The Spanish Paradox
When Higher Corruption Does Not Mean a Weaker State

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Abstract

There is a consensus in the existing literature that corruption negatively impacts state capacity. This article takes issue with this consensus and lends credibility to the alternative hypothesis that corruption does not necessarily lower state capacity by showing that in Spain, the increase in corruption over the past decade was not accompanied by a decline in state capacity. Indeed, Spain experienced an increase in ‘total tax capacity,’ an aggregate measure of institutional ability reflecting all economic activity that has been taxed and that has escaped taxation as a result of corruption. The analysis presented in this article reveals the lack of clarity in the relationship between corruption and state capacity and invites scholars to hone the existing theoretical frameworks on the state capacity-corruption nexus to explain anomalies such as the Spanish case.

Keywords: state capacity, governance, corruption, institutions, state effectiveness

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Introduction

Conventional wisdom suggests that corruption has many detrimental political, economic and social effects on the state. As a result, corruption has been widely recognized as a fundamental challenge to good governance. President of the World Bank, Jim Yong Kim claimed ‘in the developing world, corruption is public enemy no. 1.’ The negative effects of this phenomenon on the state have been extensively documented in the literature, with many studies offering strong empirical evidence of its political, economic and social consequences. Most importantly, many have argued that widespread corruption can erode confidence in public institutions and hinder the state’s overall effectiveness, weakening its ability to generate revenue, deliver public goods and services and facilitate economic growth. Accordingly, a large body of literature suggests that state capacity will decline with an increase in corruption.

Until the 1980s, Spain was a developing country and a new democracy that experienced a transition from a low to a middle-income category in a short period in part by relying on a relatively functional state (Ban 2016). Spain is a useful case study for exploring the implications of this approach as it represents the historical experience of how corruption and state capacity relate to each other in former developing countries that become richer and more democratic. Specifically, Spain has been hailed as the most capable and least corrupt state in the Southern European democratic transition story (Korentis 2008, Ban and Tamames 2015) as well as a country where market reforms were embedded in a generous welfare state that enjoys high democratic legitimacy (Ban 2016). However, in the past decade, Spain has experienced an outbreak of public sector corruption, with a steadily increasing number of high-profile corruption scandals involving prominent political figures, public officials, and private-sector actors. Specifically, the credibility of the dominant Popular Party (PP) has been crippled by a seemingly endless string of corruption scandals involving party members. Operation Punica, for example, led to the arrest of over 50 people, the majority of whom were public officials, for collusion that led major companies to secure approximately 250
million euros worth of public contracts within just two years. Similarly, in the ongoing Gürtel case, a ledger maintained by former party treasurer, Luis Bárcenas, shows regular undeclared payments accepted by members of the PP from companies with current public contracts. The case, which began in 2009 and involves 6 regional governments and 200 suspects, implicates numerous high-ranking officials for their involvement in fixing public contracts worth 350 million euros. Such episodes have become a regular occurrence in the Spanish institutional landscape.

This article uses the case of Spain to suggest that the increase in public corruption does not always correspond to a decline in state capacity. On the contrary, while corruption has been steadily increasing, state capacity has also increased. Spain is a critical case because it suggests that if the corruption-state capacity relationship posited in the literature appears problematic in Spain, it should be even more problematic in developing countries that have been less successful in terms of political and institutional development. By combining the critical case and the comparative method, this article evaluates Spain’s state capacity relative to Italy, a state that has also struggled with an authoritarian past and high levels of corruption, France and the United Kingdom, two long-established democracies that are known for having high levels of state capacity. The comparative analysis is carried out using the broadest set of metrics of state capacity available in the relevant literature. These metrics take into account the revenue that a state is losing as a result of corruption, and reflects the state’s ability to induce compliance, which is an important aspect of state capacity. This article refers to this measure as ‘total tax capacity’ which reflects all economic activity that has been taxed and that has escaped taxation as a result of corruption.

The evidence presented here is strongly suggestive of the argument that contrary to conventional wisdom, there is a lack of clarity in the relationship between corruption and state capacity. This is an important challenge to the conventional wisdom that emerged since corruption was redefined as an economic issue in the mid-1990s
by former World Bank President James Wolfensohn. Since then, development agencies, international organizations and national governments have worked hard towards the eradication of corruption, and the dominant policy orientation has stressed the importance of ‘good governance’, ‘quality of government’, and ‘state capacity’ for eliminating corruption. However, while anti-corruption efforts increased dramatically, their results have been unimpressive, and widespread corruption persists in many countries (Rothstein 2018).

Thus, the evidence presented in this article invites scholars to sharpen the existing theoretical framework dealing with the state capacity-corruption nexus to explain anomalies such as the Spanish case. The main lessons learned are that (1) improving state capacity alone will not eliminate corruption and (2) policymakers need to redesign anti-corruption strategies and implement policies that are better suited to the task of eliminating systematic corruption.

The article is organized as follows: The first section provides a short literature review, establishing the general understanding of the relationship between corruption and state capacity outlined in the existing literature. The next section introduces the methodology, outlining the data used to evaluate corruption and state capacity. The following section discusses corruption in Spain, presenting both perception-based data and empirical data to demonstrate the change in public corruption over the past decade. Next, this article assesses state capacity using several measures, establishing the change in state capacity in Spain during the last decade. Finally, this article evaluates the relationship between corruption and state capacity in light of the data and assesses the impact of corruption on various aspects of state capacity.

**Literature Review**

With a few exceptions (Leff 1964, Meón and Sekkat 2005), there is a scholarly consensus that high levels of corruption have detrimental political, economic and social impacts. Indeed, many studies have presented strong empirical evidence that suggests that corruption has indisputable negative impacts on the state, from its effect on the
legitimacy of political institutions (O’Donnell 2014) to the efficiency and effectiveness of public services (Rose-Ackerman 1999), public finance (Hillman 2004), trade and foreign investment (Wei 2000), and economic development (Aidt 2009). These studies all demonstrate the many adverse impacts that corruption can have on the state and the many challenges that corruption creates for public administration. In brief, corruption poses “a risk for democratic societies and an obstacle to the sustainability of political and administrative institutions and the enforcement of the rule of law” (Villoria et al. 2013, 86).

One of the most damaging effects of corruption is its negative impact on policymaking, which, in turn, erodes confidence in a state’s public institutions and hinders the state’s overall effectiveness. Widespread corruption and weak governance “cut into government revenues and lead to wasteful spending, thereby weakening the macroeconomic position of a country” (Gupta and Abed 2002, vii). Ultimately, this weakens the state’s ability to deliver public goods and services, efficiently allocate public resources and facilitate economic growth (World Bank 2000). As a result, corruption is considered a major challenge to effective and efficient governance.

Specifically, although establishing a link between state capacity and corruption has been difficult given the absence of a clear definition and measure of state capacity, the elusive nature of corruption and lack of reliable data, the literature displays a consensus that corruption negatively impacts different aspects of state capacity. A slew of studies shows that corruption negatively impacts governance (Mungiu-Pippidi 2013), the quality of a state’s bureaucracy (Dahlström et al. 2012), its ability to implement policies (Fortin 2010), efficient allocation of resources (Aidt 2009), tax revenue collection (Gupta 2007) and effective rule of law (Villoria et al. 2013). Several of these studies measured the empirical links between corruption and state capacity using corruption as a proxy for bureaucratic capacity. In these studies, the idea of ‘good governance’, ‘state capacity’ and ‘quality of government’ is considered the opposite of corruption and the existence of corruption is an indicator of weaker state capacity
(Rothstein and Teorell 2008, Fukuyama 2013, Heywood and Rose 2015). As a result, it is often argued that “low levels of corruption and high state capacity tend to be correlated around the world” (Fukuyama 2018, 57).

Another facet of this consensus is that highly developed democratic nations have higher levels of state capacity, cultivate greater accountability, have less state mismanagement and therefore exhibit less corruption (Mungiu-Pippidi 2013). Indeed, scholars who have examined the role of the state’s capacity to control corruption have argued that states that have been able to eliminate systematic corruption are highly developed democratic states with fairly high levels of state capacity (Charron 2016). High capacity states not only have the human and physical resources necessary to develop, implement and maintain support for anti-corruption policies but also have a stable institutional foundation, transparency in public administration, greater accountability, an effective system of checks and balances, and a strong judicial system that holds public officials accountable for their actions (Diamond 1999). In contrast, weaker states that have lower quality institutions are thought to lack the capacity to impose the normative constraints necessary to control corruption (Mungiu-Pippidi 2006).

However, some recent studies have shown that the adverse effects of corruption not only impact developing nations but also developed ones, with countries such as Italy and Greece polling lower than many middle-income countries on critical measures of corruption (Rothstein 2011). Diamond (2007) attributes the failures of some rich democratic nations to the low quality of their governance. He further argues that when corruption is “deeply embedded in the norms and expectations of political and social life,” it is institutional change rather than democracy that is the most viable solution and suggests that a democracy with a high level of corruption may suffer from serious institutional deficiencies (119).

Nevertheless, the case of Spain brings into question what has generally been accepted about the relationship between corruption and state capacity. Unlike other South European states struggling with high
levels of corruption, such as Greece and Italy, Spain presents a case where the mechanisms of corruption that should have undermined state capacity and government effectiveness have not had this expected effect. Rather, as is demonstrated below, despite widespread corruption, Spain exhibits many of the characteristics of a high capacity state across a broad set of metrics.

**Methodology**

The previous section demonstrated the consensus among scholars that corruption negatively impacts state capacity. This article casts doubt on this consensus by demonstrating that despite the significant increase in corruption in Spain over the past decade, state capacity has not declined.

To make this claim, this article first assesses the evolution of corruption in Spain using Transparency International’s (TI) Corruption Perception Index (CPI). While perception-based indicators have been widely criticized by scholars for being based on misperception, the CPI has been labeled the most robust and comprehensive quantitative indicator of corruption available (Das and DiRienzo 2009). Methodologically, this article builds on this critique and complements the CPI with an original dataset culled from empirical data in the form of allegations of corruption, ongoing cases of corruption, and indictments and sentences issued, collected using the annual reports published by Spain’s Attorney General’s Office that detail the activity of the Office of the Prosecutor against Corruption and Organized Crime.¹

This article uses extractive capacity and bureaucratic capacity, the two dimensions of state capacity considered most central to the

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¹ The cases under the jurisdiction of this office do not include all cases and incidents of public corruption, and therefore the numbers do not reflect all allegations of corruption, ongoing cases of corruption, and sentences and indictments issued associated with public corruption in Spain during this time.
functions of a state, to draw broader inferences about overall state capacity. It is widely accepted in the existing literature that these metrics reflect the state’s ability to “manage efficiently the human and physical resources required for delivering the outputs of government” (Painter and Pierre 2005, 2). This article evaluates Spain’s bureaucratic capacity using the World Bank’s Government Effectiveness Indicator, which reflects public sector efficiency. It also evaluates extractive capacity using three metrics: First, it measures the state’s capacity to generate revenue following Besley and Persson (2014), using the share of income tax in total tax revenue. This is a reliable proxy because “the ability of governments to collect revenues in an efficient and cost-effective manner is of central importance to how successfully states meet their policy goals” (Zhang et. al. 2016, 1).

Second, it measures the degree of tax evasion because in addition to collecting revenue, state capacity, which is understood as the effectiveness of the state in maintaining support and compliance for its public policies, is reflected in the extent of tax evasion in a state. Greater tax evasion indicates that the population is less willing to comply with public policies and that the government is generating less revenue than it could potentially be generating. Following Schneider and Enste (2013), this article uses an estimate of the size of a state’s shadow economy, which is comprised of all economic activities that would have been taxable had they been reported, as a proxy for tax evasion because “transactions in the shadow economy escape taxation, thus keeping tax revenues lower than they otherwise would be” (Schneider and Enste 2013, 2).

Finally, this article proposes an alternative measure of extractive capacity: Total tax capacity is the total tax revenue a state collects as a share of its total potential tax revenue, which reflects all economic activity that has been taxed and that has escaped taxation. The larger the share of its potential revenue that a state can collect, the greater its extractive capacity.

The next sections use these metrics of corruption and state capacity to demonstrate that corruption does not necessarily negatively impact state capacity as suggested by existing literature.
Corruption in Spain
Corruption in Spain did not appear as a significant challenge until after 1999, with the economic crisis of 2008 bringing out spectacular revelations about it and, with them, a rearrangement of the political scene, with two new parties (Podemos and Ciudadanos) entering Parliament with anti-corruption as a key agenda point. While there were just 46 known cases of corruption in Spain before 1999, between 2000 and 2009 the number of cases increased to over 700. By 2016, public officials from over 600 Spanish municipalities were under investigations for allegations of corruption (Costas-Pérez et al. 2011), and information on the judicial proceedings of almost 750 cases of government corruption revealed that 800 public officials had engaged in acts of corruption, with most cases being associated with local urban development (Jiménez 2009). Indeed, in 2011 corruption linked to urban planning and the financing of housing projects was at the epicenter of the Spanish banking crisis that brought the European economic integration under unprecedented strain (Ban 2018).

Corruption in Spain has permeated all levels of government and charges have included bribery, money laundering, misappropriation and fraud. Corruption has spread widely across different regions of the country and has involved public officials from most political parties, suggesting that far from being isolated cases, corruption in Spain is ubiquitous and reflects an underlying institutional vulnerability. Indeed, Spain has scored poorly in most cross-country rankings of perception of corruption at all levels of government. According to the CPI, the perceived level of corruption in Spain was relatively low until 2004, and Spain ranked among the top twenty least corrupt countries worldwide. Figure 1 illustrates the evolution of perceived levels of corruption in Spain between 2004 and 2016 relative to Italy, France and the United Kingdom, demonstrating the magnitude of corruption in Spain relative to other European states.
For context, the United Kingdom, generally considered a high capacity state, has maintained low levels of corruption. In comparison, public sector corruption in Spain appears to be a significant challenge. In 2004, Spain’s perceived level of corruption was equal to that of France, another high capacity state, and significantly lower than that of Italy, a low capacity state. Since then, this trend has reversed, and while the perceived level of corruption in France has remained fairly consistent, it has increased in Spain, closing the gap with Italy.

This trend is not surprising given the large number of high-profile corruption scandals involving prominent public figures that have been uncovered in Spain since 2004. The 2008 Report on Democracy in Spain, published by Fundación Alternativas, details 151 cases of mayors and councilors accused of or indicted for crimes associated with corruption since 2004. By 2014, 95 percent of Spanish citizens believed that public corruption was widespread. A 2017 report published by the General Council of the Judiciary of Spain estimated that in the past year alone, 112 cases of corruption were completed.
Critique: a worldwide student journal of politics

Involving 659 public officials accused of crimes associated with bribery, influence peddling or embezzlement. Not surprisingly, upon analyzing the anti-corruption measures of twenty-five European countries, TI found that Spain has “serious deficits in public sector accountability and deep-rooted problems of inefficiency, malpractice and corruption, which are neither sufficiently controlled nor sanctioned” (Transparency International 2012, 2).

While all this suggests the existence of widespread corruption in Spain, to get to the bottom of the corruption-state capacity nexus, one has to go beyond perceptions of corruption and map out broader metrics of this phenomenon. When one looks at empirical data, indeed, a more nuanced picture emerges.

**Figure 2** illustrates the number of ongoing cases of corruption by the Office of the Prosecutor against Corruption and Organized Crime, demonstrating the steady increase in the number of cases of public corruption in Spain during the past two decades. It also shows that the increase in corruption became more dramatic between 2005 and 2008, during the height of Spain’s building boom. **Figure 3**, which illustrates the number of allegations of corruption filed each year, reinforces that it was in 2005 that corruption became more widespread in Spain. It was therefore before the 2008 crisis but at the height of Spain’s well-documented pro-cyclical lending spree (Ban 2016), that corruption became a real, and not just a perceived phenomenon. How does all of this affect the dynamics of state capacity in Spain? To address this question, the next section deploys a multi-dimensional set of metrics of state capacity to advance conventional understandings of the corruption-state capacity nexus.
Figure 2: Ongoing Cases of Corruption

Source: Attorney General's Office Spain

Figure 3: Allegations of Corruption

Source: Attorney General's Office Spain


Evaluating State Capacity

The idea of state capacity has existed in the social science literature for decades, with many scholars arguing that any attempt to explain long-run differences in political, economic and social development between states should consider differences in state capacity (Evans and Rauch 1999, Besley and Persson 2011). Broadly speaking, state capacity can be conceptualized as a form of power, understood as the power a state or the agents of a state have over members of society. This understanding of state capacity is latent in the work of Max Weber, whose work on state capacity is one of the earliest, and arguably, the most prevalent. Weber saw the state as an instrument of power and a tool for domination, “a human community that (successfully) claims the monopoly of the legitimate use of physical force within a given territory” (Weber 1968, 78).

Accordingly, this article defines state capacity as the state’s ability to effectively develop, implement and maintain support for policies aimed at accomplishing its political, economic and social goals. Several definitions in the literature convey this understanding of state capacity (Mann 1984, Geddes 1994). More recently, in a high-profile state of the art piece, Lindvall and Teorell (2016) submit that “when the government of a high capacity state decides to adopt the policy p in order to achieve the outcome y, it is more likely to be successful than the government of a low-capacity state would be, if it adopted the same policy” (9).

Although state capacity is most often referred to as a single variable, the existence of multiple dimensions of state capacity and the idea that states can be highly effective in some areas but fare poorly in others is widely accepted. It is for this reason that Levi (2002) argues that any good analysis of state capacity requires differentiating between the various features of a state in order to most effectively determine their relative importance. Evans, Rueschemayer, and Skocpol (1985) use the plural term ‘state capacities’ for a similar reason and argue that there is an unevenness in the state’s ability to achieve certain goals across different policy areas. In other words, “the state is not a solid
mass equally present throughout the territory, but a fluid variable that is more and less present in one part or another” (Centeno et al. 2017, 16).

Indeed, this article demonstrates that Spain is less effective in some areas (facilitating the rule of law) and more effective in others (collecting revenue). The most common distinction made by scholars is between three dimensions of state capacity: coercive capacity - the state’s ability to assert a monopoly over the legitimate use of violence, bureaucratic capacity - the effectiveness of a state’s bureaucracy, and extractive capacity - the state’s ability to collect revenue. Given that most functions of a state are expensive and require a certain level of resource mobilization, in the absence of extractive capacity, the state will be unable to carry out many of its core functions such as establishing a strong bureaucracy, maintaining a monopoly on the legitimate use of violence, or implementing and enforcing policies. Indeed, “the state’s capacity to mobilize and extract financial resources is the core of state capacity and the foundation for the state’s ability to realize its other capacities” (Wang and Hu 2001, 27). At the same time, extracting and mobilizing financial resources requires a strong bureaucracy that can effectively formulate, implement and maintain support for its policies, which reflects a state’s bureaucratic capacity. For these reasons, extractive capacity and bureaucratic capacity have a long history in social science and are the most commonly used proxies for overall state capacity.

The next sections will operationalize these dimensions of state capacity in the case of Spain to test the robustness of the hypothesis that corruption weakens state capacity always and everywhere.

**Bureaucratic and Legal Capacity**

Bureaucratic capacity, a broader dimension of state capacity that refers to the professionalization and effectiveness of a state’s bureaucracy, reflects Weber (1968), whose work emphasized the importance of a strong bureaucracy that legitimizes the authority of the state and manages its affairs in an effective and efficient manner. In his work on state capacity, Fukuyama (2004), defines state capacity as a state’s
ability to plan, implement and enforce policies and laws, which highlights the importance of organization and coordination for state capacity because “effective policy administration requires technical competence, trusted and professional agents, monitoring and coordinating mechanisms, as well as an effective reach across the state’s territory” (Hanson and Sigman 2013, 4).

An important aspect of a state’s bureaucratic capacity is its ability to administer justice and provide institutions that underpin an effective rule of law, capabilities that reflect a state’s legal capacity. Legal capacity can broadly be understood as the “degree of control that state agents exercise over persons, activities, and resources within their government’s territorial jurisdiction” (McAdam, Tarrow and Tilly 2001, 78). This article considers legal capacity as a dimension of bureaucratic capacity because fostering an effective rule of law requires both a professionalized and effective bureaucracy. A closer look at the effectiveness of Spain’s legal system highlights underlying structural weaknesses and deficiencies in this area of state capacity.

Spain has a variety of laws and regulations governing corruption. In 2011, a review conducted in the framework of the United Nations Convention against Corruption (UNCAC) concluded that Spain’s anti-corruption legal framework is largely in place. In 2012, in response to a string of high-profile corruption scandals, Spain took legislative measures in the areas that have been most susceptible to corruption, strengthening control over public spending and increasing the transparency and supervision of the financing of political parties. Despite the existence of a strong legal framework governing corruption, this deleterious phenomenon has become a persistent challenge in Spain, demonstrating that Spain’s anti-corruption efforts have not had their intended effect, indicative of low legal capacity.

Further, while the Spanish Criminal Code of 1995 defines a wide range of actions as corrupt, in practice, it appears that Spain’s judiciary is inadequately equipped with the resources that it needs to handle such large-scale corruption. In addition, several corrupt activities, such as clientelism, patronage, discrimination, and nepotism,
are not included in most legal definitions. This has created an obstacle to fighting corruption in Spain because public officials tend to “grant their affiliates access to power and universal protection (including protection from criminal prosecution) in exchange for loyalty and service” (Gounev and Bezlov 2010, 191). The lack of clarity in Spanish legislation and lax judicial proceedings have allowed large-scale corruption among public officials to take place, and “reinforced the impression of a lack of action and partiality of the Spanish justice system” (Gounev and Bezlov 2010, 196). Although judicial corruption has not been as widespread in Spain, several cases of this institutional pathology have brought into question Spain’s judicial integrity and the quality of its legal institutions. Cases of judicial corruption highlight the underlying deficiencies in Spain’s justice system and help explain why public corruption has become endemic in the country. Specifically, lax judicial proceedings, which make the legal consequences of corruption unlikely, have created an environment in which people can engage in corrupt activities by discounting legal consequences.

This is demonstrated in Figure 4, which illustrates the discrepancy between the indictments and sentences issued in the cases under the jurisdiction of Spain’s Office of the Prosecutor against Corruption and Organized Crime. It shows that only a small fraction of the total ongoing cases, illustrated in Figure 2, have resulted in indictments, and only a fraction of those indictments have resulted in sentences. All this suggests that Spain has a low legal capacity which has facilitated widespread corruption. It also demonstrates that a strong legal framework is necessary, however not sufficient, for fighting corruption.
Measuring Bureaucratic Capacity
The previous section highlights deficiencies in the effectiveness of Spain’s legal institutions and suggests that insufficient legal capacity has played a role in facilitating corruption, which one would expect would correspond to low bureaucratic capacity. In order to evaluate the impact that institutional weaknesses and corruption have had on Spain’s bureaucratic capacity, this article uses the World Bank’s Government Effectiveness Indicator, which most closely corresponds to a state’s bureaucratic capacity. Figure 5 illustrates Spain’s bureaucratic capacity relative to that of Italy, France and the United Kingdom. It demonstrates that before 2003, Spain’s bureaucratic
capacity was equal to, if not greater than, that of any of the other three states. Leading up to the economic crisis, at the height of Spain’s construction boom, Spain’s bureaucratic capacity declined dramatically.

Figure 5: Bureaucratic Capacity

This decline also corresponds to the time when public corruption in Spain first became a serious concern, suggesting that the sudden increase in corruption could have led to a decline in Spain’s bureaucratic capacity. However, since 2008 (precisely the period associated with a substantial increase in corruption), Spain has maintained a relatively steady increase in bureaucratic capacity and has nearly closed the gap with France and the United Kingdom. This suggests that while initially, corruption could have negatively impacted Spain’s state capacity, over the long-term, despite the consistent
increase in public corruption, this critical metric of state capacity has been increasing.

Spain’s success using European structural and investment (ESI) funds also suggests a high level of bureaucratic capacity. This is because application for these funds requires very sophisticated civil servants and a great deal of coordination across government agencies. EU investments in infrastructure involve large sums of money, and in states that are susceptible to corruption by public officials, these funds and the allocation of government contracts become a major source of corruption. In many cases, states lack the capacity to effectively and efficiently spend allocated funds and manage projects supported by the EU. Success in using ESI funds depends on a state’s ‘absorption capacity,’ which reflects its state capacity. As a result, in low capacity states, funds are not used in efficient, effective and strategic ways that foster sustainable development.

EU member states like Romania and Bulgaria managed to collect only a fraction of these funds, in stark contrast to Spain. Indeed, since its accession to the EU in 1986, Spain has received substantial development aid from the EU, which has contributed to its strong economic performance and consolidated its position as one of Europe’s most developed nations (Salmon 2005). Spain has derived greater financial assistance from the EU than any other member state, receiving more than 170 billion euros of investment toward territorial development, driving its economic convergence with the rest of the EU. EU Cohesion Policy has played a critical role in Spain’s transformation, from its below-average socio-economic position relative to the EU average in 1986 to its current economic position as one of Europe’s largest economies (Ban 2016).

The mismanagement of funds can have adverse effects on a state’s infrastructure development and can lead to low quality and inadequate provision of public goods (Kenny 2006). Additionally, states that have corrupt governments and low state capacity are not able to foster economic growth through infrastructure investment (Becker et al. 2012). However, in Spain “EU Cohesion Policy was, at
least until 2007, an instrumental lever to the country’s territorial development, mainly by financing infrastructural modernization and supporting companies and research and development” (Medeiros 2017, 1264).

Although the impacts of EU Cohesion Funds in Spain have been debated and it has been argued that its impacts have varied across different aspects of development, there is a consensus that ESI Funds had an overall positive impact on territorial development, with Spain having one of the most modern infrastructures in the world (Farrell 2004, Medeiros 2017). Clearly, in the absence of a relatively high bureaucratic capacity, Spain would have been unable to absorb funds in the way it did, to achieve such high levels of economic growth and territorial development. While it is possible that without high levels of corruption, Spain would have taken a different development path that could have led to stronger positive effects and more sustainable economic activity, the positive impacts of the EU investments as a result of the efficient use of funds suggests that Spain has a fairly high bureaucratic capacity.

**Extractive Capacity**

The previous section demonstrated that Spain was able to maintain, and in fact increase, its overall bureaucratic capacity despite widespread corruption and weakness in the quality of its legal system - a finding that invites deeper analysis into an extensive assessment of overall state capacity via proxies such as extractive capacity. In Charles Tilly’s (1975) foundational work, the state’s extractive capacity (or its ability to establish a system that effectively collects resources from its population and prevents its population from resisting efforts to extract these resources) is defined as no less than its very degree of ‘stateness’. For Levi (1989), revenue is a limitation on rule and weak state capacity is a result of a state’s inability to raise revenue and govern effectively. Similarly, for Evans, Rueschemeyer, and Skocpol (1985), state capacity is a function of state autonomy, integrity, bureaucratic refinement, and resources. Cheibub (1998), uses taxation as a proxy for the extractive capacity of a state to measure its ability to implement unpopular
policies and highlights the importance of a government’s ability “to monitor and to enforce contracts as part of the ongoing challenge of collecting tax revenue” (350). North (1981), defines the boundaries of the state in terms of its ability to tax constituents, and Tilly (1990), makes a direct connection between a state’s revenue and its ability to extend and exercise its rule.

**Figure 6** illustrates the revenue generated by Spain through income tax between 2003 and 2015 relative to that of Italy, France and the United Kingdom. It suggests that while Spain’s extractive capacity has consistently been lower than Europe’s average, Spain did not experience a decline in extractive capacity between 2003 and 2015, despite a significant increase in corruption during this period. **Figure 6** also demonstrates that Spain’s extractive capacity increased during its construction boom starting in 2005, which reflects the large flow of money into Spain during this period. The decline in extractive capacity that Spain experienced after 2011 most likely reflects the substantial impact that the economic crisis had on the country. Regardless, Spain was able to maintain, and even improve, its state capacity regarding this aspect of state rule, despite the challenges it faced in this period.

**Figure 6** also suggests that France has a low extractive capacity and Italy has a high extractive capacity, a claim that would surprise many scholars of Europe who are accustomed to the idea that France has a stronger state than Italy. But while the differences suggested by **Figure 6** could reflect differences in state capacity, it is more likely that they reflect differences in policy decisions. Many studies have theorized that high capacity states can provide public goods and services while lower capacity states are limited in these abilities. Although nations that have failed to achieve these outcomes may have low state capacity, it could also be that achieving these outcomes is not a part of their policy agenda. For this reason, Schilde (2017) distinguishes between state capacity, a state’s structural, latent ability to develop and implement policies aimed at achieving social and economic goals, and a state’s ‘governing capacity,’ which reflects the state’s ability to achieve its intended policy outcomes. Therefore,
attributing a high state capacity to states that have achieved certain outcomes can be misleading, and as a result, state capacity should be measured independently of outcomes (Dahlström et al. 2012). This highlights a fundamental flaw in one of the most commonly used measures of state capacity.

Figure 6: Capacity to Generate Revenue

To overcome this challenge, this article probes the extent of tax evasion as a proxy of the state's extractive (in)capacity to assess the level of tax compliance. Empirical studies have attributed cross-national variation in tax compliance to “the relationship between the quality of government and citizens’ willingness to comply with fiscal demands” (Zhang et. al. 2016, 2). More specifically, this body of literature argues that tax compliance is greater if citizens believe that
their government is spending their money efficiently. As a result, states in which citizens perceive public institutions as corrupt will be more likely to have higher rates of tax evasion (Rothstein 2011). Therefore, “one explanation for EU-wide differences in levels of tax compliance is that, in Southern European countries, people often interact with low quality institutions for which they are (unsurprisingly) unwilling to pay” (Zhang et. al. 2016, 2). This article, therefore, considers a greater degree of tax evasion an indicator of both low extractive capacity as well as low bureaucratic capacity.

**Figure 7** illustrates the change in the degree of tax evasion in Spain between 2003 and 2015, and reinforces the argument that Spain was able to maintain, and even slightly improve, its state capacity despite high levels of public corruption. While tax evasion in Spain is a much greater challenge than in France and the United Kingdom, both high capacity states, it is around average for European states. Moreover, since 2003, the degree of tax evasion in Spain has been decreasing (in contrast to France, where it increased dramatically after 2013), which suggests that Spain’s extractive capacity, as well as its bureaucratic capacity, have been increasing. The decrease in the degree of tax evasion and the increase in revenue generated are both indicative of an increase in Spain’s state capacity since 2003.
Figure 7: Degree of Tax Evasion

![Graph showing degree of tax evasion](image)

Source: Schneider, 2015

Figure 8 illustrates Spain’s total tax capacity relative to that of Italy, France and the United Kingdom. It suggests that while Spain’s total tax capacity was negatively impacted by the financial crisis, Spain was able to recover relatively quickly and has since maintained a steady increase in extractive capacity. An analysis of revenue generated, degree of tax evasion and total tax capacity suggests that while Spain may have a lower extractive capacity relative to higher capacity states, it has been able to maintain a fairly consistent level of extractive capacity during the past two decades, despite the significant increase in public corruption. All in all, while Spain experienced a steady increase in public corruption, it does not appear to have been plagued by decreasing state capacity, despite deficiencies in state capacity in some policy areas.
Figure 8: Total Tax Capacity

Explaining Variation in Capacity

An analysis of Spain’s extractive and bureaucratic capacity suggests that while Spain may have a lower state capacity relative to Europe’s higher capacity states, it does not necessarily have a low or deteriorating state capacity. Figure 9 sums up the data by showing the evolution of Spain’s state capacity relative to the evolution of corruption in Spain between 2004 and 2015. It demonstrates that while Spain has experienced a steady increase in public corruption during the past decade, its state capacity was not negatively impacted. Spain’s extractive capacity has been steadily increasing. While the dramatic decline in Spain’s extractive capacity in 2008 reflects the substantial
impact of the economic crisis, the fact that Spain recovered so quickly is indicative of high state capacity. Further, even though bureaucratic capacity declined in 2005, Spain has since maintained a relatively steady level of bureaucratic capacity despite high levels of bureaucratic corruption. This finding is even more surprising given that Spain has low legal capacity. What then explains this variation of capacity in Spain? Why have Spain’s extractive capacity and bureaucratic capacity remained resilient amidst low legal capacity and high corruption?

Figure 9: Evolution of Corruption and State Capacity
Although the unevenness in state capacity across different dimensions is widely acknowledged, an explanation for the emergence and development of these varying levels of capacity on a national level is largely absent from existing literature. There is, however, a substantial body of work that examines the determinants of overall state capacity and suggests a range of explanations for variation in capacity among states. These explanations can be grouped into five categories: historical, economic, institutional and socio-political, demographical and geographical. These determinants, which have been used in the literature to analyze variation in overall state capacity between states, can also be useful in understanding variation in the strengths and weaknesses of different dimensions of state capacity within a state.

This article draws on this body of literature as well as the literature on state-building, which emphasizes the role of war in the formation of the state, to better understand the emergence and persistence of different capacities. This explanation for the divergent development of state capacity has proven to be highly problematic, and indeed, in Spain, war did not coincide with the development of a highly capable state. However, this body of literature suggests that common-interest public goods, such as war, increase the incentive for states to invest in state-building (Besley and Persson 2009). This article builds on this idea and argues that key events in recent Spanish history have encouraged and shaped investment in institutional development. In Spain, a fear of the past and a focus on the future has led to stark differences in investment strategies in various aspects of the state, which have in turn led to variation in the strength and resilience of different dimensions of state capacity.

**Transition, Growth and Weak Legal Institutions**

Spain is a new democracy relative to much of Western Europe, and it is argued that democratization can weaken state capacity in the initial stages of democratic transition. Following the death of authoritarian dictator, Francisco Franco, in 1975, Spain began its transition to democracy and focused on increasing the autonomy of regional and
local administrative structures and dismantling the tight administrative controls inherited from the dictatorship. The Spanish national government focused primarily on decentralization, and as a result, building an administration capable of holding officials accountable for their actions was largely neglected. This led to large autonomy and weak control which in turn led to a weak system of checks and balances, and to the assumption that public officials had unrestricted power to do what they wanted.

Spain’s sudden and significant spurt of growth and modernization during this time exacerbated these issues. In this context, when organizational norms failed to promote impartiality and accountability in the exercise of power as a result of errors in regulation and institutional design, globalization and economic integration created an environment that provided an abundance of opportunities for corruption. Investment flowed into non-traded sectors, primarily construction. As a result, a housing bubble drove reckless overinvestment in the construction of houses, which became the primary driver of economic growth. Public officials were able to take advantage of the significant flow of money into the construction sector, increasing corruption associated with the allocation of planning decisions, building permits and public contracts, and the sharing of rents between government officials and private sector actors.

It becomes clear that historical factors played a substantial role in shaping Spain’s investment strategy in its legal institutions. Spain’s authoritarian past deterred investment in a centralized system of control capable of enforcing the rule of law. As a result, a lack of sufficient legal mechanisms and political accountability has allowed public officials to freely engage in corrupt practices without consequence. Indeed, the presence of an efficient and effective legal system that holds public officials accountable for their actions is still absent from the Spanish institutional landscape. Given this weakness in legal capacity and the fact that the ability to enforce the rule of law is considered a key component of state capacity, one would expect Spain’s overall state capacity to also show signs of weakness. However, the analysis presented in this article demonstrates that this is not the
case. The next section evaluates factors that have allowed Spain’s extractive and bureaucratic institutions to remain resilient despite widespread corruption and weak legal institutions.

**Resilience of Extractive and Bureaucratic Capacity**

As the previous section demonstrated, Spanish authorities, haunted by the legacy of over three decades of authoritarianism, dismantled administrative controls, increased the autonomy of local governments, and as a result, failed to establish effective legal and accountability mechanisms. Despite high levels of corruption and the existence of many underlying institutional weaknesses, Spain was, from the start, firmly committed to economic growth and modernization. A state’s extractive and bureaucratic capacities are considered the “general underpinnings of state capacity” because of the vital role they play in the functioning of a state (Evans, Rueschemayer, and Skocpol 1985, 16). As such, many scholars have posited that in the absence of institutions capable of extracting revenue from the population and a bureaucracy capable of developing and implementing policy, the state will be unable to facilitate growth and development. Spain’s commitment to advancing its economic position, partially the result of the requirements and expectations of joining the EU, created strong incentives to invest in growth-promoting institutions.

Spain focused primarily on improving its political institutions, territorial articulation, developing economic and environmental infrastructures, and providing support to economic activity and human resources. The central government made substantial investments in administrative institutions and processes, research and development, science and innovation, and urban development issues. The development of the state remained a top priority for Spanish authorities. Spain would have been unable to achieve such high levels of economic growth, territorial development, and improvements in human capital, transportation, research and development, and infrastructure without first developing an efficient state since all aspects of this development require both large sums of money and a
highly competent bureaucracy. Spain’s commitment to and success in establishing effective extractive and bureaucratic institutions during the early stages of its transition to democracy has allowed these two key components of state capacity to remain resilient in times of crisis.

Conclusion
As a result of its many detrimental effects on the state, corruption has been identified in the literature as a major obstacle to good governance. Indeed, a critical body of studies has presented strong empirical evidence of the negative consequences that corruption has on how state institutions fulfill their mandates. In the state of the art, there is a consensus that a decrease in state capacity is one of the most clean-cut outcomes. By looking at the critical case of Spain, this article takes issue with this consensus and lends credibility to the hypothesis that the rise of corruption does not necessarily lead to a decline in state capacity.

Specifically, this article shows that Spain has experienced an outbreak of public sector corruption with a seemingly endless string of corruption scandals involving prominent political figures and public officials plaguing political life. It suggests that Spain’s inability to control corruption is the result of weak legal capacity which reflects a lack of investment in accountability mechanisms during Spain’s democratic transition. In contrast, Spain made substantial investments in its extractive and bureaucratic capacity during its transition to democracy, driven by a commitment to political, economic and territorial development. It was these incentives that facilitated investment in key areas of state capacity which in turn allowed Spain to establish resilient extractive and bureaucratic institutions. All this suggests that while a state can be weak in some areas, it is not necessarily a weak or low capacity state in others. Indeed, Spain maintained a relatively high, and most strikingly an increasing state capacity amidst high corruption and low legal capacity.

The insights revealed by this article should be understood within the limitations posed by the single case analysis and with the caveat that they do not necessarily suggest that corruption enhanced state capacity; rather only that it did not have the negative impact on
Spain’s state capacity that we might have expected. The findings interrogate the conventional wisdom that corruption negatively impacts the quality of a state’s bureaucracy and that as a result the ability of the state to implement policies, efficiently allocate resources, generate revenue, deliver public goods and services, and facilitate economic growth is bound to deteriorate.

Certainly, Spain may be an outlier and most surely increases in state capacity have many causal generators. Yet, the main contribution of this analysis is that if the conventional corruption-state capacity relationship did not operate as envisaged in a most likely case such as Spain, then the existing scholarship dealing with this relationship in developing countries could benefit from more fine-grained probing using the multiple metrics deployed in the present analysis.

This article leaves for future research the task of establishing a correlation between corruption and state capacity for many countries over time to further test the robustness of the hypothesis that corruption negatively impacts state capacity using a broad set of metrics. In short, more research is needed to establish if this case is an anomaly, specify the mechanisms that can explain striking outcomes such as those observed in the Spanish case, and better theorize the current analytical and methodological apparatus on the state corruption-capacity nexus.
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