



The Railway Sector in Spain in the Long Term

Miguel Muñoz Rubio and Pedro Pablo Ortúñez Goicolea

10.1 INTRODUCTION¹

This short study is directed towards an audience who may not necessarily be familiar with the topic addressed, namely, how the railway transport system has been organised in the long term and the main changes that have taken place in the over 170 years of its existence.

The principal railway companies involved over this long period have been the *Compañía de los Ferrocarriles del Norte de España* (Norte), the *Compañía de los Ferrocarriles de Madrid a Zaragoza y Alicante* (MZA), for

¹While we were preparing this work, we received news of the death of Pedro Tedde de Lorca, a renowned historian and an even better human being. Both of this work's authors consider him to be a master amongst historians and, more immediately, for those of us who seek to shed some light on the history of transport and communication. We wish to dedicate this work to him by way of a tribute and as a reflection of our gratitude and admiration.

M. Muñoz Rubio (✉)
Spanish Railways Foundation, Madrid, Spain

P. P. Ortúñez Goicolea
University of Valladolid, Valladolid, Spain
e-mail: portunez@eco.uva.es

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the period of construction and private use of the network, and RENFE, a public company set up in 1941, and whose Spanish acronym means the National Network of Spanish Railways, and which on 1 January 2005 split the operations it had been carrying out up to that point between *Adif* (Administrator of Rail Infrastructures) and the Renfe-Operator. Herein, we provide a look at some of the main milestones that reflect the various adaptations and transformations that have taken place: the first major crisis of 1868, the so-called turn of the century crisis, the difficulties brought about by the Great War, the years of the Primo de Rivera dictatorship, the Spanish Civil War which started in 1936, the downfall of the autarchy in 1959, and Spain's entry into the EEC in 1985.

For many years now, railways have drawn the attention of a wide array of research disciplines given the all-round fascination they hold, and thereby offer a veritable kaleidoscope: engineering in its many areas of specialisation, the economy, as well as other experimental and numerical sciences, together with literature and art. Behind all of these lie history, and all of these fields have found a source of inspiration in this singular means of transport.

10.2 THE EARLY YEARS: 1844–1890

The early years of the companies which began to operate on the Spanish railway network prior to the General Law of 1855 passed virtually unnoticed. This is true of both the effects they were able to generate and the actual reality of the institutions themselves. Following on from the fiasco of the public works policy applied by moderate governments, successive progressive governments after 1856 engaged in an economic policy in which the construction of the railway network became one of their core objectives. This goal was achieved, since the 54.1 km that were built each year between 1848 and 1856 increased to 458.5 km between 1857 and 1866, thereby extending the length of the track laid from 459 to 5044 km in only ten years.

Implementation of the General Law of 1855 helped to channel capital towards the railways and brought to the Spanish business scene Norte and MZA, two companies set up with mainly French capital and which later became the two giants in the sector. Both secured the concessions of the country's major transport axes and the centre for their exploitation in Madrid (Comín et al. 1998).

The first major crisis to hit the sector came in 1866. It was then that the companies found that the returns were not enough to pay off the debts they had run up during construction. Since most of their demand came from the primary sector, the situation was only exacerbated by the effects of the agricultural crisis which the Spanish economy suffered in the 1860s. All of this meant that some companies reported an operating loss at the end of the year.

Since the companies, in particular Norte and MZA, had already reached the limit of their possible debt, they were unable to do anything. The State was not in a position to help them out either, since it was immersed in its own budgetary crisis, with the Paris and London stock markets refusing to open their doors to the Spanish economy due to its habitual inability to pay. The effects of the international crisis also took their toll. The stock price of the railway companies began to tumble and railway bonds started to lose their value. This dragged down with it a large part of the Spanish financial system since its assets were mainly pegged to the railways.

Norte and MZA were able to weather the crisis thanks to the help received from their parent companies. They also managed to convince the State to set up a public fund to help them.² After that time, the Spanish railway system lay in the hands of the French financiers Rothschild (MZA) and Pereire (Norte). The creation of this duopoly, which received the State's blessing, was grounded on takeovers and mergers that led to the two companies going from holding a third of the whole network to two thirds.

In 1868, MZA boasted a network of 1428 km, which enabled it to have connections from Madrid to the Mediterranean and Andalusia. It was not until 1875 that it would once again experience an increase in the number of kilometres in operation, reaching 1557. From then until 1899, takeovers and mergers with other lines more than doubled its network, reaching 3679 km.

For its part, by 1868 Norte had reached 723 km thanks to its Madrid to Irun and Venta de Baños to Alar lines. This figure was to remain unchanged until 1874 when it increased to 878 km. By 1878, it had managed to double its network, reaching 1765 km, and it would continue to grow until it had 3581 km, parallel to the progression undergone by MZA. Increases in the initial networks were mostly due to newly laid

² Decree of 7 November 1868 (*Madrid Gazette* issue 313 of 8 November 1868, 1–2).

track. After 1874, however, following the takeover of the line from Alar to Santander, networks were mainly extended as a result of mergers and takeovers.

10.3 A NEW CENTURY: 1890–1914

In the late nineteenth and early twentieth centuries, three companies, Norte, MZA and Compañía de los Ferrocarriles Andaluces (Andaluces), accounted for 75% of the broad-gauge track being operated in Spain, with just the first two alone accounting for almost 65% of the total. This percentage remained the same until 1936. Anes (1978, pp. 485–486) and (Broder 2012, p. 43) point out that after 1860, two French groups, Norte and MZA, shared the main Spanish railway axes. There was no new support from the State and the concentration of the sector in the hands of the major companies grew even stronger (Tedde de Lorca, 1978).

This period of change at the turn of the century has been defined in Spain as the “turn of the century” crisis. Its impact was felt most clearly by Norte and MZA. If we take freight transport as a reference, which is the goods most often affected in any economic crisis, Norte had multiplied the total volume of goods carried between 1890 and 1898 by 1.7%. During the same period, MZA had managed to double its volume. This represented a faster rate of growth than the increase in the network which they exploited during the same period. Yet between 1898 and 1905, Norte only multiplied the volume of goods transported by 1.1 and MZA by 1.3%. Very slow or indeed no growth is therefore evident in the long term. The only period which witnessed a drop in the tonnage transported was around the end of the First World War. This loss was offset by the spectacular rise in the total number of passengers using the railways. This increase had already begun to be felt at the turn of the century, although it was far more evident after the First World War. The fact that this number grew more in MZA than in Norte gives an indication of the unrelenting transformation of urban areas in the peninsula, particularly in the major axes that were linked by this company: Madrid, Seville, Alicante, Zaragoza and Barcelona (Muñoz Rubio and Ortúñez Goicolea 2013a).

A good way to take stock of these two early stages is to ascertain in which years the leading companies were not able to pay out any dividends to their shareholders. MZA was not able to do so until 1859, and indeed between 1864 and 1872, both years included, it did not pay dividends. Nor did it pay out any dividends in 1885, or between 1893 and 1898.

Between 1899 and 1905 dividend payouts were extremely modest, between 5 and 9 pesetas per share. Returns of around 24 pesetas per share were felt to be normal, a figure which was only achieved in 1912 and 1913. It is worth remembering that MZA was the most profitable railway company for its shareholders. Norte, for example, was unable to pay out any dividends between 1900 and 1906.

10.4 THE IMPACT OF THE FIRST WORLD WAR

Even though Spain remained a neutral country during the Great War, it was still affected. Railway companies were severely impacted by the difficulties the conflict brought with it. For the Spanish railway sector, the war meant increased demand for transport, reflected in a greater density of traffic, a greater volume of goods carried, and a change in the nature of these compared to previous years. Infrastructure and transport equipment were subject to more intense use, which was not, however, compensated by increased investment in renewal and maintenance of carriages, engines and track. To a large degree, this was because the suppliers were also involved in the conflict.

There was an increasing number of complaints from users due to delays, accumulation of goods at the stations, damage to the material, greater repair costs, deteriorating infrastructure and difficulties getting this replaced; such were the consequences of those very difficult years. Norte made a loss in 1917 and 1918 and did not pay out any dividends between 1917 and 1919. MZA's results plummeted between 1917 and 1918, although it still managed to return a profit, albeit a small one, and was able to pay its shareholders a dividend every year. Andaluces also made a loss between 1919 and 1920 and reported disastrous results for the two previous years. It was time for those who were advocating that the sector should be nationalised by the State to make themselves heard.

The situation was extremely difficult for companies and State alike. The Royal Decree of 26 December 1918 authorised companies to increase fares by 15%. This had the effect of boosting income, although operating costs and financial costs also rose because of the inflationary effect, the application of the eight-hour day and a growth in staff numbers, together with the gradual adoption of other social improvements and the enormous cost of financing the debt.

On 3 April 1919, the eight-hour working day was introduced, which had a substantial impact on the railways. Faced with delays and company

reluctance, in January 1920 railway workers went on strike. The government opted to resolve the problem by issuing provisional Royal Order of 23 March, and permanent Royal Order of 29 April. By implementing these measures, the State took care of the workers' wage demands without having to resort to raising fares. To do this, it granted the companies refundable advanced payments. This government solution saw the dawn of a new era in Spanish railway history since State interventionism increased after that point, finally leading to the nationalisation of the railways after the Civil War of 1936–1939. These advances provided by the State to cover the cost of wage increases were included in the liabilities of the company balances as debt, which was obviously deducted from the compensation companies received from the bailout payments for the support given in 1941.

In 1920 and 1921, the State thus opened up new lines of support for companies. The aim was to improve and modernise the sector and to allow for wage rises. State aid once more became available. The formula involved refundable advances, with favourable terms, which the major companies did their best to repay.

10.5 THE “ROARING TWENTIES” OF SPANISH RAILWAYS: 1923–1931

The 1920s posed fresh challenges for companies. The new political regime in Spain after the military uprising of General Primo de Rivera intensified State interventionism. Companies forfeited financial autonomy and the capacity to make decisions. Shortly after coming to power, the government approved the so-called Railway Statute by Royal Decree-Law on 12 July 1924.

Railway companies were forced to adhere to the Statute. Indeed, this was the requirement if they were to be granted access to the foreseen financial support. Through a body set up specifically for the purpose, the so-called Railway Fund, which was financed via public debt, the State agreed to bankroll the investments required to modernise both transport infrastructure and material. In this regard, one may speak of the “Roaring Twenties” as the title of this section: companies had never had it so good and had never had so many resources to invest.

The State was making an enormous financial effort and, as can be seen from the outcome, one which was highly necessary: there were

improvements in returns for shareholders, traffic conditions and transport figures. However, it proved impossible to maintain such a high level of public debt over time. Between 1922 and 1930, the increase in passenger numbers was insignificant in Norte and very small in MZA (0.9% mean annual cumulative). Nevertheless, the tonnage being moved did increase in both companies by a mean annual cumulative rate of over 4%. As a result, operating revenue increased: 3% in Norte and 1% in MZA. The problems were the costs, particularly the financial costs, even though the Railway Fund bore a large part of the investment. Taking into account all of the costs and repayments, the final results in Norte and MZA fell between 1922 and 1930 at a mean annual accumulative rate of 5%.

The total investment in railways made by the Railway Fund between 1925 and 1930 amounted to some 1600 million pesetas.³ It was a huge sum that was designed to solve the lack of investment the sector had been suffering and which, according to the most common interpretation of the time, was the cause of the problems that were affecting it and which had increased during the Great War years: disappearance of freight, delays, a slow service, high prices and so on. This decided support from the State towards the sector also pursued another objective. Once these difficulties had been overcome, thanks to the increased investment, in theory on 31 December 1928 the companies which had agreed to the Statute would sign up for what the Statute called the “definitive period”, a stage which would lead to the repayment of State aid, to the reunification and concentration of the network, and to making the sector able to survive on the revenue derived from fares. Yet this definitive period never materialised. Before the proclamation of the Republic, and in the grip of an international economic crisis and an institutional crisis in Spain, the State declared to Norte and MZA that it could no longer continue to provide the railways with support and that it was the companies themselves which would have to find the resources from then on, at the worst possible moment.

³Included are normal gauge and narrow gauge, private and public ownership, and new constructions.

10.6 AFTER THE “ROARING TWENTIES” THE GREAT DEPRESSION: 1931–1936

The 1930s posed a large number of problems for railway companies. Their chances of obtaining financial resources in the market had been dealt a severe blow following the previous period. The fact that the oldest and most important concessions were about to expire did not help since this complicated the guarantees that could be given to any new debt. The figures for the amounts being transported soon began to plummet and, with them, the revenue from operating costs; losses soon followed. Competition from the roads was also beginning to emerge. In addition, institutional, international and domestic instability only served to further exacerbate the impact of all these aspects.

Between 1930 and 1935, the number of passengers carried by Norte fell at a mean annual cumulative rate of 3%, and the company's revenue fell by a similar amount. In MZA, there was a 2.1% drop, a figure which was slightly higher in the case of revenue from this concept, which fell by 3.2%. There was an even greater decline in freight transport, where the rate was 5.6% in Norte and 6.1% in MZA. As pointed out earlier, a logical consequence was the arrival of the loss in results from 1931 in the two companies. From 1931 to 1935, MZA was able to pay out to its shareholders 10 pesetas per share for the returns which the company's private assets had generated, far removed from the 28.50 pesetas they had been able to pay out between 1927 and 1929. This accumulation of problems was now beyond repair and, with the outbreak of the Civil War in 1936, there was no time to redress the situation.

The sector, which was shackled by the indecisive decisions taken by the previous dictatorship, had left an enormous hole in the Republic's treasury, thanks to the debt issued by the Railway Fund. In addition, many of the works undertaken in the form of construction were still eating away at the available resources, such that they had to be discontinued, with the works eventually being abandoned in order to put a stop to the spending. Calls for nationalisation increased. Having done so would only have worsened the chaotic situation for the public coffers, as a result of which Indalecio Prieto, the Minister of Public Works, would not hear of it. In the meantime, the companies continued to bleed to death and investment was

again halted. Everything possible was done to amortise vacant posts and to retire workers. Norte cut its workforce but MZA did not.

Company reaction to such a complex situation was very limited and restricted in scope. Action sought mainly to influence successive governments with two basic goals in mind: to secure a fresh increase in fares and to obtain authorisation to issue new debt bonds that would be backed by the State. In order to compete with the roads, there were requests for a reduction in taxes or to have those applied to road transport equated to those paid by the railways. The outbreak of the Civil War brought a tragic end to these years (Muñoz Rubio and Ortúñez Goicolea 2013b).

10.7 THE CIVIL WAR YEARS AND THE EARLY FRANCO PERIOD: 1936–1959

The Civil War substantially altered the institutional framework in the railway sector. In the Spain which came under the republican government there was a process of public interventionism which ended with nationalisation and the corresponding creation of a public company in 1938. In the areas controlled by Franco's troops, the railway companies were seized, and although it did not quite reach that point, and probably in order to take advantage of the concessionaires' know-how at such a crucial time, the Burgos government laid the foundations for subsequent nationalisation in 1941 (Barquín and Ortúñez Goicolea 2019).

Once the war was over, the new regime made the State the main architect of the industrialising policy. The era of public companies had begun. The change brought about by this new economic policy proved to be a turning point for the railways. In 1941, through the Law Establishing the Bases for the Organisation of Railways and Road Transport, a new institutional framework was created by replacing private with public management. Prior to nationalisation, the Iberian wide-gauge railway network had reached 12,364 km, accounting for 70.9% of the total, whilst the narrow-gauge networks, with their 5080 km, made up the remainder. The vast majority of the network was in private hands, since only 5% was being run by the State.

This change was confirmed, on the one hand, through the creation of Renfe as a public company charged with operating and managing the wide-gauge railway system (Muñoz Rubio 1995) and, on the other, by merging narrow-gauge public railways into a federation, which also

entailed nationalising several companies (Muñoz Rubio 2005a). Nationalisation was the basic instrument of the transport policy designed by General Franco's regime. Its aim was to make railways the preferred means of transport.

This change gave rise to an organisational structure of the transport system which was enormously hierarchised and bureaucratised. The tip of the pyramid was the presidency of the government itself, on which depended the Ministry of Public Works, as well as the ministries of the Treasury, Military, Government, Labour, and Industry and Trade, as did the recently created Delegation for the Organisation of Transport (DOP) and the Commissary for Railway Material (CMF). Although the level of power was asymmetric, it should be highlighted that whereas the task of the Higher Railways Board (JSF) was to ensure the consistency of the transport market by removing any kind of competition, the CMF emerged as the maximum authority for controlling industrial production destined for the railways and the DOP assumed authority for controlling transport, particularly the distribution of raw materials.

Moreover, the Renfe president held a casting vote with regard to the decisions taken by his board. Production was organised so that it continued to use private companies: in other words, a system which established on the one hand the five major divisions—operations; material and traction; track and works; electric power; and the commercial division—as the central axis,⁴ and, on the other, the director general as its key figure, since all of these areas depended directly and hierarchically on him.

Despite the fact that the literality of the new institutional framework—and of its intentions—made the railway the dominant form of transport, this was to become yet another victim of the two principal shortcomings suffered by the Spanish economy during the crazed autarchy: the lack of financial resources, and the inexistence of the technological capacity required to replenish production factors. Indeed, the Spanish economy, wracked by inflation, was in the grip of an acute shortage of its own resources, a situation which was aggravated by foreign investment grinding to a complete halt and by the decline in domestic saving.

The situation could not have been worse, not only vis-à-vis financing the recovery of fixed railway capital, which was the number one priority at

⁴Complemented by ten services not related directly to operations (technical secretariat, legal advice service, stockpiling and warehousing, fuels, general accounting, complaints and enquiries, transport coordination, general expenditure, commissary and staff and social assistance).

the time, but also in terms of ensuring its gradual capitalisation. This therefore meant that the investments received by Renfe were insufficient to keep facilities and equipment up to ideal standards. In fact, until 1947 the railway network experienced a veritable disinvestment which was not to be reversed until 1950. Although there was net positive investment in the years that followed, it continued to prove insufficient with regard to raising technological standards.

10.8 THE NEW “LIBERALISING” AND “PLANNING” WINDS OF CHANGE: 1960–1975

When making the State the universal operator in 1941, the aims of the regime focused on maintaining the railways at their optimal operating level by using only national industry, which it sought to strengthen. Nevertheless, it was forced to resort to foreign industry to ensure the supply of equipment and facilities. Failure reached such a scale that in 1960 national industry was unable to guarantee the sector’s demands other than by resorting to imports.

In sum, by 1960 the railways were totally obsolete due to the scant investment received, investments which, to make matters worse, had been used to maintain technologies that were out of date or that were soon to disappear. All of this gave rise to two major problems. First, the railways came to a standstill in terms of production, which, once the tepid reforms of the 1950s had been introduced and once the alternative of road transport had returned, caused its share of the market to plummet. While rail passenger transport in 1950 accounted for 59.9% of total demand, by 1960 this had fallen to 30.6%, whilst in the case of freight transport the figure had dropped from 57.6% to 30.1%. Second, Renfe suffered enormous losses which, between 1941 and 1963, amounted to 18,655 million pesetas due to the fact that, while operating costs multiplied ninefold, revenue only increased sevenfold.

This “railway failure” was nothing more than the failure of the autarchic project itself, which, much to its chagrin, forced the dictatorship to make a strategic U-turn that became official through the approval of the 1959 Stabilisation Plan. There thus emerged a new period of change that was ultimately designed to partially replace radical public interventionism with a system which opted to channel resources towards private initiative

in an effort to continue promoting industrialisation. As on previous occasions, this decision was to have major repercussions for the railway sector.

The Ministry of Public Works drew up the 1964–1973 Ten-year Modernisation Plan (PDM) for Renfe in an attempt to overhaul the company and adapt it to the new situation. The first change took place at an organisational level by making sweeping changes designed to endow Renfe's governing bodies with greater decision-making capacity.⁵ In other words, the autarchic bodies responsible for financial intervention were dissolved and their main powers transferred to the executive, which took over responsibility for devising railway policy, the running of the companies' governing bodies, and the decisions which affected its material integrity. The Ministry of Public Works took charge of most of JSF's duties. The Inspectorate Division and the Treasury Ministry regained control of matters related to the companies' financial affairs. In addition to what it was already responsible for, Renfe also took over the tasks that had been assigned to the CMF and DOP, namely renewing equipment and facilities, as well as the overall management of freight transport.

The Board of Administration remained as Renfe's main internal organisation body, and continued to be headed by its president who, after 1969, also assumed the post of government delegate, which heightened the company's presidential nature. It should, however, be noted that Renfe's statutes, approved by decree on 23 July 1964, endowed the company with a substantial degree of independence to run the public transport service and to engage in whatever commercial and industrial activities might be related to the duties it was charged with carrying out.

The PDM also undertook action that changed the structure of some production forces which, in certain aspects, had remained unchanged since the early days of the railways. Electrification of the lines, adapting the rails, introducing automated blocking and communications systems, phasing out steam traction and basing the system on railcars, replacing conventional freight cars with railcars, and changing the types of carriages were the structural changes that took place during those years. All these changes heralded more than just a modernisation, since they entailed the most

⁵The report of the World Bank concluded that urgent changes to Renfe's organisation were required in order to solve its three main problems: the existence of a plethora of administrative bodies within Renfe itself, which divested responsibility and paralysed the controlling authority; constant State intervention in the details of the railway administration system; and the fact that Renfe lacked the power to take certain key decisions.

radical structural modification that rail facilities and equipment had witnessed since the railways had been born.

The plan meant that any action would depend on obtaining financial resources, which would only be granted if the conditions imposed by the World Bank for financing the plan were met. The investment that Renfe received over those years amounted to 2182 million dollars at today's prices, and was principally funded through direct contributions from the State, although, once again, loans were taken out. The first of these was signed with the International Bank for Reconstruction and Development in July 1964 and amounted to 65 million dollars and the second in August 1967 for 50 million dollars. To finance the 1972–1975 Renfe Plan, the successor to the PDM, a final agreement was signed in 1971 for the amount of 90 million dollars. Since then, this mechanism has regularly been used to such an extent that in 1980 it represented 26.6% of total revenue.

The gradual normalisation of financial flows meant a qualitative leap in investments compared to previous decades, since, of the capital received for this purpose between 1941 and 1980, 11.8% was provided in the 1960s and 85% in the 1970s. Thanks to this, Renfe's production underwent its most important modernisation since 1848. Worth noting here is the benefit which taking advantage of this relative delay implied, since, whereas other European countries had modernised their railway networks using the technologies of 1945, the Spanish railway network did so using the technologies developed in the two decades in question. Despite this, however, it was not sufficient to enable Renfe to meet the sharp rise in demand for transport which the boom in the Spanish economy brought with it between 1964 and 1975. The gradual increase in national rent, coupled with industrialisation and the liberalisation of overseas trade, which demanded the movement of huge amounts of raw materials and goods, together with demographic evolution (30 million people in the 1960 census compared to 37.5 million in the 1980 census) are among the principal causes which explain this phenomenon.

Demand in units of traffic of all kinds in terms of passengers rose from 13,732 million in 1950 to 28,867 million in 1960, to 99,577 million in 1970, and to 144,461 million in 1975. This rise in demand is unparalleled in any of the records for any of the previous eras. The principal beneficiary was, without doubt, road transport. Replacing rail transport with road transport as the dominant means had already started during the 1950s if we take into account that in 1950 the market share for railways was 60%

(52% for Renfe and 8% for FEVE) whilst the share for roads was 39%. This trend accelerated considerably in the following ten years, since 1970 closed with the figures standing at 31% (25% for Renfe) and 68%, respectively. By 1975, this distribution was far more favourable for the roads, which accounted for 87%, whereas in the case of Renfe it failed to reach 9% (Muñoz Rubio, 2005b; 2013).

This explains why, despite the progress made by the railways thanks to the modernisation it underwent, Renfe's financial performance over the years proved to be so unsatisfactory, even though the operating account showed a profit in certain years. Between 1964 and 1969, ordinary income did not cover operating costs, which ran at a loss of 11,237 million pesetas. The situation improved over the following five years and the company made an operating profit, which up until then had been unheard of, and which reached a peak in 1973 of 3014 million pesetas. Nevertheless, the joy was short lived as losses returned in 1975, amounting to a figure of no less than 6077 million pesetas. As a result, the operating ratio went from 114.2% in 1964 to 111.3% in 1967, to 105.2% in 1969, to 97.8% in 1970, and to 115.9% in 1975.

If we add industrial repayments and financial interest⁶ to the operating results, the final balance reflects considerable losses. Renfe's total losses over these twelve years came to 58,858 million pesetas, and were covered through contributions from the State via budget subsidies which represented between 2% and 3% of the State's general budgetary expenses.

In addition to the above, application of the PDM led to the first major reduction in staff to result from a planned action: in this case, the conditions imposed by the World Bank for financing to be granted. Whilst Renfe ended 1962 employing 126,467 workers (which already meant it had shed 11,155 jobs compared to 1954), this was to be the starting point for a process that would extend over the following ten years and which entailed a gradual reduction in staff. Between 1962 and 1973, the mean number of jobs lost came to 4843 per year, which meant an overall reduction amounting to 53,270 jobs; in other words, the 1973 workforce stood at 57.9% of what it had been in 1962.

⁶In other words, the bonds issued between 1946 and 1957, foreign loans prior to 1964, loans from the IBRD and other foreign loans taken out since 1964.

10.9 POLITICAL TRANSITION AND MEMBERSHIP OF THE EUROPEAN ECONOMIC COMMUNITY: 1976–2012

Democracy in Spain would, sooner or later, mean joining the EEC. As a result, there was a new scenario of change which was to affect the railways, whose institutional framework was forced to adapt to the new rules which the Union of the Democratic Centre (UCD) government brought forward to 1979 when drawing up the White Paper on Transport. This opted for a transport policy based on a free market, yet which also accepted the need for public interventionism that would strike a balance between the different trends of each means of transport involved. It established a series of principles, with a differing number of variations, that would provide the grounding for all the transport policies applied up to the present day: freedom to participate; each modality specialising in the market segments where it held the best comparative advantages; fiscal neutrality (possible taxes for the use of infrastructure); exclusive subsidies for public services; preferential use of railways in passenger services in commuter trains and in the major population corridors, whilst coordination with the roads would be left to the weaker lines of traffic, with air traffic catering to long distances; and preferential use of the railways in freight services for large volumes over long distances, while the use of roads would be encouraged for medium-distance transport.

If respective UCD governments failed to enjoy the necessary stability, the following governments of the Spanish Socialist Workers' Party (PSOE) did, as well as the time required to put these principles into practice. Nevertheless, once it came into power, and bearing in mind the previously mentioned major crisis that affected the railways as a result of the investment in the transport market between 1960 and 1975, the socialist PSOE government had no choice but to adopt an immediate strategy aimed at trying to halt this downward trend. This took five years and, consequently, it was not until the 1987 enactment of the Law Organising Land Transport (LOTT) that the new phase truly got under way.

The new law established neutrality as a guiding principle for all means of transport and, as an immediate consequence thereof, forced railway operators to adapt to the market, and even admitted private operators in the handling of certain services. It also distinguished between the concepts of public work and public service and announced its intention to grant Renfe greater independence in its powers.

Its consequences made themselves felt when the LOTT saw Renfe as fulfilling three distinct functions: as transport operator, as provider of goods and services, and as maintainer of infrastructure. Each of these entailed clearly differing levels of organisation and management criteria. As an operator, Renfe took on the task of transporting passengers and goods, for the running of which different business units were used depending on the characteristics imposed by the market: long haul, regional, high speed and commuter, in passengers; and with full loads and fractional loads in freight. In addition, different criteria were established with different management depending on market behaviour, since all the business units needed to operate on a profit-making basis, except for regional and commuter activities given their nature as a public service, although this did not imply foregoing the possibility of obtaining supplementary funding from other public authorities. As a provider of goods and services, Renfe would take charge of managing traction, rolling stock and a series of services for stations, ticket offices, cleaning and so on, which were given the status of public service, as was to happen with the third function mentioned, namely maintenance of infrastructure and transit.

Renfe's statutes, approved by Royal Decree 28-I-1994, confirmed this type of organisation, endowing the business units with a series of clearly defined powers and objectives over a short period which were to be assessed by the extent to which these goals were accomplished and by its own profit-and-loss account. The aim was to provide for better functioning: better adapting supply to demand, and thereby enhancing the quality of the service; tighter control over spending by making each of them responsible for their profit-and-loss account; and a clarification of the commercial relations between the company's own production units. This legal framework went even further since it afforded the possibility of the organisation units becoming legal entities in their own right should there be reasons requiring them to do so, subsequent to the necessary approval by the ministry.

Spanish government commitment to building high-speed lines, after the successful inauguration in 1992 of the Madrid-Seville line, hastened the institutional changes brought in through previous laws. The most significant stemmed from the need to create a new public company to administer whichever railway infrastructures it was felt required intervention, in particular the high-speed lines. Law 13 enacted on 30 December 1996 set up the Railway Infrastructures Management (GIF), which was born as a

public body with its own legal status and own assets and distinct from the State's assets.

In any case, the institutional framework imposed by the LOTT was to last only 17 years, as in October 2003 the Spanish government enacted the Law on the Railway Sector (LSF), which heralded a major step in the policy of liberalising the railway market that had been in place since 1985. This measure split Renfe into two new public companies so that, respectively, they could maintain infrastructure and provide transport service: the Administrator of Railway Infrastructure (ADIF) for the former and Renfe-Operator for the latter.⁷

The law also split the Renfe-Operator into state mercantile companies (Royal Decree-law 22/2012, of 20 July, adopting measures in the matter of rail infrastructures and services). Specifically, one was created devoted to providing the passenger transport service stemming from its "Travellers" operating area; another would handle freight traffic; another would take charge of activities undertaken by the operations area of manufacturing and maintenance; and the last would manage "leasing operations and others related to railway material assets and, as a subsidiary, sales and other forms of transactions involving said material and facilities".⁸

10.10 FINAL CONSIDERATIONS

The institutional framework proves key vis-à-vis understanding the Spanish railway sector. As such, more than the weight of market needs at the time, it was the General Law of 1855 that spurred the development of the railway network. The economic crisis of 1866 prompted the start of a process of business concentration centred around the two large railway companies: Norte and MZA. When the process had concluded, the sector had become a duopoly.

The First World War triggered another important change by opening the door to greater public interventionism in the system. Railway companies sought to maintain the private nature of Spanish railways, something

⁷It was ADIF which inherited the brand of Renfe. This decision involved the most complex business change the railways had witnessed since nationalisation in 1941. In spite of this and despite that fact that it had to be applied with a change in government in between, it was conducted in exemplary fashion since the service provided did not suffer in any way.

⁸Narrow-gauge public railways, which had been operated since 1965 by FEVE (Decree-Law 11/1965 of 23 September) were closed down and became part of ADIF and Renfe-Operator by virtue of the Royal Decree of 20 July 2012.

which proved impossible, however, because of institutional changes, the Railway Statute of 1924, and the economic crisis of the 1930s. When the Civil War ended in 1939, any attempt to maintain a model that had been created almost a century earlier was both anachronistic and impossible, and even more so bearing in mind the lengthy period of no investment and the destruction caused.

Nationalisation and the creation of Renfe in 1941 emerged as the most decisive institutional changes to take place in the history of the railways in that they inverted a trend that had been in place since 1848. Although their consequences were catastrophic for the railways, it was the failure of Franco's economic policy that gave rise to a fresh change which, although it enabled a much needed modernisation of the railways and their organisational systems, proved unable to cope with the competition from motorised transport and Renfe's rampant deficit.

The arrival of democracy found the railways in a critical situation, yet a new institutional change—Spain's entry into the EEC—altered all the rules of the game. Although the transport policy set down in Brussels was implemented over a number of decades, its consequences are still very much in evidence today.

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