather than a project-level treatment effect or a welfare calculation.

The pattern is consistent with both greater local demand or coordination and discretion at approval. We therefore probe political power, party and regional heterogeneity, electoral traits, robustness to alternative samples and placebo alignment. We also provide tentative evidence on a potential mechanism through more pronounced local public-bank lending. Together, these tests show where the alignment gradient is strongest without treating the positive real effects as evidence that the politically associated allocation is necessarily efficient.

This paper connects research on the political allocation of subsidies and place-based policies, partisan alignment across levels of government, political cycles and the composition of public policy, and German fiscal federalism. This literature shares a common theme: whether discretionary public resources follow program criteria or political incentives.

The first strand studies whether political discretion changes the incidence and effectiveness of subsidies. Using the universe of successful and rejected applications to European Union Structural and Cohesion Funds in Hungary, [Muraközy and Telegdy \(2016\)](#) combine municipality fixed effects with matching estimators. They find little alignment effect for aggregate grants, but aligned municipalities receive 16–21% more funding when applicants are public entities or projects are visible to voters. The decomposition points to both more

applications and higher acceptance rates in aligned municipalities. For Germany, [Schneider et al. \(2022\)](#) analyze 2010–2019 project-level federal funding for research, development, and innovation with recipient, state, ministry, and month-by-year fixed effects. Alignment between the federal minister and state prime minister raises funding for small projects by about 4%, while the relationship weakens for larger projects, where approval involves more scrutiny.

These allocation studies complement evidence on the economic purpose of business incentives. [Slattery and Zidar \(2020\)](#) assemble state and local incentive deals in the United States and combine descriptive evidence with a model of subsidy competition. Incentives are concentrated in large, high-wage firms and are more generous in places facing greater political competition, while the authors find limited evidence that incentives raise broader state economic growth. In the German setting, [Eberle et al. \(2019\)](#) use a spatial panel vector autoregression to trace the effects of GRW regional funding on output and factor inputs. They report positive responses of regional output, employment, and human-capital intensity. Taken together, this literature establishes that place-based subsidies can affect regional activity, but also that discretionary allocation can respond to political incentives. It does not determine how political alignment between the two government levels involved in administering a firm-level subsidy program interacts with electoral timing.

A large literature documents that shared party control affects intergovernmental transfers. [Johansson \(2003\)](#) use a panel of 255 Swedish municipalities from 1981 to 1995 and a survey-based measure of swing voters. They find that municipalities with more swing voters receive larger grants. [Solé-Ollé and Sorribas-Navarro \(2008\)](#) exploit changes in party control across three tiers of Spanish government between 1993 and 2003. Their difference-in-differences and triple-differences estimates show that aligned municipalities receive substantially more grants, exceeding 40% under majority governments at both tiers. [Arulampalam et al. \(2009\)](#) develop a model in which central governments target aligned swing states and test it on 14 Indian states between 1974 and 1997. Their panel estimates imply roughly 16% more discretionary transfers for states that are both aligned and electorally competitive.

Later work strengthens identification around close elections. [Brollo and Nannicini \(2012\)](#) use a regression discontinuity design in Brazilian municipal elections and find that municipalities narrowly governed by a party aligned with the president receive more discretionary infrastructure transfers, especially when the mayor may seek re-election. [Bracco et al. \(2015\)](#) combine a political-agency model with a regression discontinuity design for Italian municipalities. They find that alignment increases grants, particularly before local elections, raises public-good provision, and improves the aligned local incumbent’s re-election probability. In Portugal, [Migueis \(2013\)](#) uses municipal panel data and finds larger transfers under alignment, with the

effect concentrated in discretionary rather than formula-based funds.

The sign and mechanism of alignment effects nevertheless depend on institutions. [Dellmuth and Stoffel \(2012\)](#) analyze the local allocation of European Union structural funds and show that domestic political conditions shape deviations from program criteria. [Estache et al. \(2016\)](#) model and estimate shared mandates in a decentralized setting, showing how misalignment can induce moral hazard and weaken public-service provision. [Bircan and Saka \(2021\)](#) document a different margin: politically controlled banks reduce lending in areas governed by opponents, and the associated credit contraction worsens real outcomes. Thus, alignment can operate through upper-tier allocation, lower-tier effort, information, or financial intermediaries. The present paper tests these forces within one program in which states make funding decisions and local banks screen firm applications.

The political-cycle literature begins with aggregate models of electoral manipulation ([Nordhaus, 1975](#), [Rogoff and Sibert, 1988](#)). Cross-country evidence depends on political institutions. Using 106 countries, [Brender and Drazen \(2005\)](#) find that new democracies drive election-year deficit cycles and that these cycles disappear in the subsample of established democracies. [Shi and Svensson \(2006\)](#) study 85 countries from 1975 to 1995 and estimate an average election-year deficit increase of almost one percentage point of GDP. They find much larger cycles in developing countries, consistent with their model’s emphasis on political rents and uninformed voters. At the subnational level, [Akhmedov and Zhuravskaya \(2004\)](#) use monthly fiscal and electoral data from Russian regions and find sizable pre-election increases in public spending followed by reversals. The cycles are stronger where institutions provide fewer checks.

For established democracies, political intervention often appears in the composition of policy rather than the aggregate budget. [Drazen and Eslava \(2010\)](#) develop a model of voter-friendly expenditure and test it with Colombian municipal data, finding pre-election shifts toward visible current spending rather than broad fiscal expansion. In Germany, [Foremny and Riedel \(2014\)](#) use municipal business-tax rates and staggered local elections to show that tax increases are less likely before elections. [Mechtel and Potrafke \(2013\)](#) analyze German active labor-market programs and find electoral timing in job-creation policies. These results motivate testing state and county electoral cycles jointly: different tiers may use the same subsidy program at different points in their respective electoral calendars.

The closest German studies examine transfers or project funding rather than firm-level regional investment subsidies. [Baskaran and Hessami \(2017\)](#) use changes in partisan control in German municipalities and states and show that parliamentary institutions condition the relationship between alignment and transfers.

Quinckhardt (2023) applies a regression discontinuity design to 2,322 mayoral elections in eight states from 2000 to 2008. Alignment between a mayor and the state government raises infrastructure transfers by about 20%. The effect is strongest before local elections and disappears when the mayor does not seek re-election. Schneider et al. (2022), in turn, find alignment effects for small federal research and innovation projects.

Bremer and Hetzel (2026) provide the closest evidence on public investment subsidies across all three tiers of German government. They combine state and federal investment subsidies to 401 districts from 1995 to 2018 with hand-coded party control and use panel matching, covariate balancing, and difference-in-differences estimation. Alignment raises state-level subsidies but not federal subsidies. The state effect is concentrated near the end of electoral terms: depending on the alignment definition, predicted subsidies are approximately 7% higher in the penultimate year and 9% higher in the final year, reaching nearly 20% under single-party state governments. Effects are also stronger in competitive districts, for right-wing parties, and in West Germany.

We add to these important studies a comprehensive analysis over two decades, and thus multiple state and county electoral cycles, for the largest place-based subsidy program in Germany, the Improvement of Regional Economic Structures (GRW) program

2 Institutional background and hypotheses

2.1 The GRW program: relevance and eligibility

The setting for our analysis is the GRW program, Germany’s largest place-based policy. West Germany introduces the program in 1969 and extends it to the reunified country in 1990. The program aims to reduce regional differences in employment and income by stimulating private investment. Federal and state governments jointly provide approximately 68 billion Euro between 1991 and 2019. During 2000–2017, the program co-funds around 30% of manufacturing investment in eligible regions. Our sample covers the three funding periods 2000–2006, 2007–2014, and 2015–2020.

Federal states administer applications and make funding decisions. Only non-financial firms located in counties within an eligible labor-market region can apply. A proposed investment must either increase the firm’s workforce by at least 15% or exceed 50% of its average depreciation during the three years before application. At least half of the firm’s revenue must originate outside its home region. Applicants must also provide at least 25% of total project financing from their own funds. A bank audits the financing plan before the firm submits the completed application to its state government.

Formal rejections are uncommon because firms typically consult the responsible county administration before submitting an application. State authorities generally accept applications that satisfy the program criteria and contain an approved financing plan. Firms should complete projects within three years. The GRW provides an outright cash grant tied to the approved investment project and normally does not require repayment. The institutional division of tasks is central to our analysis: politically responsible state authorities make the award decision, while local banks screen the applicant's financing plan.

The program determines access to GRW funding at the level of labor-market regions, which it defines from commuting patterns and which may contain several counties. Before each European Union funding period, program administrators rank labor-market regions using a structural weakness score based on underemployment, gross wages and salaries, infrastructure quality, and projected employment. Regions receive access in inverse order of economic strength until Germany reaches its population threshold.

The program also assigns each eligible labor-market region a maximum aid intensity, defined as the largest subsidy share permitted in a project's investment volume. The applicable ceiling depends on regional weakness and firm size. Between 2000 and 2014, the smallest firms in the weakest regions could receive up to 50% of planned investment. The maximum fell to 40% in 2015–2020. Eligibility and aid intensities depend on rankings relative to other European regions and change across funding periods, so individual firms and their banks cannot directly determine these parameters. The enlargement of the European Union also reduces the aggregate funding available to German regions over time, causing some previously eligible regions to lose access while others remain eligible.

2.2 German electoral system

Germany is a federation of 16 states and 401 counties (*Kreise* and *kreisfreie Städte*). Each state parliament (*Landtag*) passes state laws and appoints the ministers and the state governor (*Minister-President*). Proportional representation makes single-party majorities rare, so coalitions determine ministerial appointments. By convention, the leading coalition party appoints the state governor. States hold elections every four to five years on different dates.

Elected county councils govern the counties, which hold elections every four to six years. The center-right CDU and center-left SPD dominate politics at both levels. State and county elections occur at different times, which produces staggered changes in government composition and political alignment.

This institutional framework supports the separation of subsidy allocation effects due to partisan align-

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ment across different levels of government versus those due to well-documented pork barrel policies over the electoral cycle in two ways. First, government transitions at either level change alignment status, and coalition negotiations make the timing and direction of those changes difficult to predict. Second, the setting limits reverse-causality concerns. Politicians may allocate subsidies to support re-election, but subsidy awards are unlikely to create partisan alignment between a county and its state government.

We mobilize three decades (1990–2019) of hand-collected data on state and county electoral outcomes across 542 counties and 16 federal states in Germany.¹ The crucial tension that we exploit results from the shared tasks in administering the GRW program across state and county governments. State-level politicians decide whether or not to award firms’ GRW applications. Local county politicians, in turn, support the administrative application procedure and influence the dissemination of information about it, for example through their representation in regionally organized chambers of commerce or local savings banks, which audit firms’ GRW applications. Hence, opposing forces shape the relationship between partisan alignment of local and state governments and the allocation of subsidies.

Partisan alignment may spur the allocation of subsidies for two reasons. First, staggered electoral cycles at the county and state levels imply that canonical “pork barrel” policies over the election cycle (Nordhaus, 1975) may also depend on whether local and higher-level politicians share the same political objectives. We call this possible driver of a positive relationship between alignment and subsidies the “political network hypothesis.” It predicts a positive relationship between alignment and both the volume and number of approved GRW projects. Second, shared party control can reduce information frictions for firms about available government funds and for state-level decision-makers about viable investment projects. We call this mechanism the “information friction hypothesis.” It predicts not only more approved support, but especially more applications at both the intensive and extensive margins.

Alternatively, aligned counties may receive fewer GRW subsidies if state-level objectives conflict with local interests. We call this prediction the “political compensation hypothesis.” State governments may direct more subsidies to structurally weak, unaligned regions and compensate aligned local politicians through other economic policies or stronger career opportunities within the party. Such coordination is more plausible among party allies. Local politicians still face limits because voters can dismiss delegated agents whose policies deviate too far from local preferences (Geelen et al., 2024). We cannot observe the full menu of state and county policies or politicians’ career opportunities over three decades. Our fixed effects and

¹The number of counties decreased substantially since 1990. We confine the empirical analysis ultimately to 315 counties that were at some stage eligible for GRW subsidies as of the year 2000 due to the availability of control variables.

controls absorb many observable differences, but the political compensation hypothesis remains a plausible explanation for a negative alignment coefficient.

3 Data

Our analysis combines a project-level registry for Germany’s largest place-based policy program, the Improvement of Regional Economic Structures (GRW), with hand-collected county and state election results and state ministerial appointments. We add state- and county-level business-cycle and regional-development indicators from the German Federal Statistical Office and the INKAR database.²

3.1 Registry of GRW subsidies

The Federal Office for Economic Affairs and Export Control provides the GRW registry and monitors the program. The plant-level registry covers every subsidized project from 1997 to 2020. For each project, we observe the application and approval dates, total investment, and subsidy amount. The registry reports both initially planned and approved amounts.

We geocode each plant to its municipality, which allows us to identify the destination of funding for firms that operate plants in several counties.³ We aggregate the registry into annual county-level subsidy volumes and project counts. We study 2000–2019 to match the period covered by the other data.

During this period, the program allocates more than 22 billion Euro across approximately 51,000 projects. It supports an average of 2,282 projects per year, and the average project receives 426 thousand Euro. About 56% of firms apply for and receive a subsidy only once. Manufacturing firms account for 60% of the sample, half of which operate in high- or medium-high-technology industries. Knowledge-intensive services account for 17%, accommodation for 11%, and other industries for 12%.

---insert Table 1 around here---

Table 1 reports the annual development of the program. Panel A shows that program activity declines over time, primarily because European Union enlargement reduces the funding available to German regions. Activity remains highest from 2000 to 2014. Panel B shows that GRW funding equals approximately 3% of manufacturing investment and tax revenue in the average county in 2014. The corresponding shares reach

²INKAR stands for Indicators and Maps for Spatial and Urban Development.

³Single-plant firms account for 85% of subsidized firms, so multi-plant firms create limited measurement concerns.

20% and 34% in 2000.⁴

3.2 Political alignment data

We combine state-parliament and county-council election results to construct political alignment. The German Federal Statistical Office provides state election results. We then extend the data used originally in Koetter and Popov (2021) and add hand-collected county election results from state websites, which publish separate files in several formats rather than a centralized dataset.

We first extract every county election since 1990 across the 16 states. We then harmonize party names.⁵ Because the source files do not contain county identifiers, we match reported county names to the eight-digit identifiers from the German Federal Statistical Office. In addition, we account for county reforms between 1990 to 2016. These reforms consolidate smaller counties and reduce their number from 426 in 1990 to 294 in 2016. To preserve geographic detail, we use the 1990 county definitions and map every subsequent county to its 1990 counterpart.⁶ We then use spatial border overlaps to link these units to variables reported under the 2017 definitions.

The resulting dataset records turnout and party vote shares for 1,343 elections across 315 counties. We combine these data with state coalition composition. The key variable of interest is then an alignment indicator. It equals one when the county vote winner also leads the coalition in the county’s state.

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Table 2 summarizes county and state party control, alignment, elections, victory margins, and changes in alignment from 2000 to 2019.

3.3 Regional controls

We account for state business cycles with GDP growth, unemployment, and income per capita from the German Federal Statistical Office. We also control for county economic conditions and regional development because both affect the maximum aid intensity available to firms.⁷ Because we do not observe every input

⁴We focus on manufacturing because county-level investment data are available only for that sector.

⁵The harmonized categories include the CDU, SPD, FDP, Alliance 90/The Greens, Die Linke, AfD, and an Other category for parties with small vote shares.

⁶Ludwigslust and Parchim, for example, merge into Ludwigslust-Parchim in 2011. We retain the original counties before the merger and assign the new county’s subsequent election result to both original counties.

⁷Before each funding period, the program ranks regions by a structural weakness score that combines underemployment, gross wages and salaries, infrastructure quality, and projected employment. This ranking determines the maximum share of project investment that the subsidy can cover, which reaches 50% in the weakest regions.

used by program administrators, we proxy for local conditions with county GDP growth, income per capita, unemployment, the net commuter share, apprentices per capita, population density, and the manufacturing share.

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Table 3 defines the outcomes, treatment, electoral-cycle measures, and state and county controls used in the regressions whereas Table 4 reports summary statistics for the county-year sample and compares means across aligned and unaligned observations.

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Column (11) reports normalized differences suggested by [Imbens and Wooldridge \(2009\)](#). None of the outcome variables in the top panel exhibit statistically different means when comparing aligned with non-aligned counties. Hence, political partisanship across different levels of governments in Germany is not obviously related to the allocation of GRW subsidies. Related, the panels depicting macroeconomic covariates at the state and the county level do also not exhibit statistically significant differences for the most part. Hence, our core variable of interest—the political (mis)alignment at different levels of government—is unlikely to be spuriously correlated with observable subsidy and economic patterns.

To separate more explicitly the role of political alignment from that of well-documented electoral cycles, we turn next to the empirical specification at the county level.

4 Specification and results

4.1 Headline findings

We estimate the relationship between county-state political alignment and GRW allocation using

$$Y_{c,t} = \beta_0 + \beta_1 \text{Aligned County}_{c,t} + \beta_2 \text{Elect. Cycle}_{s,t}^{\text{State}} + \beta_3 \text{Elect. Cycle}_{c,t}^{\text{County}} + \beta_4 \text{Controls}_{s,t-1}^{\text{State}} + \beta_5 \text{Controls}_{c,t-1}^{\text{County}} + \alpha_c + \alpha_t + \epsilon_{c,t}, \quad (1)$$

where $Y_{c,t}$ is either the log approved subsidy volume or the number of approved projects in county c and year t . $\text{Aligned County}_{c,t}$ equals one when the county vote winner is the party leading the state coalition.

The two electoral-cycle vectors measure years before and after state and county elections, respectively. Lagged state and county controls capture business-cycle conditions and regional development. The terms α_c and α_t denote county and year fixed effects. The sample covers ever-eligible counties from 2000 to 2019, and we cluster standard errors by county. Because Equation 1 includes both electoral calendars, β_1 captures the alignment relationship separately from political cycles.

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Table 5 reports the headline allocation results. Columns 2 and 5 add alignment to the controls and fixed effects. The coefficient is 1.038 for log approved subsidy volume (standard error 0.198) and 1.411 for the number of approved projects (standard error 0.259). Both estimates are statistically significant at the 1% level. The semilog estimate implies 176% more approved support in an aligned county-year, approximately 3 million Euro against a mean of 1.7 million Euro. The project-count estimate equals about 31% of the mean. These magnitudes exceed the roughly 4% effect for small federal R&D grants found by [Schneider et al. \(2022\)](#) and the approximately 20% infrastructure-transfer effect in [Quinckhardt \(2023\)](#), although the programs, outcomes, and designs differ.

The positive effects at both margins reject the negative prediction of the political compensation hypothesis for GRW allocation itself. They are consistent with both the political network and information friction hypotheses. Because the specification controls separately for state and county electoral cycles, the estimates do not simply capture a common pre-election expansion in visible spending.

Columns 3 and 6 do not estimate a different specification equation. They add an interaction indicator between alignment and a county’s location in eastern Germany to Equation 1. For subsidy volume, the western alignment coefficient is 0.466 and statistically insignificant, while the eastern add-on is 1.263 and significant at the 1% level. For project counts, the western coefficient is 1.259 and significant at the 1% level, whereas the eastern add-on of 0.335 is imprecise. The results therefore suggest that alignment operates mainly through project numbers in western counties and through project size in eastern counties. This regional gradient contrasts with [Bremer and Hetzel \(2026\)](#), who find stronger state-subsidy alignment effects in western districts, underscoring the importance of studying a firm-level program separately.

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Table 6 locates the association along the allocation process. We measure applications by aggregating, in each county and application year, the initially requested subsidy amount and the number of submitted

projects. Approved outcomes aggregate the authorized amount and approved projects by approval year. Alignment is associated with a log requested-volume coefficient of 0.475 (standard error 0.191), equivalent to about 58% more requested support, and 1.342 additional applications (standard error 0.224). Both estimates are statistically significant. The application results provide the clearest support for the information friction hypothesis because partisan alignment correlates with project generation before state authorities make their award decisions. The substantially larger approved-volume effect in Table 5 indicates that the intensive-margin difference widens by the award stage, which also leaves room for political networks or better communication during approval. This comparison describes differences across stages rather than a formal mediation decomposition.

4.2 Regional real effects

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Table 7 replaces the allocation outcomes with the log volume of GRW-supported investment and log county employment. In Columns 2 and 5, alignment raises supported investment by a coefficient of 1.181 (standard error 0.227) and employment by 0.011 (standard error 0.003). Both estimates are significant at the 1% level. The investment estimate corresponds to 217%, or about 21 million Euro in an average county-year, while the employment estimate corresponds to 1.1%. The allocation difference therefore coincides with greater real activity rather than only a redistribution of subsidy income to firms. These associations support an interpretation in which alignment helps viable projects reach the program, as the information friction hypothesis suggests. They are also consistent with the positive regional responses to GRW funding reported by Eberle et al. (2019). They do not identify the treatment effect of an individual project or establish welfare gains because employment is an equilibrium county outcome and political allocation may displace other activity.

As in the headline table, Columns 3 and 6 add the alignment–East interaction rather than a second equation. The eastern add-ons are 1.397 for supported investment and 0.027 for employment, each significant at the 1% level. The corresponding western coefficients, 0.548 and -0.001, are not statistically distinguishable from zero.

4.3 Political power and election traits

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Table 8 varies the political strength of the county party in the state government. The subsidy-volume

coefficient rises from 0.225 when the county party is merely the state popular-vote winner to 0.710 for coalition membership, 0.957 when it appoints the finance minister, and 1.039 when it leads the coalition. The first estimate is insignificant. The latter three are significant at the 1% level. Project-count effects are positive and significant for the indicator definitions, though they do not increase monotonically. The volume pattern supports the political network hypothesis because the alignment gradient strengthens when the county party gains authority within the state government. At the same time, the non-monotonic project-count pattern cautions against interpreting every result as political targeting.

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Table 9 evaluates election traits and sample composition. The positive allocation relationship survives excluding counties that are always aligned or always misaligned, restricting the sample to the middle two eligibility quartiles, and retaining only terms following elections decided by less than five percentage points. A randomized-alignment placebo is centered near zero. These checks reduce concerns that time-invariant county types, the weakest or strongest eligible regions, or broad electoral competitiveness drive the estimates. They do not, however, convert the conditional correlations into causal effects.

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Table 10 examines party and program-period heterogeneity. The volume effect is stronger when alignment involves the SPD, while project-count effects fall sharply after 2006. Together with the political-power results, the estimates show that alignment is not a uniform partisan or temporal premium. The declining count effect may reflect changes in program scale, eligibility, or administrative practice rather than a weakening of a single political mechanism. The results complement evidence in Bremer and Hetzel (2026) that alignment effects vary with party, regional location, electoral competition, and the timing within a political term.

4.4 Potential mechanism

Banks may transmit political incentives into subsidy allocation because every GRW applicant must obtain a bank-approved financing plan before submitting the project to the state authority. A broad literature shows that political influence can change bank behavior. Government-owned banks expand lending around elections (Dinç, 2005), and Indian public-bank credit is targeted toward close constituencies despite weaker repayment and no measurable increase in agricultural output (Cole, 2009). In Germany, politically controlled savings banks increase lending before staggered county elections, followed by lower profitability and more defaults (Englmaier and Stowasser, 2017), while political alignment affects banks' holdings of sub-sovereign

debt (Koetter and Popov, 2021). Bircan and Saka (2021) further show that politically controlled banks restrict credit in areas governed by opponents, with adverse real effects. This evidence makes local public banks a plausible screening and coordination channel in the GRW process.

We construct county-level lending measures from 1,202 German savings and cooperative banks observed from 2000 to 2019. We combine Bankscope with Orbis Bankfocus using the variable correspondence supplied by Bureau van Dijk and switch databases in 2013 to maximize coverage. We convert monetary amounts into Euro at annual average exchange rates and report level variables in thousands of Euro. We identify regional savings and cooperative banks from their names and web searches.⁸ We use unconsolidated accounts whenever possible and remove observations with negative assets, equity, or loans and ratios outside the zero-to-100% range. We then aggregate savings-bank and cooperative-bank loans to the county level and scale them by population.

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Table 11 tests whether the alignment relationship varies with county-level lending by savings banks, which are publicly owned, relative to cooperative banks, which perform a similar regional intermediation role without public ownership. For subsidy volume, the interaction between alignment and savings-bank loans per capita is 0.446 and statistically significant at the 10% level, whereas the cooperative-bank interaction is small and insignificant. For project counts, both interactions are negative, with estimates of -1.167 for savings banks and -2.210 for cooperative banks. Thus, stronger public-bank lending is associated with a larger intensive-margin alignment effect but not with a larger number of approved projects.

This pattern is consistent with bank screening or financing capacity affecting the scale of aligned projects, as the information friction hypothesis suggests, but it does not identify a causal mediation channel. Local lending may respond to the same economic or political conditions that affect applications and approvals, and the negative count interactions caution against interpreting public-bank activity as a general expansion in project generation. The evidence is therefore best viewed as a potential mechanism that complements the stronger application-stage evidence.

⁸German savings-bank names usually include “Sparkasse,” while cooperative-bank names usually include “Raiffeisenbank” or “Volksbank.”

5 Conclusion

This paper examines whether partisan alignment between county and state governments correlates with the allocation of GRW investment subsidies. Even in a developed democracy with rule-based administration, alignment matters. Aligned counties receive substantially larger subsidy volumes and more projects after we separate alignment from state and county electoral cycles and absorb persistent county differences. The relationship also strengthens with the county party’s authority in the state government.

The timing of the relationship helps interpret the result. Aligned counties request more support and submit more projects before state authorities decide on awards. This pattern is particularly consistent with the information friction hypothesis: shared political networks may disseminate information about the program, identify viable projects, or help firms navigate the application process. The further increase in approved subsidy values leaves room for political networks at the award stage, but the evidence does not indicate pure political diversion. Greater subsidy allocation coincides with higher GRW-supported investment and county employment.

These findings suggest cautious policy conclusions. Partisan alignment can shape access to place-based support, so administrators should continue to monitor geographic and political differences in applications and approvals. At the same time, the GRW program’s checks and balances appear valuable. Firms consult local administrations, banks screen financing plans, states decide on awards, and federal and European rules constrain eligibility and aid intensity. The application evidence and positive real associations suggest that this multilevel design may reduce information frictions while limiting arbitrary allocation. This interpretation supports transparency, outreach to unaligned counties, and comparable application assistance rather than a wholesale redesign of the program.

Important limitations temper these conclusions. Our estimates are conditional correlations and do not establish that alignment causes subsidies, investment, or employment. We do not observe other policies that may compensate local politicians through county welfare or personal career prospects, so we cannot fully test the political compensation hypothesis. We also lack a convincing counterfactual for how governments or firms would use GRW funds otherwise. Consequently, the results neither establish the welfare efficiency of aligned allocations nor show that the observed projects represent the best use of public resources.

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Tables

Table 1: GRW subsidy statistics

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Panel A: Total																				
Subsidy Amounts, million Euro																				
All Sectors	2,434	2,435	2,651	2,344	1,814	1,307	1,829	1,773	996	989	1,089	802	663	671	418	301	305	224	79	24
Manufacturing	1,838	1,952	2,162	1,716	1,317	1,009	1,517	1,367	718	682	796	616	503	556	343	230	215	169	60	19
Number of Projects																				
All Sectors	6,371	5,287	5,478	4,441	3,562	2,886	3,648	4,375	2,504	2,556	2,383	1,402	1,151	1,095	763	860	975	856	407	191
Manufacturing	5,024	4,196	4,143	3,273	2,688	2,218	2,864	3,378	1,813	1,777	1,731	1,067	864	839	573	605	713	666	339	154
Panel B: Average by County																				
Subsidy Amounts, million Euro																				
All Sectors	10	10	11	9	7	5	7	7	4	4	5	4	3	3	2	1	1	1	0	0
Manufacturing	7	8	9	7	5	4	6	6	3	3	4	3	2	3	2	1	1	1	0	0
Number of Projects																				
All Sectors	26	21	22	18	14	12	15	18	11	12	11	7	5	5	4	4	5	4	2	1
Manufacturing	20	17	17	13	11	9	12	14	8	8	8	5	4	4	3	3	3	3	2	1
Share of Subsidies in County ..., %																				
Investments	20.5	24.2	29.1	24.2	18.7	13.7	19.7	13.2	6.3	8.6	12.6	3.4	4.5	4.4	3.1	1.8	1.5	1.3	0.4	0.2
Tax Capacity	34.7	36.1	45.1	36.6	26.9	17.6	24.5	43.3	7.9	8.3	9.4	5.1	4.2	4.0	2.8	1.7	1.6	1.1	0.4	0.1

Panel A reports annual GRW totals, and Panel B reports county averages. Rows 1 and 2 report subsidy amounts, Rows 3 and 4 report project counts, Row 5 relates subsidies to manufacturing investment, and Row 6 relates subsidies to regional tax capacity.

Table 2: Electoral statistics

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Number of Counties	248	248	248	248	248	248	248	238	223	222	222	211	211	211	211	211	210	210	210	210	
Ruling Parties (in % of counties)																					
State																					
CDU	43.5	43.5	43.5	55.9	55.7	69.2	69.2	69.2	69.2	69.2	60	60	55.9	43.5	30.8	30.8	30.8	44.1	44.1	44.1	
SPD	56.5	56.5	56.5	44.1	44.3	30.8	30.8	30.8	30.8	30.8	40	40	44.1	56.5	56.5	56.5	56.5	43.1	43.1	43.1	
OTH	0	0	0	0	0	0	0	0	0	0	0	0	0	0	12.7	12.7	12.7	12.7	12.7	12.7	
County																					
CDU	69	69.4	71	79.4	76.2	76.2	76.2	75.2	69.1	64.9	64.9	61.6	61.6	62.1	62.6	62.6	61.9	61.9	61.9	60.5	
SPD	30.2	30.2	28.6	18.5	19.4	19.4	19.4	20.2	26	30.2	30.2	33.6	33.6	33.6	33.2	33.2	33.8	33.8	33.8	32.4	
OTH	.8	.4	.4	2	4.4	4.4	4.4	4.6	4.9	5	5	4.7	4.7	4.3	4.3	4.3	4.3	4.3	4.3	7.1	
Status (in % of counties)																					
Aligned	54.8	54.8	66.1	54.8	54.4	63.3	63.3	61.8	61	59.9	59.9	63.5	63.5	64	63	63	62.4	62.9	62.9	51.4	
Misaligned	45.2	45.2	33.9	45.2	45.6	36.7	36.7	38.2	39	40.1	40.1	36.5	36.5	36	37	37	37.6	37.1	37.1	48.6	
Elections																					
State	42	14	42	76	74	42	56	0	76	81	28	36	47	75	53	0	36	84	37	53	952
County	0	48	28	31	141	0	48	10	69	95	0	53	0	13	151	0	46	0	13	95	841
Victory Margins																					
State	.15	.16	.16	.19	.16	.16	.15	.15	.11	.11	.1	.1	.11	.1	.1	.1	.1	.09	.08	.07	
County	.13	.13	.14	.14	.14	.14	.14	.12	.11	.11	.11	.11	.11	.11	.11	.11	.11	.11	.11	.09	
Status Changes																					
Alignment	0	1	28	18	7	32	2	0	7	4	0	2	14	1	6	0	1	33	0	6	162
Misalignment	0	1	0	46	8	10	2	0	4	6	0	2	14	0	8	0	3	32	0	30	166

Row 1 reports the number of counties in the sample. Rows 2–7 report the shares governed by the CDU, SPD, and other parties at the state and county levels. We define the state ruling party as the coalition leader and the county ruling party as the popular-vote winner. Rows 8 and 9 report the shares of aligned and unaligned counties. Rows 10 and 11 report annual state and county elections. Rows 12 and 13 report average victory margins. Rows 14 and 15 report annual transitions into alignment and misalignment.

Destatis - German Statistical Agency, INKAR - stands for "Indicators and Maps for Spatial and urban development", FEA - Federal Employment Agency, Koetter & Popov (2022) - hand-collected county-level election data.

Table 3: Variable definitions

Variable	Description	Source	
GRW Variables			
Subsidy	Amount of GRW subsidies allocated in county c at time t , approved (in thousands of Euro)	GRW	
Investment	Amount of GRW subsidized investments in county c at time t , approved (in thousands of Euro)	GRW	
N of Projects	Number of projects subsidized within the GRW program in county c at time t , approved	GRW	
Aid Intensity	Average ratio of GRW subsidy to GRW investment in county c at time t , approved (in %)	GRW	
Subsidy (Log)	Natural logarithm of the amount of GRW subsidies allocated in county c at time t , approved	GRW	
Investment (Log)	Natural logarithm of the GRW subsidized investments in county c at time t , approved	GRW	
Electoral Variables			
Alignment Measures			
Aligned County ...	Dummy being 1 if county c at time t is governed by the party, which is also ...	Koetter & Popov (2022)	
(Pop. Vote Winner)	a popular vote winner		
(Coalition Winner)	a coalition leader		
(Coalition Member)	a coalition member		
(Finance Minister)	a finance minister appointer		
	... in the government of state s county c belongs to		
Coalition Share	Share of seats of county c ruling party in the coalition of the government of state s county c belongs to (being 0 if a party is not in the coalition) (in %)	Koetter & Popov (2022)	
State Electoral Cycle			
Years After Elections	Number of years since last elections of the state s county c belongs to	Authors' calculations	
Years Before Elections	Number of years before next elections of the state s county c belongs to	Authors' calculations	
Coalition Winner Margin	Margin of vote shares between the state government coalition leader and the second-largest coalition party (in %)	Authors' calculations	
SPD-CDU Dummy	Dummy being 1 or 0 if the state s county c belongs to is ruled by the SPD or CDU parties respectively		
County Electoral Cycle			
Years After Elections	Number of years since last elections in county c at time t	Authors' calculations	
Years Before Elections	Number of years before next elections in county c at time t	Authors' calculations	
Victory Margin	Victory margin of county c elections winner during last elections at time t (in %)	Authors' calculations	
State Variables			
GDP Growth	Growth rate of state s GDP at time t (in %)	Destatis	
Income PC	Income per capita in state s at time t (in Euro)	Destatis	
Unemployment Rate	Unemployment rate in state s at time t (in %)	Destatis	
State Taxes Revenue	Total state taxes revenue of state s at time t	Destatis	
Municipal Taxes Revenue	Total municipal taxes revenue of state s at time t	Destatis	
County Variables			
Employment	Total number of employees in county c at time t (in thousands of persons)	Destatis	
Employment (Log)	Natural logarithm of the total number of employees in county c at time t	Destatis	
GDP Growth	Growth rate of county c GDP at time t (in %)	INKAR	
Income PC	Income per capita in county c at time t (in Euro)	Destatis	
Unemployment Rate	Unemployment rate in county c at time t (in %)	Destatis	
Apprentices PC	Number of apprentices ('azubi') per 1 000 employees in county c at time t	INKAR	
Population Density	Number of inhabitants in county c at time t per sq. km	Destatis	
Manufacturing Share	Share of people employed in manufacturing in total employment in county c at time t (in %)	INKAR	
Net Commuters Share	Ratio of the net commuters-to-work balance (in minus out-commuters) to the total number of employees in county c at time t (in %)	INKAR	
Structural Weakness Score	Compound index of county c economic performance within the GRW program	Destatis	

Table 4: County-level summary statistics

	Full Sample						Misaligned		Aligned		ND
	N Obs.	Mean	SD	Q1	Q50	Q99	N Obs.	Mean	N Obs.	Mean	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
GRW Variables											
Subsidy	5 872	1 728	3 700	0.000	397	16 048	2 562	1 401	3 310	1 981	0.112
Investment	5 872	10 074	26 863	0.000	2 066	96 476	2 562	7 833	3 310	11 808	0.106
N of Projects	5 872	4.497	6.566	0.000	2.000	30.00	2 562	3.255	3 310	5.458	0.246
Subsidy (Log)	5 872	9.409	6.551	0.000	12.89	16.59	2 562	8.364	3 310	10.22	0.201
Investment (Log)	5 872	10.56	7.319	0.000	14.54	18.38	2 562	9.362	3 310	11.49	0.207
Electoral Variables											
State											
Years Before Elections	5 872	-1.874	1.376	-4.000	-2.000	0.000	2 562	-1.849	3 310	-1.893	-0.022
Years After Elections	5 872	1.957	1.406	0.000	2.000	4.000	2 562	1.879	3 310	2.018	0.070
Coalition Winner Margin	5 872	0.267	0.152	0.014	0.270	0.607	2 562	0.196	3 310	0.322	0.644 *
SPD-CDU Dummy	5 632	0.451	0.498	0.000	0.000	1.000	2 347	0.859	3 285	0.159	-1.388 *
County											
Years Before Elections	5 872	-1.962	1.479	-5.000	-2.000	0.000	2 562	-1.824	3 310	-2.068	-0.117
Years After Elections	5 872	2.067	1.513	0.000	2.000	5.000	2 562	1.953	3 310	2.155	0.094
Victory Margin	5 872	0.104	0.101	0.000	0.083	0.377	2 562	0.082	3 310	0.122	0.285 *
State Variables											
GDP Growth	5 872	4.056	2.470	-4.052	4.373	9.253	2 562	3.978	3 310	4.116	0.040
Income PC	5 872	17.43	2.552	12.85	17.32	23.35	2 562	17.36	3 310	17.48	0.031
Unemployment Rate	5 872	10.50	4.406	3.600	9.200	20.30	2 562	10.87	3 310	10.21	-0.104
County Variables											
GDP Growth	5 872	2.478	4.025	-8.282	2.521	13.50	2 562	2.576	3 310	2.403	-0.030
Income PC	5 872	16.91	2.436	12.36	16.71	22.88	2 562	16.95	3 310	16.88	-0.020
Unemployment Rate	5 872	10.98	4.864	3.271	10.00	23.57	2 562	11.46	3 310	10.62	-0.121
Net Commuters Share	5 872	-15.53	25.11	-89.52	-15.40	52.75	2 562	-15.16	3 310	-15.82	-0.019
Apprentices PC	5 872	53.63	15.14	26.91	54.50	93.38	2 562	54.30	3 310	53.12	-0.054
Population Density	5 872	345.5	535.7	39.43	125.6	2 692	2 562	361.5	3 310	333.1	-0.037
Manufacturing Share	5 872	25.47	8.242	8.429	25.43	45.64	2 562	22.24	3 310	27.97	0.524 *
Employment	5 872	60.4	38.5	14.1	49.3	215.2	2 562	58.1	3 310	62.1	0.073
Employment (Log)	5 872	10.83	0.590	9.558	10.81	12.28	2 562	10.81	3 310	10.85	0.044
Structural Weakness Score	5 872	99.21	0.751	97.62	99.29	100.6	2 562	99.14	3 310	99.27	0.128

Columns 1–6 report summary statistics for the outcomes and state and county controls. Columns 8 and 10 compare means by county alignment status, and Column 11 reports normalized differences between aligned and unaligned observations.

The regressions estimate Equation 1 with log GRW subsidies in Columns 1–3 and the number of GRW projects in Columns 4–6. The sample includes German counties ever eligible for the GRW program and spans the period from 2000 to 2019. The main variable of interest, Aligned County, equals one when the party that governs county c at time t also leads the coalition in the county’s state. This variable is interacted with the East dummy (Columns 3 & 6) which equals 1 if a county is from East Germany and 0 otherwise. Further controls include state and county electoral cycle dummies and state- and county-level variables. County and time fixed effects are included. Standard errors clustered at the county level are given in parentheses. ***, **, * indicate significance at the 1%, 5%, 10% level. See Table 3 for a detailed description of all variables

Table 5: Political alignment and county-level subsidy allocation

	GRW Subsidy (Log)			Number of GRW Projects		
	(1)	(2)	(3)	(4)	(5)	(6)
Aligned County		1.038*** (0.198)	0.466 (0.304)		1.411*** (0.259)	1.259*** (0.234)
Aligned County x East			1.263*** (0.397)			0.335 (0.572)
State Electoral Cycle						
Years After Elections	0.043 (0.041)	0.032 (0.042)	0.022 (0.042)	0.018 (0.024)	0.002 (0.024)	0.000 (0.024)
Years Before Elections	-0.060 (0.045)	-0.056 (0.045)	-0.054 (0.045)	-0.129*** (0.032)	-0.124*** (0.032)	-0.123*** (0.032)
County Electoral Cycle						
Years After Elections	0.147*** (0.046)	0.138*** (0.046)	0.138*** (0.046)	0.130*** (0.037)	0.118*** (0.037)	0.118*** (0.037)
Years Before Elections	-0.105* (0.054)	-0.095* (0.054)	-0.085 (0.055)	-0.065* (0.034)	-0.052 (0.033)	-0.049 (0.034)
State Controls_{t-1}						
GDP Growth	-0.128*** (0.048)	-0.126*** (0.048)	-0.118** (0.048)	-0.065* (0.038)	-0.063 (0.039)	-0.061 (0.040)
Income PC	-0.945* (0.557)	-0.865 (0.544)	-1.111** (0.552)	1.169*** (0.437)	1.279*** (0.427)	1.214*** (0.409)
Unemployment Rate	0.392*** (0.115)	0.404*** (0.112)	0.434*** (0.113)	0.893*** (0.189)	0.910*** (0.188)	0.918*** (0.191)
County Controls_{t-1}						
GDP Growth	0.021 (0.015)	0.025* (0.015)	0.024 (0.015)	0.027* (0.015)	0.032** (0.015)	0.032** (0.015)
Income PC	-0.029 (0.259)	0.014 (0.256)	0.023 (0.255)	0.282 (0.317)	0.340 (0.313)	0.343 (0.312)
Unemployment Rate	0.075 (0.099)	0.077 (0.095)	0.064 (0.094)	-0.041 (0.154)	-0.039 (0.153)	-0.042 (0.154)
Net Commuters Share	-0.031 (0.027)	-0.031 (0.026)	-0.025 (0.026)	-0.025 (0.037)	-0.026 (0.036)	-0.025 (0.037)
Apprentices PC	-0.048*** (0.016)	-0.047*** (0.016)	-0.052*** (0.016)	-0.033 (0.020)	-0.032 (0.020)	-0.033* (0.020)
Population Density	0.001 (0.005)	0.000 (0.004)	0.000 (0.004)	-0.024* (0.014)	-0.024* (0.014)	-0.024* (0.014)
Manufacturing Share	-0.084 (0.091)	-0.073 (0.089)	-0.055 (0.089)	-0.382*** (0.102)	-0.368*** (0.101)	-0.363*** (0.103)
N Obs	5872	5872	5872	5872	5872	5872
N Counties	315	315	315	315	315	315
R2 Within Adj.	0.028	0.035	0.038	0.113	0.124	0.124
County FE	+	+	+	+	+	+
Year FE	+	+	+	+	+	+

The regressions use the log requested GRW subsidy in Columns 1–3 and the number of submitted GRW projects in Columns 4–6. We aggregate applications to county c in application year t . The sample includes German counties ever eligible for the GRW program and spans the period from 2000 to 2019. The main variable of interest, `Aligned County`, equals one when the party that governs county c at time t also leads the coalition in the county’s state. This variable is interacted with the East dummy (Columns 3 & 6) which equals 1 if a county is from East Germany and 0 otherwise. Further controls include state and county electoral cycle dummies and state- and county-level variables. County and time fixed effects are included. Standard errors clustered at the county level are given in parentheses. ***, **, * indicate significance at the 1%, 5%, 10% level. See Table 3 for a detailed description of all variables

Table 6: Political alignment and county-level subsidy applications

	GRW Subsidy (Log)			Number of GRW Projects		
	(1)	(2)	(3)	(4)	(5)	(6)
Aligned County		0.475** (0.191)	0.246 (0.290)		1.342*** (0.224)	1.076*** (0.228)
Aligned County x East			0.507 (0.383)			0.587 (0.485)
State Electoral Cycle						
Years After Elections	0.070 (0.047)	0.065 (0.047)	0.061 (0.047)	0.072*** (0.028)	0.057** (0.029)	0.053* (0.029)
Years Before Elections	0.001 (0.046)	0.003 (0.046)	0.004 (0.046)	-0.104*** (0.034)	-0.099*** (0.033)	-0.098*** (0.033)
County Electoral Cycle						
Years After Elections	0.088* (0.050)	0.084* (0.050)	0.084* (0.050)	0.096*** (0.034)	0.084** (0.034)	0.084** (0.034)
Years Before Elections	-0.120** (0.052)	-0.115** (0.052)	-0.111** (0.053)	-0.152*** (0.038)	-0.139*** (0.038)	-0.135*** (0.039)
State Controls_{t-1}						
GDP Growth	-0.172*** (0.053)	-0.171*** (0.053)	-0.168*** (0.053)	-0.162*** (0.037)	-0.160*** (0.038)	-0.156*** (0.038)
Income PC	-1.384** (0.536)	-1.347** (0.529)	-1.446*** (0.527)	0.606 (0.455)	0.710 (0.445)	0.596 (0.441)
Unemployment Rate	0.077 (0.119)	0.083 (0.118)	0.095 (0.118)	0.608*** (0.154)	0.624*** (0.152)	0.638*** (0.153)
County Controls_{t-1}						
GDP Growth	0.021 (0.018)	0.023 (0.018)	0.023 (0.018)	0.021 (0.014)	0.026* (0.014)	0.026* (0.014)
Income PC	-0.010 (0.234)	0.010 (0.233)	0.013 (0.233)	0.300 (0.256)	0.355 (0.251)	0.359 (0.251)
Unemployment Rate	0.132 (0.099)	0.132 (0.097)	0.127 (0.097)	0.050 (0.130)	0.052 (0.129)	0.045 (0.130)
Net Commuters Share	-0.021 (0.025)	-0.021 (0.025)	-0.019 (0.025)	-0.058 (0.036)	-0.059* (0.035)	-0.056 (0.036)
Apprentices PC	0.003 (0.013)	0.003 (0.013)	0.001 (0.013)	0.003 (0.019)	0.004 (0.019)	0.002 (0.019)
Population Density	0.001 (0.004)	0.001 (0.004)	0.001 (0.004)	-0.017* (0.010)	-0.018* (0.010)	-0.018* (0.010)
Manufacturing Share	-0.051 (0.081)	-0.046 (0.081)	-0.039 (0.081)	-0.341*** (0.095)	-0.328*** (0.094)	-0.319*** (0.094)
N Obs	5872	5872	5872	5872	5872	5872
N Counties	315	315	315	315	315	315
R2 Within Adj.	0.017	0.018	0.018	0.090	0.100	0.101
County FE	+	+	+	+	+	+
Year FE	+	+	+	+	+	+

Table 7: Political alignment and county-level subsidy allocation: Real effects

	GRW Investment (Log)			County Employment (Log)		
	(1)	(2)	(3)	(4)	(5)	(6)
Aligned County		1.181*** (0.227)	0.548 (0.354)		0.011*** (0.003)	-0.001 (0.002)
Aligned County x East			1.397*** (0.456)			0.027*** (0.005)
State Electoral Cycle						
Years After Elections	0.045 (0.047)	0.032 (0.047)	0.022 (0.047)	0.000* (0.000)	0.000*** (0.000)	-0.001*** (0.000)
Years Before Elections	-0.078 (0.051)	-0.074 (0.051)	-0.071 (0.051)	0.000** (0.000)	0.000*** (0.000)	0.001*** (0.000)
County Electoral Cycle						
Years After Elections	0.141*** (0.052)	0.131** (0.052)	0.131** (0.052)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)
Years Before Elections	-0.102 (0.062)	-0.090 (0.062)	-0.080 (0.062)	0.000 (0.000)	0.000* (0.000)	0.001*** (0.000)
State Controls_{t-1}						
GDP Growth	-0.131** (0.053)	-0.130** (0.054)	-0.120** (0.053)	0.001** (0.000)	0.001** (0.000)	0.001*** (0.000)
Income PC	-1.140* (0.640)	-1.048* (0.625)	-1.320** (0.634)	0.022*** (0.005)	0.023*** (0.005)	0.018*** (0.005)
Unemployment Rate	0.441*** (0.131)	0.455*** (0.128)	0.488*** (0.128)	0.009*** (0.001)	0.009*** (0.001)	0.009*** (0.001)
County Controls_{t-1}						
GDP Growth	0.025 (0.017)	0.029* (0.017)	0.029* (0.017)			
Income PC	-0.012 (0.296)	0.037 (0.293)	0.047 (0.292)			
Unemployment Rate	0.066 (0.112)	0.068 (0.108)	0.053 (0.107)			
Net Commuters Share	-0.032 (0.031)	-0.033 (0.030)	-0.027 (0.030)	0.005*** (0.000)	0.005*** (0.000)	0.005*** (0.000)
Apprentices PC	-0.056*** (0.018)	-0.055*** (0.018)	-0.061*** (0.018)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)
Population Density	0.001 (0.005)	0.001 (0.005)	0.000 (0.005)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)
Manufacturing Share	-0.094 (0.104)	-0.082 (0.102)	-0.062 (0.101)	-0.002* (0.001)	-0.002* (0.001)	-0.002 (0.001)
N Obs	5872	5872	5872	5872	5872	5872
N Counties	315	315	315	315	315	315
R2 Within Adj.	0.026	0.033	0.035	0.440	0.450	0.464
County FE	+	+	+	+	+	+
Year FE	+	+	+	+	+	+

This table applies Equation 1 to GRW Investment (Log) (Columns 1–3) and County Employment (Log) (Columns 4–6). Columns 3 and 6 additionally interact political alignment with an indicator for counties in eastern Germany. The sample includes German counties ever eligible for the GRW program and spans the period from 2000 to 2019. The main variable of interest, Aligned County, equals one when the party that governs county c at time t also leads the coalition in the county’s state. This variable is interacted with the East dummy (Columns 3 & 6) which equals 1 if a county is from East Germany and 0 otherwise. Further controls include state and county electoral cycle dummies and state- and county-level variables. County and time fixed effects are included. Standard errors clustered at the county level are given in parentheses. ***, **, * indicate significance at the 1%, 5%, 10% level. See Table 3 for a detailed description of all variables.

$$\begin{aligned}
Y_{c,t} = & \beta_0 + \beta_1 \text{Aligned County}_{c,t} + \beta_2 \text{Aligned County}_{c,t} \times \text{East}_{c,t} + \\
& \beta_3 \text{Elect. Cycle}_{s,t}^{\text{State}} + \beta_4 \text{Elect. Cycle}_{c,t}^{\text{County}} + \beta_5 \text{Controls}_{s,t-1}^{\text{State}} + \beta_6 \text{Controls}_{c,t-1}^{\text{County}} + \alpha_c + \alpha_t + \epsilon_{c,t},
\end{aligned}$$

Table 8: Political alignment and county-level subsidy allocation: Role of political power

	Popular Vote Winner (1)	Coalition Member (2)	Finance Minister (3)	Coalition Winner (4)	Coalition Share (5)
Panel A : GRW Subsidy (Log)					
Aligned County	0.225 (0.238)	0.710*** (0.197)	0.957*** (0.216)	1.039*** (0.198)	0.858*** (0.259)
R2 Within Adj.	0.028	0.031	0.033	0.035	0.031
Panel B : Number of GRW Projects					
Aligned County	1.386*** (0.309)	1.055*** (0.263)	1.035*** (0.261)	1.411*** (0.258)	0.031 (0.286)
R2 Within Adj.	0.121	0.119	0.118	0.124	0.113
N Obs.	5873	5873	5847	5873	5873
N Counties	315	315	315	315	315
County FE	+	+	+	+	+
Year FE	+	+	+	+	+

Panel A uses log GRW subsidies and Panel B uses the number of GRW projects in county c and year t as the dependent variable. The sample includes German counties ever eligible for the GRW program and spans the period from 2000 to 2019. The alignment measures indicate whether the county party wins the state popular vote (Column 1), belongs to the state coalition (Column 2), appoints the state finance minister (Column 3), or leads the state coalition (Column 4). Column 5 uses the county party's seat share in the state coalition and assigns zero to parties outside the coalition. Further controls include state and county electoral cycle dummies and state- and county-level variables. County and time fixed effects are included. Standard errors clustered at the county level are given in parentheses. ***, **, * indicate significance at the 1%, 5%, 10% level. See Table 3 for a detailed description of all variables.

Table 9: Political alignment and county-level subsidy allocation: Robustness tests

	W/o Always Aligned & Misaligned (1)	W/o High & Low Eligibility Counties (2)	Close Elections (3)	Randomized Alignment (4)
Panel A : GRW Subsidy (Log)				
Aligned County	1.081*** (0.212)	0.660*** (0.250)	0.410* (0.246)	-0.004 (-0.180 0.181)
R2 Adj.	0.573	0.657	0.585	
R2 Within Adj.	0.048	0.044	0.023	
Panel B : Number of GRW Projects				
Aligned County	1.523*** (0.272)	1.314*** (0.319)	1.398*** (0.292)	0.001 (-0.181 0.182)
R2 Within Adj.	0.141	0.155	0.048	
N Obs.	3394	2930	2456	5873
N Counties	183	300	218	315
County FE	+	+	+	+
Year FE	+	+	+	+

Panel A uses log GRW subsidies and Panel B uses the number of GRW projects in county c and year t as the dependent variable. Column 1 excludes counties that never change alignment status. Column 2 excludes counties in the lowest and highest quartiles of GRW aid intensity. Column 3 retains terms that follow elections with a victory margin below 5%. Column 4 reports the mean coefficient from 1,000 regressions with randomized alignment and gives the 95% interval of the coefficient distribution in parentheses. Further controls include state and county electoral cycle dummies and state- and county-level variables. County and time fixed effects are included. Standard errors clustered at the county level are given in parentheses. ***, **, * indicate significance at the 1%, 5%, 10% level. See Table 3 for a detailed description of all variables.

Table 10: Political alignment and county-level subsidy allocation: Role of party & regional heterogeneity

	GRW Subsidy (Log)			Number of GRW Projects		
	(1)	(2)	(3)	(4)	(5)	(6)
Aligned County	1.039*** (0.198)	-0.262 (0.503)	1.297*** (0.279)	1.411*** (0.258)	-0.362 (0.491)	4.666*** (0.469)
Aligned County x SPD		1.487** (0.714)			3.458*** (0.881)	
Aligned County x 2007-2014			-0.095 (0.295)			-4.384*** (0.449)
Aligned County x 2015-2020			-0.728* (0.423)			-5.393*** (0.666)
N Obs.	5873	5633	5873	5873	5633	5873
N Counties	315	315	315	315	315	315
R2 Within Adj.	0.035	0.028	0.036	0.124	0.133	0.180
County FE	+	+	+	+	+	+
Year FE	+	+	+	+	+	+

The regressions use log GRW subsidies in Columns 1–3 and the number of GRW projects in Columns 4–6. The sample includes German counties ever eligible for the GRW program and spans the period from 2000 to 2019. The main variable of interest, *Aligned County*, equals one when the party that governs county c at time t also leads the coalition in the county's state. This variable is interacted with the SPD dummy (Columns 2 & 5) which equals 1 or 0 if the state county c belongs to is ruled by the SPD or CDU parties respectively, and with two GRW subsidy subperiod dummies (Columns 3 & 6) which are equal to 1 for the years 2007-2014 and 2015-2020 respectively and 0 otherwise. Further controls include state and county electoral cycle dummies and state- and county-level variables. County and time fixed effects are included. Standard errors clustered at the county level are given in parentheses. ***, **, * indicate significance at the 1%, 5%, 10% level. See Table 3 for a detailed description of all variables.

Table 11: Political alignment and county-level subsidy allocation: Role of state banks

	GRW Subsidy (Log)			Number of GRW Projects		
		Sav. Bank	Coop. Bank		Sav. Bank	Coop. Bank
	(1)	(2)	(3)	(4)	(5)	(6)
Aligned County	1.040*** (0.198)	0.881*** (0.238)	1.024*** (0.232)	1.411*** (0.259)	1.650*** (0.295)	1.367*** (0.277)
Aligned County x Public Loans PC		0.446* (0.264)	0.147 (1.561)		-1.167*** (0.360)	-2.210** (1.068)
State Electoral Cycle						
Years After Elections	0.031 (0.042)	0.027 (0.044)	0.028 (0.044)	0.002 (0.024)	0.011 (0.026)	0.011 (0.026)
Years Before Elections	-0.056 (0.045)	-0.050 (0.046)	-0.052 (0.046)	-0.123*** (0.032)	-0.131*** (0.032)	-0.132*** (0.032)
County Electoral Cycle						
Years After Elections	0.139*** (0.046)	0.143*** (0.049)	0.140*** (0.049)	0.118*** (0.037)	0.074* (0.038)	0.079** (0.038)
Years Before Elections	-0.095* (0.054)	-0.105* (0.059)	-0.102* (0.059)	-0.052 (0.033)	-0.033 (0.036)	-0.040 (0.036)
State Controls_{t-1}						
GDP Growth	-0.126*** (0.048)	-0.105** (0.051)	-0.108** (0.051)	-0.063 (0.039)	-0.083** (0.040)	-0.084** (0.040)
Income PC	-0.865 (0.544)	-0.995* (0.568)	-0.879 (0.591)	1.279*** (0.427)	0.960** (0.456)	1.077** (0.435)
Unemployment Rate	0.405*** (0.112)	0.376*** (0.130)	0.415*** (0.129)	0.911*** (0.188)	0.940*** (0.206)	0.967*** (0.205)
County Controls_{t-1}						
GDP Growth	0.025* (0.015)	0.025 (0.017)	0.025 (0.017)	0.032** (0.015)	0.022 (0.018)	0.024 (0.018)
Income PC	0.014 (0.256)	0.026 (0.274)	-0.027 (0.278)	0.340 (0.313)	0.355 (0.329)	0.276 (0.324)
Unemployment Rate	0.078 (0.095)	0.126 (0.104)	0.097 (0.102)	-0.041 (0.153)	-0.018 (0.162)	-0.008 (0.164)
Net Commuters Share	-0.032 (0.026)	-0.020 (0.030)	-0.024 (0.030)	-0.027 (0.036)	-0.026 (0.041)	-0.025 (0.042)
Apprentices PC	-0.047*** (0.016)	-0.053*** (0.016)	-0.048*** (0.017)	-0.032 (0.020)	-0.032 (0.020)	-0.045** (0.020)
Population Density	0.000 (0.004)	0.001 (0.005)	0.001 (0.004)	-0.025* (0.014)	-0.025* (0.015)	-0.025* (0.015)
Manufacturing Share	-0.075 (0.089)	-0.067 (0.101)	-0.054 (0.102)	-0.369*** (0.102)	-0.347*** (0.106)	-0.356*** (0.108)
N Obs	5872	5309	5309	5872	5309	5309
N Counties	315	300	300	315	300	300
R2 Adj.	0.607	0.586	0.585	0.611	0.622	0.619
R2 Within Adj.	0.035	0.034	0.033	0.124	0.136	0.131
County FE	+	+	+	+	+	+
Year FE	+	+	+	+	+	+

This table shows regressions where the dependent variable is either GRW Subsidy (Log) (Columns 1–3) or Number of GRW Projects (Columns 4–6) for all firms subsidized in county c in year t . The sample includes German counties ever eligible for the GRW program and spans the period from 2000 to 2019. The main variable of interest, Aligned County, equals one when the party that governs county c at time t also leads the coalition in the county's state. This variable is interacted with variable Public Loans ^{j} being the value of aggregate county-level public loans of savings banks (Columns 2 & 5) or cooperative banks (Columns 3 & 6). Further controls include state and county electoral cycle dummies and state- and county-level variables. County and time fixed effects are included. Standard errors clustered at the county level are given in parentheses. ***, **, * indicate significance at the 1%, 5%, 10% level. See Table 3 for a detailed description of all variables.

$$\begin{aligned}
Y_{c,t} = & \beta_0 + \beta_1 \text{Aligned County}_{c,t} + \beta_2 \text{Aligned County}_{c,t} \times \text{Public Loans}_{c,t}^j + \\
& \beta_3 \text{Elect. Cycle}_{s,t}^{\text{State}} + \beta_4 \text{Elect. Cycle}_{c,t}^{\text{County}} + \\
& \beta_5 \text{Controls}_{s,t-1}^{\text{State}} + \beta_6 \text{Controls}_{c,t-1}^{\text{County}} + \alpha_c + \alpha_t + \epsilon_{c,t},
\end{aligned}$$

Appendix

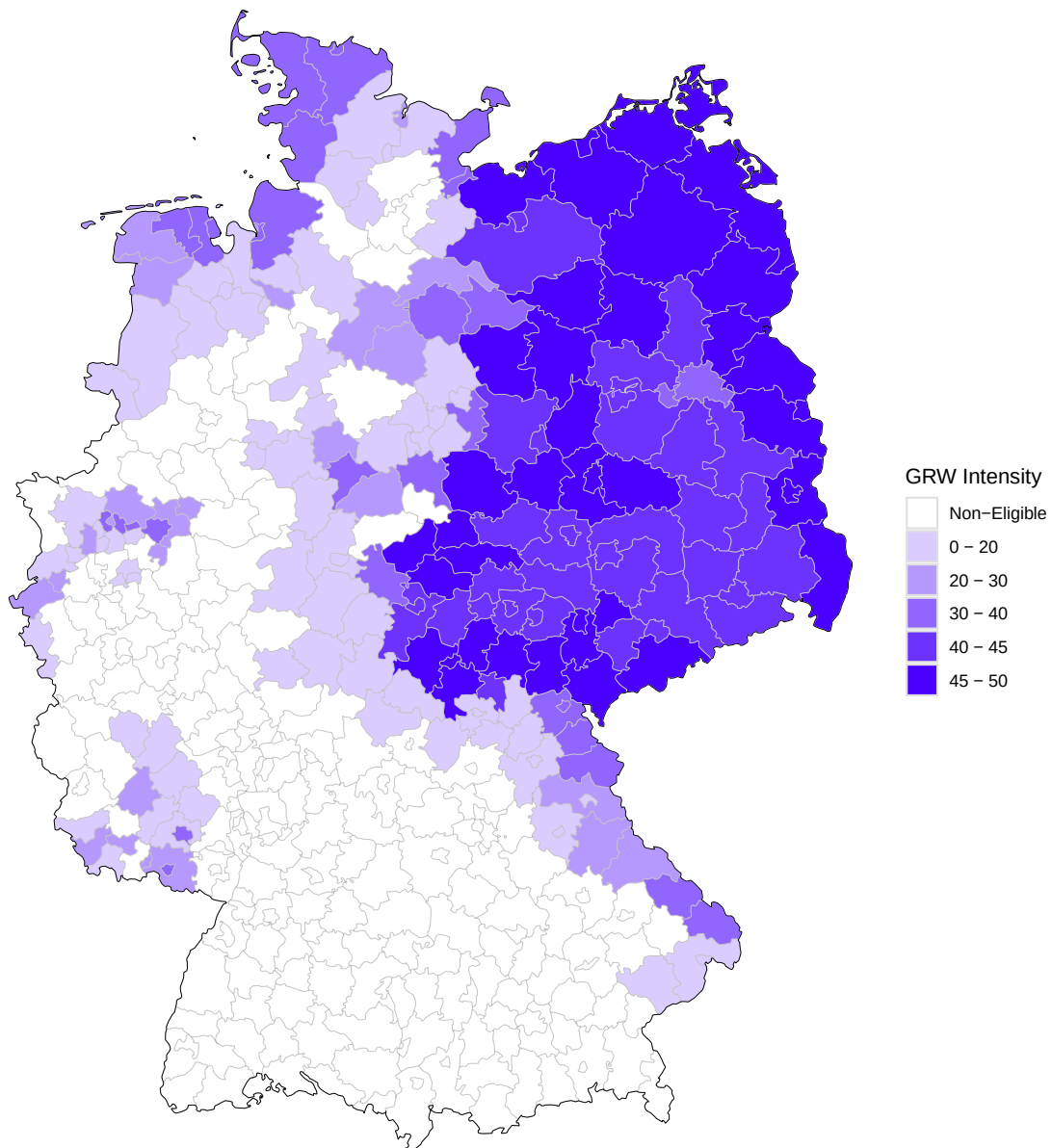
---insert Table A.1 around here---

Table A.1: Political alignment and county-level subsidy allocation: Impact of large GRW projects

	Baseline (1)	Without projects above 1 billion Euro (2)	Without projects above 100 million Euro (3)	Without projects above 50 million Euro (4)
Panel A : GRW Subsidy (Log)				
Aligned County	1.039*** (0.198)	1.038*** (0.198)	1.037*** (0.199)	1.056*** (0.206)
R2 Within Adj.	0.035	0.035	0.035	0.037
Panel B : Number of GRW Projects				
Aligned County	1.411*** (0.258)	1.411*** (0.259)	1.398*** (0.260)	1.241*** (0.226)
R2 Within Adj.	0.124	0.124	0.125	0.127
N Obs.	5873	5872	5817	5643
N Counties	315	315	315	315
County FE	+	+	+	+
Year FE	+	+	+	+

Panel A uses log GRW subsidies and Panel B uses the number of GRW projects in county c and year t as the dependent variable. The sample includes German counties ever eligible for the GRW program and spans the period from 2000 to 2019. The main variable of interest, Aligned County, equals one when the party that governs county c at time t also leads the coalition in the county's state. This variable is interacted with the East dummy (Columns 2, 4 & 6) which equals 1 if a county is from East Germany and 0 otherwise. Further controls include state and county electoral cycle dummies and state- and county-level variables. County and time fixed effects are included. Standard errors clustered at the county level are given in parentheses. ***, **, * indicate significance at the 1%, 5%, 10% level. See Table 3 for a detailed description of all variables.

Figure A.1: Average aid intensity of German counties over the period 2000-2019



The figure illustrates the spatial distribution of aid intensities of the GRW program across Germany. Values for each county are calculated based on the average GRW intensity over the three last GRW program periods (2000-2019). Aid intensity is measured as the maximum share of the investment costs of a subsidized project, which can be covered by the subsidy.