

# The “Bilbao Effect”

## *The Collaborative Architecture that Powered Bilbao’s Urban Revival*

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On the night of November 8th, 2017, Mayor Juan Mari Aburto stepped up to the podium at a gala dinner with the brightest stars of European architecture. Aburto was in London to receive the *Best European City* prize from the Academy of Urbanism. This honor felt like the perfect way to celebrate the twentieth anniversary of the opening of the Guggenheim Museum Bilbao.

Since its inauguration in October 1997, architect Frank Gehry’s titanium, glass, and limestone building had been world-famous, described by *The New York Times* as “like nothing else. . . wrapped with voluptuous curves.”<sup>1</sup> For Bilbao, the Guggenheim represented the City’s comeback after more than a decade of economic and social distress, the worst in its modern history. The transformation of the City that coincided with the museum’s construction was so spectacular that it gave rise to a catchphrase in urban development—the “Guggenheim effect”—signaling the resurgence of a depressed city through flashy architecture and investment in culture.

The Guggenheim’s impact on the economy of Bilbao and the morale of its citizens was recognized by everyone, but Gehry’s building alone could hardly explain how a city in deep financial and social trouble became an exemplar of collaboration, economic transformation, and urbanism—all in under two decades.

Few people were more involved in the transformation of Bilbao than Ibon Areso, a soft-spoken urban planner always seen in nondescript suits and thick, wire-rimmed glasses. Hired as the City’s director of urban planning in the late 1980s, he served as deputy mayor for twenty years and as mayor from 2014 to 2015. (See Appendix 1 for a list of Bilbao’s recent mayors.) A committed civil servant always working behind the scenes, Areso described the Guggenheim as “the tip of a much deeper iceberg.”<sup>2</sup> As the newest recipient of the Best European City award, Mayor Aburto reinforced this point: “We should stop talking about the *Guggenheim* effect and start talking about the *Bilbao* effect.”<sup>3</sup> But, if not Frank Gehry alone, who had been the real architects of this “Bilbao effect”?

“I always say that it was a choral effort,” answered Ibon Areso, referring to a long-term collaboration among multiple government levels, led by different political parties and people, who worked together to reshape the built environment of the City. Like almost everywhere else, rescuing the City from its decaying industrial past required the action and investment of multiple layers of government. In the case of Bilbao, at least four levels of government had important jurisdictions or owned resources that



had to be aligned to implement the transformation. This not only required leaders who were willing to work jointly for a common cause, it also asked for a device—a novel organizational structure—that helped government entities collaborate to reinvent Bilbao.

The name of that device was Bilbao Ria 2000. Much less known than the Guggenheim, this central element of Bilbao’s collaborative approach was a publicly owned corporation created to execute the urban transformation of Bilbao. All the government entities that owned land or had any jurisdiction in reshaping the City were represented in its board of directors chaired by the mayor. Around that table, public entities from different government levels, political affiliations, and diverse interests coordinated their activities and agreed on the projects that rescued Bilbao from a deep crisis to make it a flourishing, award-winning machine. (See Appendix 2 for a photo of a Bilbao Ria 2000 Board meeting.)

As he flew back from London, Aburto reflected on the past, present, and future of the City. He did not want to be blindfolded by the prizes such as the one he brought in his suitcase. Bilbao’s future success could not be taken for granted. The City’s population had been shrinking and aging in the past few years and it was having a hard time competing in the new global geography of jobs. The mayor wondered if he could find some guidance in the history of Bilbao’s transformation. What had been the key elements that enabled the collaborative effort to transform Bilbao during the 1990s? Could Bilbao’s current leaders leverage similar collaborative endowments to write the next chapter for the City?

## Background: Bilbao’s history

Located on the Nervion River in the Basque region of Northern Spain, Bilbao was a thriving merchant City during the sixteenth century. By the nineteenth century Bilbao—with its navigable river, reserves of iron ore ideal for steel production, and local entrepreneurial spirit—had become the industrial powerhouse of Spain. Supported by foreign capital from the UK and Germany, local families like the Ybarras founded industrial and financial behemoths such as the Banco Bilbao (1856) and the Banco Vizcaya (1901), later merging to become one of the largest Spanish banks, BBVA.

The economic engines of Bilbao’s steel mills, shipyards, and banks continued to hum well into the twentieth century. Even during Franco’s dictatorship (1939-1978) the local industry remained active, protected within the closed borders imposed by the regime. But in the 1960s, the brutally repressive regime, which left no room for any expression of Basque identity and culture, gave rise to a terrorist organization. Euskadi Ta Askatasuna, or ETA (translated roughly to Basque Homeland and Liberty), which began with a Marxist and nationalist ideology, ultimately waged a fifty-year campaign of bombings, kidnappings, and assassinations in the name of Basque independence.

When Spain transitioned to democracy and entered the European single market, Bilbao was hit on almost every front. Affected by the same global crisis that struck cities in Europe and the US, Bilbao’s industrial companies were unable to compete economically in a global market, particularly with Asia’s lower salaries. Unemployment soared. ETA’s bloody tactics put intense political pressure on the young democratic institutions, murdering close to one hundred people in 1980 alone. In August 1983, heavy rains flooded the City’s obsolete drainage infrastructure, leaving several neighborhoods under water

and killing several people.<sup>i</sup> “It was a dark city,” admitted Aburto. Areso described the situation as “do or die . . . It was so desperate that leaders at all levels of government agreed that they had to do something about it.”

## Background II: The governance framework of Bilbao and the Basque Country

The Spanish Constitution of 1978 had given broad autonomy to the Basque regional government. The region was organized as a confederacy of three provinces (Bizkaia, Gipuzkoa, and Araba), each with powers to determine their own taxation and control tax collection. For Bilbao, this put city hall on a fourth tier of government below the *central* government in Madrid, the Basque *regional* government, and the *provincial* government of Bizkaia. (See Appendix 3: Government levels, political parties and their leaders.)

In the late 1980s, the Basque *regional* government focused on transforming the City’s industry. Rather than dismantling the decaying industry, it designed an economic development strategy with the advice of Michael Porter, investing heavily in research and technology.<sup>ii</sup> The *provincial* government, responsible for collecting taxes and key decisions around public investment, also worked to rebuild the City. (See Appendix 4: The Fiscal Regime.) With 80 percent of Bizkaia’s population living in the Bilbao metropolitan area, the provincial government funded and executed major infrastructure projects in and around the City. (See Appendix 5: Public investment in the transformation of Bilbao and map with key metropolitan projects.) The *central* government owned Bilbao’s railways, the port, and various former industrial sites along the river. After much back and forth, the central government also provided financial guarantees to the port authority, whose board of directors decided to move the port from the city center to the seaside, modernizing the harbor and increasing its capacity.

The opening of the riverside presented both challenges and opportunities. On one hand, nearly a century and a half of industry had left behind a polluted river and thousands of acres of brownfield, but on the other, for the first time in as long, Bilbao’s waterfront was open. As director of the Bilbao urban plan, Areso set to work: “After years of showing our back to the water, we could use the river again as the backbone of a more livable city.”

Enabling this vision, however, meant transforming the “opportunity sites”—that Areso and other city workers identified—into developable land, which required massive investment, commitment, and cooperation throughout government. (See Appendix 6: Map and photos of some of Bilbao’s “opportunity sites”.) No private entity had the resources to finance a transformation of such scale, nor was any private investor willing to put money into a specific plot unless the whole riverside was to be transformed. Neither did any single public entity have adequate resources to fund a project on that scale.

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<sup>i</sup> The floods that year were produced by a natural phenomenon called cold drop (*gota fria* in Spanish) and heavy rains, a natural event with a probability of occurring once in 500 years. Yet, the drainage system, which poured polluted waters directly into the river, aggravated the situation.

<sup>ii</sup> Harvard Business School Professor and one of the lead world thinkers on economic competitiveness. See the Case from Harvard Business School “The Basque Country: Strategy for Economic Development” (Case 9-713-474).

To enact the plan, all public actors would have to join forces and find creative ways to finance it. Since most of the sites were owned by public entities, leaders reasoned, once transformed and sold to private developers, proceeds derived could be used to pay for the cleanup and finance work at additional sites, transforming the waterfront bit by bit without losing the broader picture. Of course, in order for that to work, all the entities that owned the sites had to give up their claim on proceeds from sale and to direct all the revenue to the transformation of the City. In short, they would have to work together and generously toward a shared vision.

## The Design: Unlocking the collaboration within Bilbao Ria 2000

In May 1991, Josu Ortuondo, the candidate of the Basque Nationalist Party, was elected mayor of Bilbao and immediately appointed Areso as his deputy mayor. With Areso by the mayor’s side, city hall had someone with a clear vision of a transformed Bilbao with the river as its new backbone.

Meanwhile in Madrid, Jose Borrell was appointed Spain’s Minister of Public Works, Transport, and Environment. On the heels of the Barcelona Olympic Games and the World Exhibition in Sevilla, which coincided with the global recession of the early 1990s, the government in Madrid was not willing to commit budgetary funds in Bilbao. Borrell and his team, however, saw in Mayor Ortuondo and other Basque authorities a commitment to cooperate for the future of Bilbao, and came up with a creative idea to structure the collaboration: Bilbao Ria 2000. All the public entities that owned land along the river in Bilbao became shareholders in a limited liability corporation that held their ownership stakes. Rather than ask the shareholders to allocate funds from their budgets, the company would finance itself with the re-valuation of the plots to be developed.

Bilbao Ria 2000 would secure funding to finance clean up and infrastructure, on the promise that it would sell the deindustrialized land to private developers and use the proceeds to repay and finance additional development projects. Not only did this allow the transformation of the waterfront to finance itself, it also avoided fragmentation as different levels of government sold plots individually and maintained the coherence of the original vision.

With this principle in mind, the public entities that contributed the equity capital for Bilbao Ria 2000 did not follow a strict valuation of their in-kind contributions in distributing the shares among themselves. The shares were split evenly between central government entities and the regional, provincial, and local governments. Mayor Josu Ortuondo saw the political value of this distribution: “[T]he percentages did not mean anything financially. The principle was that all the revenue would be left in the company. The percentages were defined for pure political reasons.”<sup>4</sup> Despite the central government owning the biggest percentage of the shares, “Borrell had the brilliant idea of proposing that the mayor of Bilbao—me—should be the chairman of the board,” Ortuondo joked.

Areso, as deputy mayor, had a seat on the board, and the remaining board members were the top managers of the shareholding entities. “So, we could make decisions without needing to go back to our bosses,” Areso explained. To avoid alienating any board member, “We agreed that all decisions would be made by consensus,” Ortuondo recalled. “And we followed it. We never had to vote.”

There was some debate over who would be the managing director of the company. Eventually, the Ministry put forward Pablo Otaola, who worked in the Ministry but hailed from Bilbao, and the Basque entities accepted. Otaola formed a very small but technically competent team with an architect, an engineer, a railways expert, an economist, a lawyer, and an assistant.

Both Borrell and Ortuondo approached the negotiations around the project with a collaborative mindset. Ortuondo recalled his approach when he was elected mayor of Bilbao: “I had a clear principle: if it’s good for Bilbao, we don’t care who does it; we’ll take it.” To avoid bottlenecks between central government entities holding different pieces of capacity (railroads, utilities, etc.), Borrell created a “Unit for Coordinated Works in Cities” within the Ministry to tackle the challenge ahead. “Through his leadership and vision,”<sup>5</sup> Otaola said, “Borrell was able to bring together all the central government entities into Bilbao Ria 2000.”

The shareholder entities represented not only different levels of government, but also different political parties. The Basque Nationalist party led the regional, provincial, and city governments, while the Socialist party held the reins of power in the central government. This collaboration was perhaps made easier by the fact that within the lower tiers of government, the Basque Nationalist party did not have the majority of legislative seats and thus was already governing with the Socialist party. “In my opinion, governing in coalition with the Socialist Party was very positive,”<sup>6</sup> argued Jose Alberto Pradera, Nationalist party leader and president of the provincial government, “sharing government responsibilities leads you to a more flexible and less dogmatic approach to solving problems.”

On November 19, 1992, with the institutional design settled, the board members selected, and the director and his team appointed, Bilbao Ria 2000 was ready to make its public debut. In an event covered with great fanfare by the local media, the leaders from each level of government signed the agreement to launch Bilbao Ria 2000.

## The Management: Now, make this work

“After the big launch, everyone was very excited. Bilbao Ria 2000 was sold in Bilbao as a big deal. Politicians created Bilbao Ria with a lot of glamour and then. . . I was alone.” As the project’s director, Pablo Otaola now faced the daunting task of turning vision into reality. He sat at the helm of a company that held large, industrially obsolete plots; a small team and a smaller operating budget; and a mandate to completely transform Bilbao. As a young urban planner in his thirties, Otaola felt the pressure acutely: “Honestly, I did not feel prepared for the job.”

However frightening the prospect seemed in those first moments, Otaola soon understood he would not have to steer the project alone. He worked directly with Areso and very closely with mayor Ortuondo. The mayor played a key role in seeking political alignment and strategic brokering, particularly with the regional and provincial governments. Pablo Otaola’s links with the Ministry in Madrid also eased communication with the central government, but he had to build relationships with the other levels of government: “It took me some time to earn their trust, but I was from Bilbao, so that helped. I also had the political backing from the mayor.” Ortuondo, Areso, and Otaola were a solid team, working in tandem to maintain harmony on the board.

“The consensus rule required us to do a lot of work to prepare the board sessions,” explained Otaola. “Before every meeting, I would meet individually with all the board members to see what they wanted and what they were worried about. This had two impacts. First, they felt heard. And second, it allowed me to find ways to make sure they got something out of it, so they felt comfortable with the decisions.”

The consensus building work continued at lunches after the board sessions, and the Bilbao team took great care to ensure the quality of these shared meals. There might be disagreements over projects, financing, or how to share political credit, but the food and the atmosphere were never left to chance. “In the Basque country we have this tradition of coming to an agreement around a good table. Pablo would look for fine restaurants, and he and I would discuss the menu and the price,” recalled Josu Ortuondo. Ortuondo and Otaola would select the restaurants to make sure the events were conducive to creating a collaborative spirit, while also within the budget. These lunches usually lasted for at least three hours, including *sobremesas*, the customary hour or two spent relaxing and chatting after a heavy meal. Over conversation about politics, sports, and home life, Ria 2000’s board members cemented their trust. For Areso, there was one other essential element that helped to build trust: “We also agreed that we would always cut the ribbons together.”

## The Leadership: Riding the boom wave, not always an easy ride

Early in the 1990s an unexpected opportunity arose for Bilbao. The Solomon R. Guggenheim Foundation was looking to build a museum in a European city. Negotiations with bigger cities had fallen through, and Bilbao learned about the Foundation’s search. Ortuondo saw it as a very interesting opportunity for the City. Jose Alberto Pradera, the president of the province, told Ortuondo that he was ready to support a Guggenheim museum in Bilbao. Pradera, eager to jump on the opportunity, offered to finance 50 percent of the project, and the regional government agreed to pay the other half. “I understood it as an investment that could reactivate the economy,” said Pradera, “and the government could recover the money via taxes.” A viability study by Price Waterhouse Coopers had calculated that with half a million annual visitors, the public funds invested would be recouped within twenty years. After several rounds of negotiations, an agreement was reached between the Basque government leaders and the Solomon. R. Guggenheim Foundation at a classic restaurant in Bilbao’s Old Town in December 1991. Frank Gehry was selected to design the museum, which would have a prize position in the city center.

But the plan threatened to unravel soon thereafter. “I remember I was in my office one morning, and Ibon Areso called me, ‘Josu, I need to see you, now.’” Gehry had asked Areso to show him one of the sites along the river. Apparently inspired, Gehry started sketching. He told Areso that he had decided this would be the site for the museum. “But that was not the location considered in the urban plan, and the plots were not owned by city hall but by the Ybarra family.”

Mayor Ortuondo arranged a meeting with Emilio Ybarra, the president of Banco Bilbao Vizcaya, and another owner. He told them about the transformation that Bilbao Ria 2000 was planning in the area and offered to compensate them for the use of their property with building rights at another site once the transformation was completed. (See Appendix 8: Map of Bilbao, and the location of the Guggenheim.) According to Ortuondo, they were not convinced: “They replied, ‘Mayor, what you are

saying about the new riverside is very promising, but we are not sure that it will happen. If you want our land, expropriate us.’ But I did not have the money to expropriate them.”<sup>iii</sup> Instead, Ortuondo used another legal mechanism that allowed the city hall acquire the land without compensating the owners and they started building the Guggenheim. Ybarra sued the city hall.<sup>iv</sup>

Big private landowners were not the only obstacle the group encountered. Ortuondo appointed Areso to a three-party working group with provincial and regional government representatives to advance the Guggenheim. “There was huge popular opposition,” Areso explained. “People criticized us for paying a high sum to build a museum when the economic situation was so bad.” Many citizens thought that this was the typical *bilbainada*.<sup>v</sup> Opposing political parties and local artists who saw the plan as a neoliberal and foreign cultural colonization also fought the mayor. These were hard years for Ortuondo: “Every morning I opened the newspapers and I had to ‘swallow a toad.’” But the mayor was undeterred; he had a vision for the City and kept the course steady.

The larger project of Bilbao Ria 2000 was also a target for criticism from the community. “We had conducted a study and the recommendation was that we build a shopping mall to generate enough activity from the beginning,” Pablo Otaola recalled. “This put the small store owners’ association in arms against us. Later, some local architects joined, complaining that we were just hiring international flashy architects to build the museum, the convention center, and other new buildings.”

“I also made mistakes,” Otaola admitted. “For example, I decided to make a change to the plan for the riversides designed by the famous Argentinean architect Cesar Pelli. He had just included one tower, but we were worried that it would be too hard to sell, so we divided it in three.” Political opponents were quick to exploit this mistake. The Socialist Party had lost several seats in the 1995 local elections, requiring Ortuondo to change coalition partners in city hall. According to Ortuondo, the newly empowered right-wing People’s Party believed Otaola was “too close” to the Socialist Party. They informed Cesar Pelli of Otaola’s change, and Pelli resigned. But Ortuondo took charge of the situation: “I decided to invite the People’s Party to travel to Connecticut with me and meet with Pelli himself, and we were able to solve the issue.”

Despite the difficulties and public opposition, they moved forward with plans for Bilbao Ria 2000 and the Guggenheim museum. One factor that helped propel the work was an upswing in the Spanish economy that was underway by the mid-1990s and would last until the Great Recession of 2008. (See Appendix 7: Spanish GDP 1990-2017.) “I think we had luck,” said Areso, “because thanks to the economic cycle, the model of self-financing with the revaluation of the land plots and no budgetary

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<sup>iii</sup> This legal expropriation in Spain requires city hall to pay a “fair compensation” for forcefully acquiring the land and that is calculated according to certain standards established in the law.

<sup>iv</sup> Years later, courts ruled that the city hall should have expropriated and compensated the owners and ordered the city hall to pay the owners the “fair compensation” established by the law. Yet, by that time the urban transformation was well underway, and the economic potential of the waterfront was evident, so the owners asked the mayor if he would honor his initial offer to grant them building rights in one of the transformed land plots of the riversides, which he did.

<sup>v</sup> People from Bilbao are known to be very proud, always bragging about not being afraid to try any enterprise, no matter the odds against its success.

allocations worked.” In 1997 the Pritzker prize, the highest honor in architecture, was awarded in the brand-new Guggenheim museum. Doors opened to the public a few weeks later.

## The Outcome: Bilbao’s comeback

The opening of the Guggenheim marked the start of a new golden era in Bilbao. In its first year, the Guggenheim had 1.2 million visitors—almost twice as many as needed to recover the investment according to the viability study, and well above the most optimistic estimates.<sup>vi</sup> The local economy boomed. Between 1996 and 2015, despite the impact of the Great Recession, the per capita GDP in Bilbao more than doubled.<sup>vii</sup>

A thriving culinary scene made Bilbao a magnet for foodies, and Bilbao Ria 2000 steadily transformed the City’s riverbanks from industrial brownfields to walkable and lively public spaces for tourists and locals to enjoy. (See Appendix 9: Before and after images.) Word of the City’s transformation spread around the world, and prizes started to flow in, including the special award at the ninth Venice Biennial of Architecture in 2004 and the Lee Kwan Yew World City Prize in 2010. In 2018, the same year it collected the Best European City prize, Bilbao was selected as the host city for the World’s Fifty Best Restaurants awards.

Despite these successes, many of the leaders who launched the transformation were not present to receive the awards. In 1999, the Basque Nationalist Party asked Ortuondo to become their candidate for the elections to the European Parliament and selected Iñaki Azkuna as the nationalist candidate to be the next mayor of Bilbao. The charismatic, larger-than-life Azkuna won the elections that year. “Azkuna represented well the proud *bilbaino*,”<sup>viii</sup> said Areso, who stayed on as deputy mayor. “He was able to instill a soul in the new city. He made everyone feel proud of the changes they were starting to witness.” The new mayor’s leadership amplified Bilbao’s rehabilitated international image, and in 2012, Azkuna himself was awarded the Mayor of the World prize by the City Mayors Foundation.

According to former provincial president, Jose Alberto Pradera, not being there to collect the prizes was always part of his plans “I knew that, given the time lag, I personally would not inaugurate the Guggenheim. That did not matter to me then.” Still, others, like Pablo Otaola, think that credit could have been shared differently: “History has been hard on Josu Ortuondo. People have forgotten about him.”

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<sup>vi</sup> According to the study by Beatriz Plaza (2006) this allowed Basque public authorities to recover the investment in less than a decade (“The Return on Investment of the Guggenheim Museum of Bilbao,” *International Journal of Urban and Regional Research*, Vol. 30.2).

<sup>vii</sup> From 13,561 to 30,895 Euros while the average in Spain went from 12,003 to 23,296 Euros. Unemployment rates were reduced approximately by half from the early 1990s until the Great Recession (taking into account the regional averages, since there are not specific data in Bilbao for earlier years). Yet, after the Great Recession unemployment rates soared again.

<sup>viii</sup> Citizen of Bilbao.



## The Dilemma: Are we ready for the next transformation?

In 2011, Ibon Areso felt that after his twenty years of service it was time to retire, but Azkuna’s health was declining, and the Basque Nationalist Party convinced him to stay on. When Azkuna passed away in 2014, the perennial deputy mayor at last became mayor of Bilbao.

“I saw my role as twofold,” said Areso. “Politically, I had to serve as a cushion for the next mayor. Azkuna’s shoes were too big to fill, and anyone coming after him would be compared with the charismatic mayor. Strategically, I had to establish the basis for Bilbao’s second transformation. We had gone from an industrial city to a livable city. Now, we had to become a knowledge city.”

This was the mission Juan Mari Aburto inherited when he was elected in 2015 after Areso’s short tenure. He knew that Bilbao could not rest on its laurels: “The biggest misconception about Bilbao is that this was just about the Guggenheim. We have to continue the work.”

With a very different political and economic landscape at both the global and local levels, Bilbao was again at a crossroads. The City had lost 3 percent of its population since 2005, and the remaining population was aging.<sup>ix</sup> The City needed an economic engine for it to continue thriving; it sought to attract young talent and build on its history as an industrial and cultural center.

Mayor Aburto’s administration was committed to continue transforming Bilbao. He had worked actively with other government levels to bring the high-speed train to the City, putting the old railways underground. This was significant, erasing the last physical barrier separating the city center from one of the poorest neighborhoods. Bilbao was also attracting several universities in an effort to become a knowledge and research hub, and in an initiative especially dear to the Mayor, the City had developed a *Values Chart* through a participatory process. “We want to be known by the values that underpin our community,” reflected Aburto, “in the story of Bilbao’s transformation, economic development and social cohesion have always been two sides of the same coin.”

Those who had led the City through uncertainty, however, knew that these changes were only part of the City’s history, and that the story of Bilbao’s transformation was also one of a vision, of generous leaders, and above all, of collaboration among many partners committed to the future of the City.

Looking back, Aburto could see the outlines of this story: the shared values and understanding among partners, the willingness to define a vision and take risks, and the establishment of an organization that brought those elements together to effect positive change that the world could not ignore. “It was a choral effort,” repeated Areso. At the gates of its next transformation, his successor wondered: What could the City’s new generation of leaders learn from the past to carry the best of Bilbao into the future?

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<sup>ix</sup> The percentage of people over 65 years was close to 25 percent.

## Appendices

### Appendix 1 Mayors of Bilbao 1988-2019

1987-1990	Jose Maria Gorordo
1990-1991	Jesús Maria Duñabeitia
1991-1999	Josu Ortuondo
1999-2014	Iñaki Azkuna
2014-2015	Ibon Areso
2015-present	Juan Mari Aburto

### Appendix 2 Board Meeting of Bilbao Ria 2000<sup>x</sup>



Source: Pablo Otaola (PPT Presentation)

<sup>x</sup> All pictures and maps included in the Appendices come from a presentation prepared by Pablo Otaola.

**Appendix 3** Government Levels and Political parties (1991)

**Government Level**

**Leader**

**Party**

**1. Central Government in Spain – Ministry of Public Works, Transport and Environment**

- a. **Head:** Jose Borrell (Minister)
- b. **Party:** Socialist Party
- c. **Role:** Owner of port, railway and former industrial sites in Bilbao; key competencies in infrastructure and transport



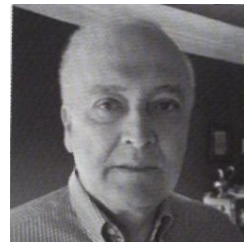
**2. Basque Regional Government – Department of Transport**

- a. **Head:** Josu Bergara
- b. **Party:** Nationalist Party (in coalition with the Socialist Party)
- c. **Role:** Key competencies in infrastructure and housing.



**3. Provincial Government of Bizkaia**

- a. **Head:** Jose Alberto Pradera (President)
- b. **Party:** Nationalist Party (in coalition with the Socialist Party)
- c. **Role:** Fiscal powers and financial resources; some competencies in transport



**4. City Hall of Bilbao**

- a. **Head:** Josu Ortuondo (Mayor) and Ibon Areso (Deputy Mayor)
- b. **Party:** Nationalist Party (in coalition with the Socialist Party)
- c. **Role:** Zoning, owner of some land, construction approval and licenses



#### Appendix 4 Fiscal Regime of the Basque provinces

The three provinces of the Basque Country have a different fiscal regime than the rest of the regions in the country.<sup>xi</sup> The unusual system, which grants exceptional fiscal autonomy to the region, dates from a decree in 1878 requiring the provinces to collect taxes and pay a certain percentage to the Spanish central treasury.

This fiscal relationship with the central government was institutionalized a century later in the 1978 Constitution, which recognized and protected the historical rights of these territories, including the economic agreement with the Basque Country, known as the *Concierto Económico*. Today, each of the three provinces has fiscal autonomy to set and collect their taxes (including income tax and corporate income tax). The amount transferred by the provinces to the central government as compensation for the services provided by the central government (as well as for territorial redistribution purposes with other Spanish regions) is called *Cupo*.

The arrangement with the central government enables the region to control taxation and spending over a wide range of areas, including education, welfare, health, commerce, public works, police, housing, agriculture, transportation and numerous other functions. It then pays the *Cupo* to the central government to contribute toward centralized services such as the military, foreign affairs, airports, customs, national courts, state railways and so forth. This coefficient is the ratio between the income of the region and the total national income which has been set at 6.24 percent since 1982. The Basque Country comprises only 4.6 percent of the Spanish population, but it generates 6.2 percent of national GDP.<sup>xii</sup> The region has performed better than the Spanish average across a wide range of indicators (see chart below), despite having the same fiscal pressure.

#### Economic Indicators for Basque Country, Spain, and EU average (2015)

	Basque Country	Spain	EU
<b>GDP per capita</b>	119	91	100
<b>Employment rate</b>	64.3%	56.8%	65.6%
<b>Unemployment rate</b>	15.4%	22.1%	9.4%
<b>Taxes/GDP</b>	33.6%	33.7%	40.0%
<b>GINI index</b>	27.1	34.1	30.4
<b>Level of higher education (30-34 years old)</b>	48.9%	42.3%	37.9%
<b>School drop-out rate (18-24 years old)</b>	7.2%	23.5%	11.9%
<b>R&amp;D spending (% of GDP)</b>	1.9%	1.2%	2.0%

Source: Eustat, Eurostat, EDSS-ENS (Survey on Poverty and Social Inequalities and Social Needs)

This fiscal regime of the Basque provinces has given them great autonomy to use fiscal policy for their economic development and social policies. It has provided them broad decision powers on prioritizing the allocation of resources and given Basque authorities important negotiation power in Madrid.

Critics of the regime have argued that all Spanish regions should have the same fiscal rules, particularly regarding the calculation of the amount transferred to the central government for territorial redistribution. They contend that thanks to the *Concierto Económico*, and in particular to the calculation of the *Cupo*, Basque governments have had higher spending capacity than other Spanish regions, which has resulted in higher-than-average economic performance.

<sup>xi</sup> Except for Navarre.

<sup>xii</sup> In 2014, according to the Spanish Statistics Institute.

**Appendix 5** Public Investment in the Transformation of Bilbao and Map with Key Metropolitan Projects

The financing of the urban projects by the regional and the provincial governments up until 2010 (in million Euros):

Project	Amount financed	Other contributions
Cleaning of the river	850	Water fees and central government funds
Outer harbor	700	64.5 EU funds and financing by debt acquired by the Port Authority (repaid through its operational profits) Central government provided sovereign guarantees to these credits.
Metro	1,381	69.5 EU funds
Guggenheim	133	Land given by city hall
<i>Other Projects</i>		
Road Network	1,500	
Airport	190	Central government
Bilbao Exhibition Center	540	Land by partners
Parking	186	
Euskalduna Convention Center	85	Land by city hall
Culture Center	70	4.1 EU funds
Other infrastructure (tunnels & bridges)	128.43	
Other amenities (library, sports & music centers)	86.9	Land by city hall
Tramway	28.20	

Source: City of Bilbao

Map with Key Metropolitan Projects



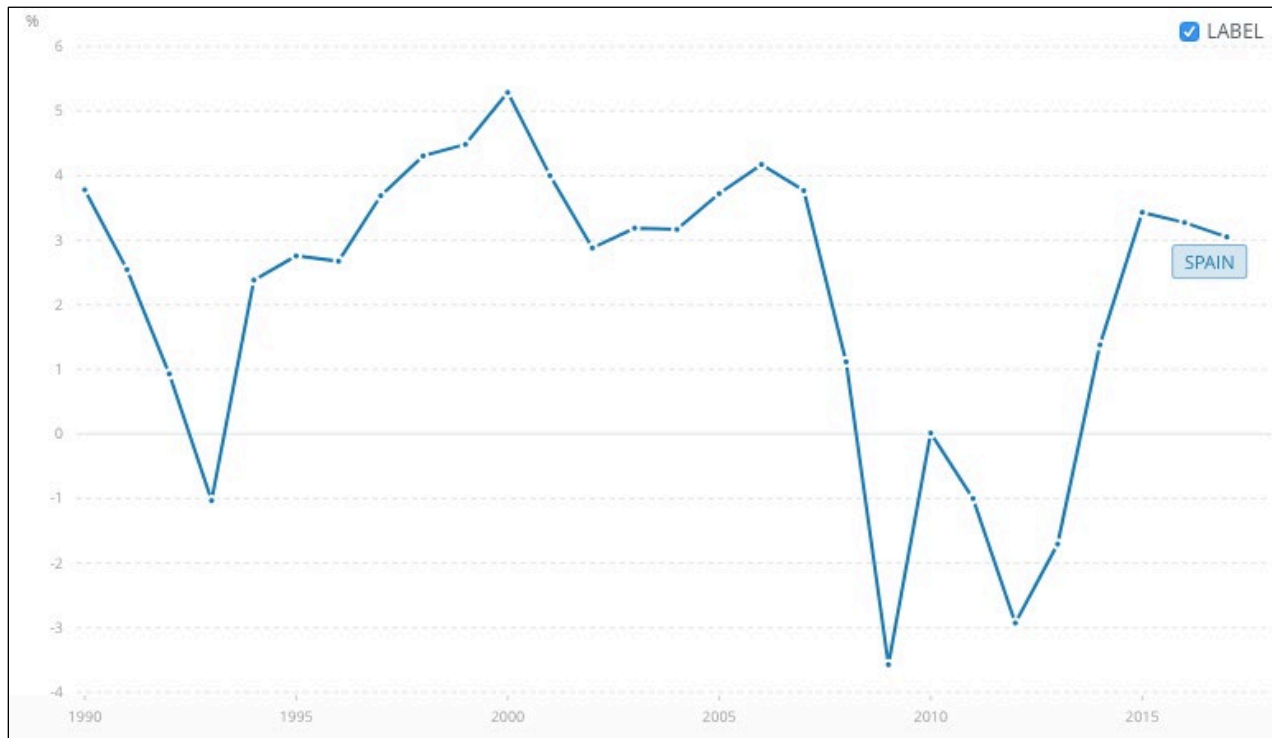
Source: Pablo Otaola (PPT Presentation)

Appendix 6 Map and Photos of Bilbao’s Opportunity Sites



Source: Pablo Otaola (PPT Presentation)

Appendix 7 Spanish GDP growth 1990-2017



Source: World Bank Data Portal



**Appendix 8** Location of the Guggenheim selected by Gehry



Source: Pablo Otaola (PPT presentation)

Appendix 9 Before and after images of Bilbao's riversides



Source: Pablo Otaola (PPT presentation)

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## Endnotes

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<sup>1</sup> Herbert Muschamp, “The Miracle in Bilbao,” *The New York Times*, September 7, 1997, <https://www.nytimes.com/1997/09/07/magazine/the-miracle-in-bilbao.html>.

<sup>2</sup> Ibon Areso, interviews by authors conducted in-person from January 5, 2018 through October 12, 2018. All further quotes by this individual from these interview unless otherwise noted.

<sup>3</sup> Juan Mari Aburto, interview by authors, October 11, 2018. All further quotes by this individual from this interview unless otherwise noted.

<sup>4</sup> Josu Ortuondo, interview by authors, October 12, 2018. All further quotes by this individual from this interview unless otherwise noted.

<sup>5</sup> Pablo Otaola, interviews by authors conducted in-person from January 8, 2018 through October 11, 2018. All further quotes by this individual from these interview unless otherwise noted.

<sup>6</sup> Jose Alberto Pradera, interview by authors, May 22, 2018. All further quotes by this individual from this interview unless otherwise noted.