10. Transport infrastructure failures in Spain: mismanagement and incompetence, or political capture?

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Although Spain ranks remarkably well in international comparisons in terms of access to transport infrastructures, it does not seem to meet demand, leading to well-documented mismatches between demand and supply. This is a recurring hot political theme in Spain as in many other countries, developed and developing. The consequences are costly, unfair and unsustainable in the current context of economic crisis. So what’s the problem?

This chapter argues that bad governance, capture and political interests, rather than incompetence, are the main drivers of supply–demand mismatches. The current state of transport infrastructure is above all the result of a strong political will to maintain Madrid as the centre of distribution of the economic benefits of all decisions on transport infrastructure investment.¹

While it is fair for elected politicians to use their mandate to make tough decisions, it would be just as fair to make sure that they do not ignore the high economic and social costs for the country (Albalate and Bel, 2011; Bel, 2011, 2012; Bel and Fageda, 2011; De Rus, 2011). Moreover, there are reasons to suspect that key private actors have captured some policy decisions. The high concentration and strong political leverage of construction companies specializing in infrastructure have fuelled the sector’s overinvestment and high fiscal costs. This interference with the planning and implementation of key decisions in the sector has not reached the outrageous levels of corruption cases documented in urban development projects, but the consequences are no less dramatic for Spain.²
10.1 THE BIG PICTURE

The Great Recession is an economic and social challenge to Spain, Europe’s fifth largest economy. Income per capita has been dropping steadily since the early days of the crisis, income differences are worsening, unemployment increasing, the informal market growing fast, skilled labour is migrating and capital is sneaking out. This downward spiral has been happening at the same time as Spain has been steadily dropping in its corruption ratings for almost 10 years. According to Transparency International (TI), in 2011, Spain’s perceived corruption level ranked 31st from 183 in the world, with an average grade of 6.2. This may help explain why it only ranks 36th in terms of competitiveness in the 2012–13 Global Competitiveness Report (GCR, henceforth).

Political parties are seen as the country’s most corrupt institution. It does not help that the judicial power is not considered to be very independent. It only ranks 65th of 142 in the GCR. Corruption cases have been documented at all levels of government across political colours, a lot more than one would expect for countries at this level of development. Media on all sides of the political spectrum have been covering the issue quite aggressively (Lapuente, 2011; Rivero and Fernández-Vázquez, 2011; Villoria et al., 2011; Costas-Pérez et al., 2012; Jiménez and Carbona, 2012; Jiménez and García, 2012; Villoria and Jiménez, 2012). Corruption, incompetence and politics are blamed for everything that is going wrong. Somehow, it feels like Spain is on its way to underdevelopment unless it gets its act together.

Until the recent explosion of its real estate bubble, things looked good. It is easy to forget that not that long ago, at the end of the 1970s, Spain was still eligible for loans from the World Bank (WB) – in other words, it was still regarded as a developing economy. Much of the WB’s support to Spain between 1963 and 1977 was used to finance transport infrastructure. In particular, a 1963 loan was instrumental in upgrading and redesigning Spain’s road network to increase the competitiveness of all regions. A poor and insufficient road capacity was seen as an impediment to diversified growth. Similar issues were raised for rail and ports. The message for all of these projects was that transport supply did not match demand.

About 35 years after the last WB loan to Spain and after many more loans and grants provided by the European Union, Spain’s supply of infrastructure has increased a lot. The GCR ranks Spain’s infrastructure fifth in the EU, tenth in the world, and better than the United States and Japan. Only China has a longer high-speed train network (Albalate and
Bel, 2011). According to Eurostat, Spain counts twice as many international airports as Germany and 30 per cent more than the UK. Spain has almost 10 per cent more highways than Germany, almost 20 per cent more than France and four times as many as the UK (Bel, 2012). It has about 15 per cent more large ports than the UK or Germany and three times as many as France. At the technical level, at least, incompetence does not seem to be a problem.

This should be good news since transport infrastructure is an essential input for any strategy to get Spain out of the crisis and into a new growth path through a diversification of the economy and increased exports – just like in the 1960s! But the key weaknesses can easily be overlooked when focusing on quantity. When considering quality indicators in the GCR, Spain drops 10 points in the world ranking (to 18th; although the drop is dominated by quality issues in the electricity sector, it also hits airports (17th), ports (14th) and roads (13th)). This indicates ‘over-or mis-engineering’. Furthermore, there are problems in that: (1) the use of this impressive capacity is largely concentrated in some specific hubs (and largely underused otherwise), (2) it ignores necessary cost-effective international interconnections for specific regions, (3) it imposes modal choices that ignore key users’ preferences, and (4) it costs a lot more to taxpayers than it was supposed to.

In sum, 50 years after the thorough WB evaluation, the diagnostic of Spain’s transport problems has hardly changed in its core substance. Something is wrong since 50 years of transport planning has not yet delivered a match between supply and demand in quantity and in quality, at a high cost to Spanish and European taxpayers. The outcome could be explained by incompetence, governance problems (corruption or something equivalent but more subtle) or conventional pork barrel politics, or a combination of factors as discussed later.

10.2 INSTITUTIONS AND SPAIN’S TRANSPORT POLICY

The conclusions of a plethora of recent highly publicized corruption trials, a number of academic studies (for example, Kaufmann et al., 2011) and a 2012 diagnostic conducted by Transparency International (TI) converge to show that institutional design is certainly part of what has gone wrong. Villoria et al. (2011) explain why the problem is more related to corruption than to incompetence.

Objective evidence is unfortunately hard to come by – as is usually the case with corrupt activities. And Spain does indeed have a problem when
it comes to publishing key data. On financial secrecy, it ranks very low, 53rd of 71. One way around the data gap is to look at specific undesirable outcomes and figure out what drives them. There are four basic outcomes of interest to assess the effectiveness of transport policy: (1) quantity, (2) quality defined broadly, including the evolution of modal market shares, (3) costs, and (4) prices and subsidies. It is also useful to look at processes. There are three broad groups of processes that are relevant to the diagnostic of the sector: (1) the extent to which procurement rules are likely to lead to cost and quality efficient outcomes, (2) the extent to which competition and regulation policy stimulates incentives for supply to adjust to demand, and (3) the extent to which the agencies responsible for monitoring performance do what they are expected to do.

On quantity and quality, the consensus among the experts is that the evidencejustifies the concern for the mismatch and recent policies have not done much to fix it. For instance, freight rail is slow in speed (15–20 km/h on average) and in handling. It is also unreliable and poorly connected to other modes, which determines a very low modal share. Spain’s peripheral location and poor policy add up to explain the low traffic density and a high ‘empty’ traffic. Roads are not faring much better. All the concessions awarded since the late 1990s, are on the border of bankruptcy.5 The Spanish Road Association (AEC, 2012) shows that roads have never been so poorly maintained in Spain. Moreover, it is now well-documented that traffic forecasts used to justify toll roads were overestimated by the public sector and private operators – and much more so than world average for the sector (Baeza and Vassallo, 2010).

On costs, processes to cut costs and agencies to monitor costs, academics provide ample evidence on the inefficiency of Spanish regional airports, ports and rail.6 This evidence on inefficiency complements well the familiar anecdotes on regional airports, train stations and roads with hardly any traffic. The Spanish TV channels have enjoyed documenting the existence of what they call ‘ghost airports and HSR (high-speed rail) stations’.7 It is unlikely that current procurement practices will do much to cut costs in the sector. Indirect but powerful evidence is provided by the fact that most of the empirical research assessing the performance of transport infrastructures needs to rely on partial physical information rather than on the sort of reliable data that could be generated from sound cost accounting. The fact that this detail seems to escape the Spanish Audit Court (Tribunal de Cuentas), unlike what happens in the UK, France or Australia or even in emerging economies such as Brazil or Mexico, illustrates the core weaknesses of the institutions, a fact recently voiced by TI (Mulcahy, 2012). This is a
problem in a sector without an independent regulatory agency, with a history of bilateral negotiation and renegotiation of contracts, and a record of political interference with transport planning.

On prices and subsidies, total infrastructure expenditures will be around EUR 10 billion in 2013 (around 0.9 per cent of GDP). About 90 per cent will go to transport, including 40 per cent to railways, focusing on high demand traffic, 29 per cent to roads and 6 per cent to support private investment in roads, 10 per cent to ports and 5 per cent to airports. The rest will finance various types of transport subsidies.

Subsidy rates in the transport sector are among the highest in Europe. This would be fine if the subsidies were cost-efficiently serving public service obligations. But the extremely low demand for a large share of the traffic supply would lead to the deduction that public money goes more to subsidize the supply side of the market.

Despite repeated calls from high profile actors of the sector, the government has picked a strategy that is likely to reinforce the role of supply signals rather than address demand signals. Indeed, whenever possible, the government also wants to rely on public–private partnerships (PPPs) to reduce the short-term public financing requirements imposed by its involvement in the sector. This seems unreal. Indeed, the case for PPPs in Spain’s transport is happening in a context in which all the major private partners are going to be able to renegotiate their contracts to benefit from even more subsidies (through minimum income guaranteed schemes), longer contractual terms or other forms of endorsement which ensures that the risk component of the public-private partnerships is absorbed by the users or the taxpayers, without much concern for costs levels or effectiveness. Initially, the current Conservative administration wanted the few firms in the sector to merge to reap any scale economies – ignoring the weak demand and without a fair assessment of the degree of scale economies in the sector!

It is really hard not to suspect capture, collusion or other types of distortions in the market when the evidence of perverse behaviour is so strong. Too many top researchers have pointed to the weaknesses of current policies for anyone to be able to argue lack of knowledge or incompetence. Or then, incompetence has no limits.

10.3 THE POLITICS AND THE CONSTRUCTION BEHIND INFRASTRUCTURE

To get a sense of the realism of the assumption of a strong risk of capture, it is useful to step back and have a look at the history of the
intense and somewhat incestuous relationship between the political power (of all colours) and the construction industry. This history is quite long. For instance, during the 1940–50s, the Francoist regime provided political prisoners as cheap labour to companies involved in the construction of key infrastructures, in particular railways. Many of these workers were quite qualified and hence more productive than workers available on the regular labour market, yet their salaries were significantly lower (Olaizola Elordi, 2006). It also had a non-negligible impact on the launching of a strong, high-return, Spanish construction industry. It is sometimes easy to forget how strong industries are born. But we’ll come back to that.

Since the beginning of democracy and the fast acceleration of infrastructure investment during the 1980s – partially thanks to EU funding – there are many more illustrations of the unhealthy interactions between politics and construction. The increased political and regulatory control and hence the higher level of transparency of the interactions between the public and the private sector provides more recent examples of poor governance and corruption in the design and implementation of infrastructure policy in Spain.

The first major documented case of corruption that led to jail sentences took place in the early 1990s in the transport sector. It involved congressmen and administrators of the Spanish Socialist Party who had been in power from 1982 to 1996. It was based on ‘fake’ firms used to ensure the financing of the party’s expenditures through overbilling of public contracts for the construction and operating of the first Spanish high-speed train between Madrid and Seville. The latest significant case was in March 2012. It sentenced Jaime Matas, the previous president of the Baleares region, a member of the Conservative Party (Partido Popular) for corruption in the construction of a multi-sports arena. In between, there have been many more open corruption cases in Spain, about 400 pending corruption cases as of mid-2012, most of them involving real estate and public service contracts at the regional and local level.

Overall, what seems clear is that many of these cases involve construction companies, large and small. This is not to say that the vast majority of construction companies are not clean. But the somewhat conspicuous relationship between politics and construction seems always to be present. Moreover even if legality is usually respected, it is often at the limit of what is considered to be good governance in terms of transparency. Many key policy decisions and laws in transport are concerned with the supply side of the market, which is dominated by the transport companies.
In practice, many of the large companies have the necessary economic weight to have political leverage on all government levels, including the national level. In 2012, among the 35 firms tracked by the Spanish stock market index (IBEX-35), eight were construction and public works companies: Abengoa, Acciona, ACS, FCC, Ferrovial, OHL, Sacyr and Técnicas Reunidas. This means that the performance of these companies drives 25 per cent of the index. In all of them, except Ferrovial and Sacyr, the board includes individuals who occupied high-level political positions. Even if this is not that uncommon in Spain for large companies (Castells and Trillas, 2013), it is noteworthy. Indeed, Faccio (2010) has shown that the firms with the strongest political connections tend to obtain larger market shares than unconnected firms. More consistent with the average evidence on performance reported earlier, these connected firms also tend to show lower productivity. This productivity deficit of connected firms is stronger the higher the corruption level in the country.

But incentive issues do not only arise from their relative importance in the IBEX-35. They can also be seen in the not-so-subtle management of human resources by the construction companies. An interesting illustration is offered by the Association of Construction Companies at the National Level (SEOPAN). It was created in 1957 during the Franco era to represent the large firms in interaction with public administration. Since the 2008 election, which maintained the Socialists and the prime minister in power, SEOPAN designated David Taguas as its president. Taguas was director of the Economic Office of the Prime Minister until his nomination. In spite of the controversy raised by the nomination, it was eventually approved under the pretext that this lobbying association was a non-profit organization. There was thus legally no conflict of interest since there were no financial interests. This episode ended with the firing of Taguas by SEOPAN, 2 months after the return of the Conservatives to power.

This close relationship between political parties and the construction sector offers the sector a strong national leverage, but also an important international leverage. In 2010, five Spanish companies (ACS, FCC, Sacyr, Ferrovial and Acciona) ranked among the top 50 construction firms in the world in terms of sales. This is where politics and policy converge again. Spain, like other countries with international geopolitical ambitions, wants to have national champions with an international standing. This is one of the drivers of its industrial policy that justifies what boils down to poor governance. It also explains the incentive to focus on the supply side of the market and on the need to overinvest in transport infrastructure to showcase Spanish capacity. The Spanish excess supply of transport networks is consistent with a marketing strategy to
the benefit of Spanish companies and its owners, but financed with taxpayers money with little benefit to its users. This is, at best, poor governance or poor judgment. At worst, it is a matter for competent independent institutions responsible for the promotion of a fair, efficient and accountable economy.

10.4 CONCLUSION

In a nutshell, the Spanish government and its taxpayers are paying too much for an excess supply of transport infrastructure that offers the wrong mix of capacity and the wrong modal choice. It mostly benefits the construction industry and some political actors while hurting taxpayers and users, including those willing to pay for services they do not get. This case study yields many practical lessons for Spain. But for a wider audience, the main lessons are as follows.

The first lesson is that politics matter. Bad politics continue because politicians can afford it; in other words, they are not necessarily replaced as a result. Political accountability seems quite limited in Spain. Political scientists, sociologists, historians and economists have all shown with their own tools that the risks associated with bad policies and even corruption are low in terms of voter sanctions in Spain. The majority of the voters in this relatively young democracy do not seem to grasp the fact that political interference does not come cheaply. Getting transport planning wrong, or allowing it to support an excessive centralization of transport investments, has both efficiency and equity costs. Much of this cost has been too easy for the central government to blame on excessive regional ambition.

The second lesson is that the risks of capture are serious and make industrial policy quite tricky. National champions do not come cheaply to local users and taxpayers, in particular in sectors with small productivity gains such as transport. This is because, unchecked, these champions tend to fare well in collusive environments in which rents are high and hence incentives to block change are strong. For over 50 years, the same key actors, the same procurement rules and the same political interferences within the key regulatory and policy processes seem to be willing to sacrifice Spanish users of transport infrastructures and taxpayers for the private benefit of expansion in international markets.

The third lesson is that more transparent, more accountable and more technical institutions are not a luxury. They are the anchor of competent policy. They are a sign of progress in the respect of voters, taxpayers and users. Without them, any form of governance deviance is likely to be
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blamed on a lack of knowledge and maybe lack of competence. It is necessary to make this game harder to play by ensuring the institutional system sends clear signals to isolate the cheaters. This step cannot afford to be only anchored in legalistic jargon. It needs to have clear accounting, procurement and competition rules as well as regulation. So far, the system has failed on all counts in Spain.

Collusion and capture do not come cheaply. And taxpayers will continue to pay, for long, and a few will continue to benefit, a lot. Failing to build the right institutions increases the risks of capture and politics to de-link transport planning from economic opportunities for society. Ultimately, getting governance and institutions right may be the most cost-effective way of getting politics right and minimizing the odds of capture and other corrupt practices. It takes time. It also takes political will and committed voters. Spanish people love to say they 'do not care (about anything)',¹¹ And that is where the problem may lie for now in Spain. Maybe, they should care more. Politics is too serious to be left to politicians alone.

NOTES

1. The Spanish road network has been radial from Madrid for over two centuries to ensure the control of the country by the capital city, following the French centralization model (Bel, 2011, 2012; Holl 2011). This does not mean that regional infrastructure policy has been more efficient than the central one. However, according to the distribution of powers and resources in Spain, all major infrastructures are centrally managed, so the dimension of the problem is much higher in the central end.

2. The most frequent form of local corruption stems from a 1998 national law allowing a high degree of autonomy to local government to reclassify land and zone parcels of land as building sites. It eased real estate development and fuelled a 10 year construction boom, but unfortunately, there are many instances in which bribes were the trigger for the reclassification that allowed the development.


4. See for instance Eurobarometer (2012) or Villoria and Jiménez (2012). Spain is also currently the only EU country without a law granting the public a right to access state information.

5. The older and more important concessions (AP7 Mediterráneo, AP2 Valle del Ebro and AP9 Atlántico) are doing quite well.

6. For example, on ports, see Trujillo and Tovar (2007) or Rodriguez and Tovar (2010); on rail, Cantos et al. (2010); on airports, Bel and Fageda (2011).


8. The total cost to operate and upgrade the sector in a country with Spain’s characteristics is usually around 1.5 per cent of GDP. The 2013 budgetary allocations are around 0.8 per cent of GDP. This implies that subsidies could very well be over...
50 per cent. Some may be necessary, but accounting for the high levels of inefficiency in the sector, their costs could probably be cut.


10. The experience of the radial toll ways in Madrid shows that this may be a long shot. Three have indeed already filed for bankruptcy, and the public budget is likely to have to pick up the bill.

11. ‘Paso (de todo)’ in Spanish.

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