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Largesse while it lasts

May 29th 2008
From The Economist print edition

Lots of EU money is flowing to Poland and the rest. It must be spent fast

The daily grind

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IN APRIL, the red-and-white trains of the Warsaw metro finally made it to Slodowiec in the north of the Polish capital, adding an 18th station to the city's single-line underground system. It had taken 25 years of stop-start tunnelling to get there.

This summer a contract will be awarded for a second metro line, running from east to west. The tender says a main central section must be built and open to passengers in 46 months, in time for the Euro 2012 football tournament which Poland is co-hosting. That startling change of pace will require two things: lots of money and a wholesale change in official thinking.

The money is there. Outside Slodowiec station stands a large billboard bearing the European Union's blue-and-gold flag which explains that more than a third of the 858m zloty (€251m) cost of the new station came from EU funds.

Not counting farm subsidies, estimated at €14 billion between now and 2013, Poland's slice of gross EU payments will come to more than €80 billion, or €2,000 for every Pole. There is €13.2 billion for "rural development" (say, tourism or light industry in country areas), €734m for fishermen and a staggering €67 billion for "cohesion" policies that help poorer parts of the union catch up. Cohesion funds pay for things like job training, cleaning up polluted rivers and, above all, roads, bridges, sewers and other infrastructure.

Poland struggled, as newcomers always do, to spend even the limited funds on offer during its first years of membership. Since 2007, the start of a new seven-year EU budget period, the money taps have been wide open. EU cash must be spent within a few years or it will be taken back, so governments across the region have to get organised, and Poland's more than most.

Slovenia and Slovakia have some good motorways. Riga has a gleaming airport. The Czech "Pendolino" train from Prague to Bratislava is so impressive that it was featured in a James Bond film, "Casino Royale", albeit disguised as a train from Montenegro. But Poland has only about 500km of motorways, and most big cities are still linked by perilous, lorry-choked two-lane roads. It can take five hours to drive the 300km from Warsaw to Kraków. High-speed trains remain few and far between, and even

Warsaw airport's new terminal, opened this year, has been a saga of delays and money rows.

That is where the second change comes in. Polish ministers say they have at last woken up to the need to move faster, sort out their creaking public-procurement system and generally play the EU game. Polish plans call for 1,200km of new motorways to be built in the next six years, and for the railway network to triple in length.

The foreign construction and engineering companies pouring into Warsaw are sceptical it will all happen on time. They say that successive Polish governments have quarrelled and dithered over every public project. Incoming administrations have scrapped plans that their predecessors had agreed to. The bosses of government agencies seem unable to take decisions, says a foreign executive. The law allows firms that lose tenders to appeal endlessly. Last but not least, officials betray a widespread lack of knowledge of environmental issues, and about how seriously the EU takes them.

Elzbieta Bienkowska, appointed regional-development minister by the centrist government of Donald Tusk last November, agrees that her country's record has been poor. A new public-procurement law is needed, she acknowledges, and promises one is on the way: "In Poland a company that loses a bid can appeal and appeal—and then the funding disappears." The public-procurement rules were drawn up by "members of parliament with a control-freak attitude", says a senior Polish official. Much of the red tape can be seen as a reaction to the "wild capitalism" of the 1990s, "when anything was possible".

How not to spend it

EU money can create the conditions for economic transformation, clearing infrastructure bottlenecks and the like. But that is only the start of it. Portugal and Greece are routinely held up as cautionary tales against squandering the benefits of EU entry. Portugal built some fancy roads but struggled to make its economy more competitive. Greece's income per person in its first decade of membership actually fell relative to the rest of the club.

Worryingly for the Poles, it may be harder for big countries to get this right. In a small country a dose of EU funding can have outsize effects, says José Ignacio Torreblanca, a Spanish expert on EU affairs: "You just need one good motorway to take all your goods out."

Spain—with a population of about 40m people, close to Poland's—is often cited as a model of how to use EU money well. In a study for the Elcano Royal Institute, Mr Torreblanca found that in the two decades after joining the EU in 1986 Spain received net transfers of €93.3 billion (at 2004 prices), the equivalent of an extra 0.83% of GDP growth each year for 20 years.

The new member countries suspect they will not be getting the 20 years of generous assistance enjoyed by Spain and other southern European countries. Enlargement is an expensive business, and old Europe is not in lavish mood.

Vaira Vike-Freiberga, a former president of Latvia, describes ex-communist members as being caught in a nasty pair of scissors. On the one hand, they have to catch up on 50 wasted years. On the other, she is not sure that "older members have been as generous with the new members as they have been to each other at various times."

Is enlargement being done on the cheap? It is a common charge, but comparisons are difficult. All member countries contribute to the EU kitty and get money back. Rich ones contribute much more than they get back and poor ones draw out more than they pay in. What really counts is net transfers. In the first three years of its membership Poland did much better than Spain in the equivalent period, landing about €6 billion in net transfers against Spain's €2 billion (at 2004 prices).

Spain's payments from the EU reached full speed around 1990. In the seven years that followed, the country received some €30 billion (at 2004 prices) in net transfers. It is too early to say what Poland will get in the seven years from 2007 to 2013, but it will do at least as well as Spain.

The big difference may come later. The EU sent large sums to Spain well into its second decade of membership, but few people think that EU cash will keep flowing to central and eastern Europe for that long. Lope Seco Gonzalez, who heads the Polish office of Sener, a Spanish engineering firm, says Poland is going through the same experience as Spain two decades ago, except that “this is going to be much, much faster.”

The gain for Spain

Several of the building firms most actively chasing Polish infrastructure work are Spanish-owned. Slodowiec metro station was built by Mostostal, a Polish firm 49.9% owned (and in effect controlled) by Acciona of Spain. Four of the five consortiums bidding for the second Warsaw metroline are headed by Spanish or Spanish-owned companies.

Austrian, Portuguese, Greek and even Chinese firms are also sniffng around the honeypot of EU money. But Spanish firms do not just bring knowledge of EU funding rules, says Mr Gonzalez; they spent much of the 1990s investing heavily in Latin America, where many had a rough time. Spanish firms say they are tougher than rivals from countries such as France or Germany, slightly cheaper, and unfazed by convoluted bureaucracy. “We are a little bit four-wheel drive,” Mr Gonzalez suggests.

Foreign contractors and their Polish partners are going to need all the traction they can get. In some countries, EU funding may be something of a “resource curse”, says Andre Wilkens of the Open Society Institute, a group financed by George Soros, a veteran financier. Mr Wilkens is alluding to the disruptive effects of oil or mineral wealth cascading into fragile states. The next decade will see a lot of concrete poured in central and eastern Europe. The newcomers need to ensure it is poured to good ends.