

Banking and Industry in Spain, 1918-1936 *

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"The study of economic development is [...] as much a task for the political historian [...] as it is for the economist with his concentration on markets, prices and profitability. After one has studied worldwide trends and opportunities, the response of any particular country cannot be fully understood without the detailed analysis of its particular circumstances. Attempts at putting economic history into a set of dynamic equations are doomed to failure." (W. Arthur Lewis, *Growth and Fluctuations 1870-1913*)

The study of the relations between banks and the industrial sector in Spain during the Depression of the 1930's poses some particular problems. In the first place, this decade cannot be studied in whole because of the beginning of the Spanish civil war in July, 1936. Naturally, the war interrupted most economic activities, especially in the areas of commerce, banking and industry. According to the few testimonies we have, private credit activities were drastically reduced; the general climate of uncertainty discouraged lending. The only large scale credit activities we know of were undertaken to finance the warring governments mostly by official banks. Credit activities were slowly resumed

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on the Franco side starting in 1938, but the situation by then was totally different from what it was during the Republic. It is worth mentioning in this connection that in the early years of the Franco era several economic policies and institutions were adopted which imitated those used in Fascist Italy to combat the depression. A telling example is the foundation of I.N.I. (Instituto Nacional de Industria) in 1941, avowedly modelled upon the Italian I.R.I., but responding to sharply different circumstances: IRI was first of all an emergency measure imposed by the depression¹ while INI was erected under less pressing circumstances as the instrument of a deliberately statist and autarchist policy.²

In the second place, studies about this period and topic in Spain are rare, almost non-existent. This may be explained in many ways, but two factors stand out clearly: first, the periodization trap just alluded to; second, the fascination with political development in the years prior to the war, which has deflected attention from such humdrum activities as economics and finance. This makes our task difficult and renders our limited conclusions very provisional. We found no received doctrine on this subject, and no assembled mass of data to start with.

For these reasons we thought it would be more fruitful to take as our period of study the twenty-odd years between the end of the Great War and the start of the Spanish War. Furthermore, there are reasons to think that the Great Depression had less impact upon the Spanish economy than upon those of other Western European countries. In addition, the social and economic problems which afflicted Spain during the Thirties can largely be attributed to the aftermath of the expansive (even spendthrift) policies of the Primo de Rivera Dictatorship (1923-1930). In so far as the problems of the thirties were endogenous and the sequel of past domestic policies, their understanding requires an examination of the developments during the previous decade.³

The Postwar

Spain remained neutral during the Great War, and this fact entailed several economic consequences. After the uncertainties of the first months the war brought about a dramatic shift in the demand for Spanish exports. Simultaneously, imports were reduced owing to wartime scarcities. Increased ex-

¹ G. TONIOLO, *L'economia dell'Italia fascista*, Bari, Laterza, 1980, esp. pp. 244-56.

² P. SCHWARTZ and M. JESUS GONZALES, *Una Historia del Instituto Nacional de Industria (1941-1976)*, Madrid, Tecnos, 1978 Chs. I and II, esp. pp. 15-16.

³ J. PALAFOX, "La gran depresión de los años treinta y la crisis industrial española", in *Investigaciones Económicas*, January, 1980, pp. 5-46, and the bibliography cited therein.

ports (only partially reflected in the very deficient trade statistics) and diminished imports brought about a series of outcomes: a balance of payments surplus, with the concomitant accumulation of gold, a substantial production effort, serious shortages in several sectors, and severe inflation (prices multiplied by 2.2 between 1913 and 1920). This expansive atmosphere was accompanied by growth in banking activities, as reflected in Table 1. The number of banks almost doubled between 1916 and 1921, their paid-in capital in constant pesetas more than doubled, and loans and portfolio increased accordingly. Among the banks founded during this period were the Banco Urquijo and the Banco Central, which soon became part of the "big six". The other four were the Banco Español de Crédito (Banesto), the Banco Hispano Americano (Hispano), Banco de Bilbao, and Banco de Vizcaya.

The growth in the number of banks and in their lending activities (loans on current account more than tripled and portfolio more than doubled in constant pesetas between 1916 and 1921) and the very high rates of profit during these years suggest the opening of a new era for Spanish banks. In fact, although the topic would bear further research, from the evidence we have it can safely be said that during the second decade of the twentieth century the essential features of the Spanish banking system, which have endured until our days, became fixed. The most important of these features is the predominance of a small number of large banks practicing "mixed" activities, in the manner of the German "universal" banks: commercial banks which also undertook extensive company promotion and held a sizable proportion of private securities in their portfolio. The second feature was, and is, the remarkable concentration in the banking structure: by 1923 the "big six", numerically just 6.6% of the bank population, had over 40% of the combined paid-in capital and over 50% of the deposits. Thirdly, these banks had many features of "holding" companies: through portfolio operations, long term loans, and a network of shared directors, they became the center of a diversified group of industrial and public utility companies. The fourth feature was heavy geographical concentration: Madrid and Bilbao housed the headquarters of the "big six." Barcelona, once the leading financial center, was a more and more distant third. This became dramatically evident when the venerable Banco de Barcelona had to close in 1920 and declare bankruptcy soon thereafter. And fifth, the largest banks became national by creating dense branch networks.⁴

⁴ P. TEDDE DE LORCA, "La banca privada española durante la Restauración", in G. TORTELLA (ed.), *La banca española en la Restauración*, 2 vols., Madrid, Banco de España, 1974; S. ROLDÁN and J.L. GARCIA DELGADO, *La formación de la sociedad capitalista en España, 1914-1920*, Madrid, Confederación Española de Cajas de Ahorro, 1973, 2 vols, Ch. III; F. CABANA, *La banca a catalunya*, Barcelona, Ed. 62, 1965, Ch. II.

Table 1. PRIVATE BANKS: SELECTED ITEMS OF THE COMBINED BALANCE SHEET
(in million pesetas of 1913)

| Year | No. of Banks | Paid-in Capital | Loans in current account | Portfolio | Profits | Profit rate (a) |
|------|--------------|-----------------|--------------------------|-----------|---------|-----------------|
| 1915 | 52 | 218.2 | 244.2 | 477.2 | 21.38 | 9.78 |
| 1916 | 47 | 184.3 | 258.5 | 496.2 | 22.61 | 11.97 |
| 1917 | 56 | 165.5 | 302.2 | 500.7 | 30.45 | 18.25 |
| 1918 | 72 | 193.9 | 461.2 | 522.7 | 37.08 | 19.14 |
| 1919 | 73 | 228.4 | 599.5 | 725.8 | 49.78 | 21.62 |
| 1920 | 91 | 327.0 | 708.2 | 842.3 | 53.31 | 16.30 |
| 1921 | 93 | 425.0 | 828.4 | 1,270.8 | 67.85 | 15.94 |
| 1922 | 93 | 457.1 | 1,036.7 | 1,438.7 | 74.98 | 16.34 |
| 1923 | 91 | 459.3 | 996.1 | 1,691.1 | 86.17 | 18.76 |
| 1924 | 92 | 440.6 | 919.7 | 1,683.4 | 72.24 | 16.39 |
| 1925 | 93 | 409.6 | 806.4 | 1,654.3 | 62.70 | 15.32 |

(a) Col. 5/Col. 1.

Source: Calculated from *Anuario Financiero y de Sociedades Anónimas de España (AFYDSADE)*, Madrid.

The vital role of the mixed banks in financing industry during this period is generally admitted by the literature. According to two of the most respected specialists in the economic history of Spain during the Great War, "the banks, during the war years — and specially during the first postwar years — decisively reinforced their participation in the promotion and control of Spanish industry."⁵ As an indicator of the strong connections of the large "mixed banks" and industry we have drawn Table 2, which shows the links through

Table 2. INTERLOCKING DIRECTORATES BETWEEN THE "BIG SIX" BANKS AND THE LARGEST FIRMS IN THE MAIN SECTORS OF HEAVY INDUSTRY IN 1930*

BANCO HISPANO AMERICANO

Railways

FF.CC.. Santander Mediterráneo (1;IV)

Electricity

Hidroeléctrica Española (1;III)

Mining

Cía. Minero Metalúrgica Los Guindos (1;II)

BANCO DE BILBAO

Railways

Caminos de Hierro del Norte de España (6;I)

Cía. de los FF.CC. de Madrid a Zaragoza y a Alicante (1;II)

Cía. Nacional de los FF.CC. del Oeste de España (3;III)

Iron and Steel

Altos Hornos de Vizcaya (3;I)

Cía Siderúrgica del Mediterráneo (4;III)

Basconia, S.A. (1;IV)

Mining

Cía. Minera de Sierra Menera (3;IV)

Cía. Española de Minas del Rif (1;V)

BANCO URQUIJO

Railways

Caminos de Hierro del Norte de España (3;I)

Cía. de los FF.CC. de Madrid a Zaragoza y a Alicante (1;II)

Cía. Nacional de los FF.CC. del Oeste de España (1;III)

⁵ ROLDÁN and GARCÍA DELGADO, *Ibid.* Our translation.

Table 2 (continued)

Iron and Steel

Altos Hornos de Vizcaya (3;I)
Duro Felguera (4;II)
Industrial Asturiana Santa Bárbara (1;IV)
Basconia, S.A. (1;VI)

Electricity

Hispano Americana de Electricidad (4;I)

Mining

Cía. Española de Petróleos (1;I)

BANCO CENTRAL

Railways

Cía. de los FF.CC. de Madrid a Zaragoza y a Alicante (2;II)
Cía. de los FF.CC. Andaluces (2;VI)

Iron and Steel

Fábrica de Mieres (1;V)

Electricity

Hispano Americana de Electricidad (1;I)
Hidroeléctrica Española (1;III)

Mining

Cía. Española de Petróleos (3;I)

BANCO DE VIZCAYA

Railways

Caminos de Hierro del Norte de España (2;I)
Cía. de los FF.CC. de Madrid a Zaragoza y a Alicante (1;II)
Cía. Nacional de los FF.CC. del Oeste de España (1;III)
Cía. Metropolitano Alfonso XIII (3;V)

Iron and Steel

Altos Hornos de Vizcaya (2;I)

Electricity

Hispano Americana de Electricidad (2;I)
Hidroeléctrica Española (6;II)
Cía. Sevillana de Electricidad (2;IV)
Hidroeléctrica Ibérica (7;VI)

Mining

Cía. Minero Metalúrgica Los Guindos (1;II)
Cía. Española de Minas del Rif (1;V)

BANCO ESPAÑOL DE CREDITO

Railways

Caminos de Hierro del Norte de España (1;I)
Cía. de los FF.CC. de Madrid a Zaragoza y a Alicante (1;II)
Cía. de los FF.CC. Andaluces (1;VI)

Electricity

Hidroeléctrica Española (1;III)
Hidroeléctrica Ibérica (7;VI)

Mining

Cía. Española de Minas del Rif (1;V)

* The numbers between parentheses have the following meaning: Arabic refer to the number interlocking directors; Roman refer to the rank of the firm within its sector according to paid-in capital.

Source: Calculated from data in *AFYDSADE*, 1930.

shared directors between the "big six" and the leading industrial and public utility companies in 1930. A few years earlier, in 1921, directors of the then seven largest banks (Banesto, Hispano, Urquijo, Bilbao, Vizcaya, Hispano-Colonial, and Crédito de la Unión Minera) could be found on the boards of 274 companies, whose combined capital amounted to 49% of the paid-in capital of all Spanish corporations. Numerically these companies were only 7.2% of all corporations, which shows that the big banks were preferably interested in the big corporations.⁶

Another way of looking at the relationship between banks and industry is offered in Table 3, where the industrial portfolio of all banks, of the seven with the largest industrial portfolio, and of the fifteen with the largest industrial portfolio are presented in current pesetas, in constant pesetas and in relative terms. Not surprisingly, five of the "big six" are included among the largest seven in all these years. The Banco Central is only included in 1930 and thereafter. For our present purposes it is enough to notice that over half of the industrial assets held by the 90-odd registered banks in Spain was in the portfolios of just seven, and that the banks with the largest volume of deposits were also those with the largest industrial portfolios.

During the first World War new relationship developed between the government, the Bank of Spain, and the banking sector whose growth had been steady since the turn of the century. After 1917 the central-bank and the Ministry of Finance developed a new way to monetize the public debt with the help of the private banks; and in 1918 the Bank of Spain started granting the

⁶ *Ibid.*

Table 3. INDUSTRIAL PORTFOLIO OF LARGEST BANKS
AND OF ALL BANKS
(in million pesetas)

| | 1922 | 1923 | 1930 | 1932 | 1933 | 1934 |
|------------------------------------|-------|-------|---------|---------|---------|---------|
| Seven largest | 319.1 | 382.3 | 855.7 | 847.7 | 857.5 | 912.4 |
| Fifteen largest | 424.0 | 492.6 | 1,135.6 | 1,086.3 | 1,148.3 | 1,138.6 |
| All Banks | 594.7 | 670.5 | 1,376.2 | 1,335.4 | 1,350.8 | 1,417.7 |
| (In million constant pts. of 1913) | | | | | | |
| Seven largest | 185.0 | 223.7 | 512.4 | 508.8 | 539.0 | 558.4 |
| Fifteen largest | 254.8 | 288.2 | 680.8 | 652.0 | 721.7 | 696.8 |
| All Banks | 344.8 | 392.3 | 824.1 | 801.6 | 849.0 | 867.6 |
| (Per cent) | | | | | | |
| Seven largest | 53.7 | 57.0 | 62.2 | 63.5 | 63.5 | 64.4 |
| Fifteen largest | 71.3 | 73.5 | 82.5 | 81.4 | 80.8 | 80.3 |
| All Banks | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: AFYDSADE, with some minor corrections. Deflated with the wholesale price index in PARIS EGUILAZ, *El Movimiento de precios en España. Su importancia para una política de intervención*, Madrid: Instituto de Economía « Sancho de Moncada », Consejo Superior de Investigaciones Científicas, 1943.

banks affiliated with Central Committee of Spanish Banks a lower rediscount rate than the official one. These new policies were of great help to the development of mixed banking and to the growth of the big six; they created a relationship between the large banks and the central bank very similar to that which was forming in Italy at around the same time.⁷

The discrimination in interest rates involved a voluntary loss of competitiveness on the part of the Bank of Spain relative to the private banks, and a clear move towards assuming fully its role of bank of banks as expressly mandated in the Banking Law (*Ley de Ordenación Bancaria*) of 1921. The monetization of the public debt was achieved through what can be translated as "automatic collateral lending", whereby the Bank of Spain made virtually automatic loans on advantageous terms to private banks against the pledge of public debt bonds as collateral. These policies stimulated the private banks to subscribe public debt issues, and favored the shifting of a substantial part of the burden of public finance from the central bank to the private banks which could, with negligible additional risk, increase their ratio of productive to liquid assets. Of course the drawback of this arrangement was that the Bank of Spain renounced most of its control over the money supply, which devolved to the private banks.

⁷ G. TORTELLA CASARES, "El Banco de España entre 1829. La formación de un banco central", in *El Banco de España, Una historia económica*, Madrid, Banco de España, 1970, pp. 300-2; on the situation in Italy, G. TONIOLO, *L'economia*, cit. pp. 197-202.

As a consequence of this arrangement the private banks held large amounts of public debt in their portfolio, and used them as collateral to obtain credit from the central bank rather than having recourse to rediscounting. The rate which affected them most, therefore was the rate of loans with public debt collateral; and this rate was not fixed by the Bank solely, but it required the agreement of the Ministry of Finance which managed to keep it below the rediscount rate, so as to make it profitable for the banks to purchase public debt bonds. In this way, the central bank's effective ability to control the money supply was limited, as it in fact did not determine the volume of government bonds issued, which in turn was a function of the government's budgetary and general economic policies.

The international postwar crisis of 1921 seriously affected the Spanish economy.⁸ A large number of firms had been established during the war which were viable only in wartime conditions: about 50% of the firms constituted during the 1916-1920 five-year period were dissolved between 1919 and 1923.⁹ The profound and painful restructuring of many industrial sectors so as to eliminate the less efficient firms (Schumpeter's "creative destruction") could only be avoided by means of state intervention. As the crisis affected a great number of sectors and firms, the pressures in search of state protection were very strong. Furthermore, as there was a considerable degree of concentration in many of these sectors and firms faced fairly rigid demand functions, they defended their positions by keeping prices up rather than by reducing variable costs through innovating and retooling.¹⁰

In fact these oligopolistic entrepreneurs obtained what they wanted: tariff protection, anti-labor measures, and a vigorous public works program. Tariff protection came through the 1922 Tariff, which entailed considerable increases over the already high previous tariff levels. But most of the *desiderata* of the embattled businessmen were carried out by the regime issued from the coup of September 1923.

⁸ The repercussions of the crisis in Spain have been insufficiently studied. So far the most important works are those of F. PELECHÁ, *La crisis industrial española y el arancel de 1922*, Barcelona, Publicaciones de la Cátedra de Historia General de España, 1975, and Cabana, *La banca*, cit. esp. the chapter on the demise of the Banco de Barcelona.

⁹ T. JIMÉNEZ ARAYA, "Formación de capital y fluctuaciones económicas. Materiales para el estudio de un indicador: creación de Sociedades Mercantiles en España entre 1886 y 1970", in *Hacienda Pública Española*, n. 27, 1974, p. 177.

¹⁰ This can be documented for the thirties. There are no reasons to assume a different reaction in 1921.

The Primo de Rivera Dictatorship

One of the strains in the web that ensnared the parliamentary regime and brought about the Dictatorship (which lasted until January 1930) was economic, and closely related to the crisis atmosphere just described. By annulling a series of commercial treaties which mitigated the rigors of the 1922 Tariff, the Dictatorship restored the principle of the "reserved market" for Spanish industry. Its brutal anti-strike and anti-anarchist policies broke the back of the rebellious working class movement in Barcelona. But the ensuing fall in real wages and the general economic sluggishness required more positive measures. The government undertook vigorous rearmament, public works, and plain mercantilistic programs to stimulate "national industry".¹¹ The 1917 Law in Support of New Industries had already instituted tax remissions and even guaranteed profits; a decree of April 1924 "to favor the creation and development of industrial enterprises" improved and enlarged the tax remissions, mandated compulsory consumption of national goods by private and public bodies, and added further supportive measures.¹² As fiscal pressure did not go up, an increasing share of these programs had to be financed by bond issues. Table 4 gives an idea of the evolution of public investment relative to other connected variables. It shows the remarkable increase of public investment in absolute and relative terms during the Dictatorship years.

This expansive policy of the government was preferably directed towards social overhead capital formation (railways, roads, water projects),¹³ with direct stimuli over the heavy industry sectors most closely connected with the mixed banks (see Table 2). The favorable expectations created by the Dictatorship, the multiplicative effects of its expenditures, all favored an upsurge in private investment. Naturally, banks profited from the boom in many ways, and the big mixed banks most of all. Their growth was well above the average, as Tables 5, 6 and 10 show unequivocally. The industrial portfolio of all banks grew at an average rate of 11.5% in real terms over the Dictatorship years; the industrial portfolio of the seven largest grew at an average rate of 13.6% in real terms.

This upsurge was stimulated by the boom which the government's expend-

¹¹ Some such program had been requested in a report by a group of six banks, of which were five of the "big six", just a month after Primo de Rivera's coup. Cf. N. BELFORD, "El sistema bancario durante la dictadura de Primo de Rivera", in *Cuadernos Económicos de ICE*, 1979, n. 10, pp. 227-232.

¹² The main characteristics of the decree are listed in J. VELARDE FUERTES, *Política Económica de la Dictadura*, Madrid Guadiana, 1973, pp. 149 ff.

¹³ VELARDE, *Política Económica*, cit., pp. 43-128, PALAFOX, "La gran depresión", cit., p. 26-30, and J.H. RIAL, *Revolution from above: Dictatorship in Spain* (unpublished manuscript), pp. 154 ff.

Table 4. PUBLIC AND PRIVATE INVESTMENTS,
BUDGET RECEIPTS AND INDUSTRIAL PRODUCTS

| | (1) Public Investment ^a | (2) Total Current Budget Receipts | (3) Industrial G.D.P. |
|-----------------------------|--|--|-----------------------------|
| Annual Average 1917-1923 | 59.1 | 1,055.2 | 4,316.2 |
| Annual Average 1924-1930 | 314.4 | 1,788.3 | 5,436.4 |
| Annual Average 1931-1935 | 285.0 | 2,339.6 | 7,013.5 |
| 1927 | 306.6 | 1,841.3 | 5,395.5 |
| 1928 | 487.7 | 2,090.0 | 6,143.2 |
| 1929 | 476.1 | 2,151.7 | 5,804.4 |
| 1930 | 223.5 | 2,158.1 | 6,097.2 |
| 1931 | 231.8 | 2,107.2 | 6,757.0 |
| 1932 | 242.0 | 2,311.9 | 6,618.0 |
| 1933 | 310.5 | 2,432.8 | 7,040.5 |
| 1934 | 352.2 | 2,352.9 | 7,251.6 |
| 1935 | 288.6 | 2,493.2 | 7,400.6 |

^a Gross Capital Formation + Special Public Debt.

Source: Cols. 1 and 2: *Datos básicos para la historia financiera de España, 1850-1975*. Vol. I. Madrid: Instituto de Estudios Fiscales, 1976.

Cols. 3: J. ALCAIDE INCHAUSTI, "Una revisión urgente de la serie de Renta Nacional española en el siglo XX", in *Datos básicos* (cited above).

itures had greatly contributed to create. It was made possible by the new relationships created between the central bank and the private banks during the Great War and fixed by the 1921 Banking Law as described above. Another factor which made possible the growth in bank's resources, especially those of the "big six", whose deposits (demand plus savings) more than doubled from 1923 to 1930, was the development of branch banking. According to J. Muñoz:

During these years the great Madrid banks and — to a lesser extent — the Bilbao banks *became national* in two senses: they increasingly operated throughout the whole country, and foreign banks were institutionally prevented from operating.¹⁴

In 1919, the five largest banks (out of 73) had 93 branch offices, or 47.9% of all banking branches; in 1926 those banks had 490 branches, which were 57.6% of all banking branches. The location of these new offices was often determined

¹⁴ J. MUÑOZ, "La expansión bancaria entre 1919 y 1926. La formación de una banca nacional", in *Cuadernos Económicos de ICE*, No. 6 1978, p.159, our translation.

Table 5. PRIVATE BANKS:
MAIN ITEMS OF THEIR COMBINED BALANCE SHEETS
(in million pesetas of 1913)

| Year | (1) No. of Banks | (2) Paid-in Capital | (3) Reserves | (4) Total Capital Cols. 1+2 | (5) Current accounts | (6) Savings deposits | (7) Total Deposits Cols. 5+6 | (8) Discounted bills | (9) Public bonds | (10) Industrial securities ^a | (11) Portfolio Cols 7+8+9 | (12) Loans | (13) Securities under custody |
|------|------------------------|---------------------------|-----------------|--------------------------------------|----------------------------|----------------------------|---------------------------------------|----------------------------|------------------------|---|---------------------------------|---------------|--|
| 1923 | 91 | 459.4 | 156.8 | 616.6 | 1,596.5 | 658.6 | 2,255.2 | 610.2 | 671.3 | 409.5 | 1,691.0 | 996.1 | 7,509.0 |
| 1924 | 92 | 440.6 | 159.3 | 599.9 | 1,805.5 | 617.9 | 2,258.7 | n.a. | n.a. | n.a. | 1,683.4 | 919.7 | 7,436.7 |
| 1925 | 93 | 409.6 | 155.5 | 565.1 | 1,817.0 | 600.2 | 2,401.1 | n.a. | n.a. | n.a. | 1,654.3 | 806.4 | 7,361.2 |
| 1926 | 93 | 435.9 | 172.4 | 608.3 | 1,959.8 | 693.6 | 2,653.4 | n.a. | n.a. | n.a. | 1,797.9 | 875.6 | 8,081.7 |
| 1927 | 89 | 458.7 | 185.6 | 653.3 | 2,367.6 | 840.9 | 3,208.5 | n.a. | n.a. | n.a. | 2,002.4 | 1,040.5 | 8,463.8 |
| 1928 | 95 | 533.6 | 229.5 | 763.0 | 2,930.8 | 1,045.2 | 3,975.9 | n.a. | n.a. | n.a. | 2,637.2 | 1,177.0 | 9,312.8 |
| 1929 | 94 | 553.9 | 244.4 | 798.2 | 2,610.8 | 1,220.5 | 3,831.4 | 1,000.3 | 1,243.7 | 766.4 | 2,982.7 | 1,565.4 | 9,928.6 |
| 1930 | 90 | 581.3 | 272.2 | 853.5 | 2,688.4 | 1,349.0 | 4,037.4 | 1,001.3 | 1,349.1 | 853.7 | 3,204.1 | 1,702.4 | 10,113.1 |
| 1931 | 87 | 573.8 | 244.5 | 818.3 | 1,758.7 | 1,234.1 | 2,993.1 | n.a. | n.a. | n.a. | 2,985.7 | 1,466.5 | 10,218.1 |
| 1932 | 85 | 590.7 | 243.7 | 834.4 | 2,242.6 | 1,336.1 | 3,578.6 | 974.9 | 1,454.4 | 801.2 | 3,130.6 | 1,408.1 | 10,341.5 |
| 1933 | 86 | 622.1 | 270.3 | 892.4 | 2,448.6 | 1,516.2 | 3,964.8 | 913.3 | 1,575.5 | 848.3 | 3,337.1 | 1,581.8 | 11,074.6 |
| 1934 | 86 | 612.4 | 276.9 | 889.3 | 2,317.8 | 1,841.5 | 4,159.3 | 928.9 | 1,737.3 | 867.6 | 3,533.9 | 1,572.7 | 11,333.6 |

n.a.: data not available.

^a The figures of this column show some discrepancies with those in Table 3 for some years. Some minor corrections were introduced in Table 3 which cannot be introduced here.

Source: Calculated from *AFYDSADE* and the price index in *Estadísticas Básicas de España, 1900-1970*, Madrid: Confederación Española de Cajas de Ahorros, 1975.

Table 6. "BIG SIX" BANKS:
MAIN ITEMS OF THEIR COMBINED BALANCE SHEETS
(in million pesetas of 1913)

| Year | (1) Paid-in Capital | (2) Reserves | (3) Total Capital Cols. 1 + 2 | (4) Current accounts | (5) Savings deposits | (6) Total Deposits Cols. 5 + 6 | (7) Discounted bills | (8) Public bonds | (9) Industrial securities | (10) Portfolio Cols. 7 + 8 + 9 | (11) Loans | (12) Securities under custody |
|------|---------------------------|-----------------|--|----------------------------|----------------------------|---|----------------------------|------------------------|---------------------------------|--------------------------------------|---------------|--|
| 1923 | 193.7 | 81.3 | 275.0 | 884.5 | 180.3 | 1,064.9 | 368.0 | 267.5 | 182.7 | 818.3 | 405.1 | 4,337.5 |
| 1929 | 224.4 | 131.4 | 355.7 | 1,501.2 | 599.9 | 2,100.5 | 660.4 | 713.0 | 440.7 | 1,814.1 | 666.8 | 6,076.9 |
| 1930 | 236.8 | 152.1 | 389.0 | 1,547.4 | 633.3 | 2,180.8 | 661.7 | 811.5 | 482.7 | 1,956.1 | 679.9 | 6,437.7 |
| 1931 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| 1932 | 246.0 | 132.9 | 378.9 | 1,360.4 | 641.8 | 2,002.3 | 564.5 | 863.7 | 479.6 | 1,902.8 | 505.7 | 6,435.4 |
| 1933 | 257.5 | 146.3 | 403.7 | 1,493.9 | 740.3 | 2,334.2 | 579.6 | 939.5 | 502.5 | 2,021.6 | 590.6 | 6,735.7 |
| 1934 | 250.9 | 147.0 | 397.9 | 1,359.5 | 1,047.7 | 2,407.2 | 595.0 | 1,102.9 | 530.7 | 2,228.6 | 587.5 | 7,100.4 |

n.a.: data not available.

Source: Calculated from AFYDSADE and the price index in *Estadísticas Básicas*, cit.

by the desire to drain savings from rural areas towards industrial sectors. But the great majority of the new branches were installed in the industrial areas of northern Spain: in 1926, four provinces (Guipuzcoa, Navarra, Oviedo and Vizcaya) had 30% of all bank branches.¹⁵

The Republic

In January 1930, General Primo de Rivera abandoned power and fled into exile. A few weeks earlier, José Calvo Sotelo, his Minister of Finance, a strong man who was viewed as the personification of the economic policies of the regime, had resigned his post after the failure of his policies in support of the sagging peseta and his confrontation with substantial industrial groups led by Francesc Cambó, the leader of the autonomist Catalan party, the Lliga Regionalista.¹⁶ Catalan businessmen had been early supporters of Primo de Rivera.

The demise of the Dictatorship opened a transitional period of fifteen months which led to the proclamation of the Republic in April 1931, and which, from the beginning, was characterized by a sharp break with the economic policies of the Dictatorship. M. Argüelles, who became Finance Minister in January 1930, pursued fiscal policies intended to reduce the large deficits which (although disingenuously masked by means of a series of "extraordinary budgets") had characterized the Calvo Sotelo years.¹⁷

Viewed in retrospect, Argüelles's fiscal conservatism, practised with obstinacy in 1930, appears grievously misguided and has been dubbed by many writers as "Argüelles's error" (*el error Argüelles*).¹⁸ From the standpoint of his time, however, Argüelles seems to us to have followed the only sound policy available and to have adopted a courageous political stand. The best economists of the time considered "fiscal responsibility" as the only remedy against economic disquilibria of all sorts. The memories of the German and East-European hyperinflation loomed large. But the foremost consideration was that fiscal profligacy was the hallmark of the discredited dictatorship, and one of the main causes of its downfall: by the time Argüelles took charge of the Ministry, public

¹⁵ Calculated from J. MUÑOZ, *Ibid.*, pp. 109-110.

¹⁶ The confrontation was mostly a polemic about the causes of the peseta's fall, although Cambó's criticisms were sometimes addressed in more general terms; see F. CAMBÓ, *La valoración de la peseta*, Madrid, M. Aguillar S.A., 1929, *passim*. The attitude of other industrial sectors, namely the Basque, seem to have been less unfavorable; cf. the reports of the Bilbao Chamber of Commerce.

¹⁷ J. PALAFOX, "La gran depresión" *cit.*, pp. 32-34.

¹⁸ See J.L. GARCÍA DELGADO, "La política económica española de 1930: el error Argüelles", in *Papeles de Economía Española*, 1980, n. 1, pp. 43-47.

debt payments (interest plus amortizations) were the largest item in the expenditure budget, and amounted to nearly one fourth of the total. Furthermore, Argüelles was following not only the "best" economic advice, but also that of many businessmen who were disillusioned with the disorder, corruption, and confusion which had accompanied the ambitious programs of Primo de Rivera and Calvo Sotelo. The disappointment with past policies increased when it was learnt that, contrary to Calvo Sotelo's predictions, public investment had not elicited much private emulation, and that most of the railway lines built under government inspiration were expected to run large deficits.¹⁹

However justifiable in the eyes of his contemporaries, the fiscally conservative policies (*política de economías*) by Argüelles and continued by his successors at Finance, regardless of their politics, could not but depress the economy.

The hardest hit sectors, naturally, were to be those which had benefited most from the programs under the Dictatorship. The steel industry, for instance, which had experienced a remarkable development during the late twenties, saw its output cut in half between March 1930 and September 1931. (See Table 7).

Other indicators also underscore the plight of heavy industry: coal stocks more than doubled in one year (from 206 to 504 thousand metric tons between 1930 and 1931).²⁰ Consumer goods industries, however, seem to have fared much better, as Table 7 reflects for the cotton industry.

The change in budget policies was not the only factor in the business downturn of 1930. The repercussions of the international depression undoubtedly were felt.²¹ But the traumas inherent in political transition were (and are) acknowledged to be a key factor in economic destabilization. Fearful of the left-wing proclivities of the republican government, businessmen hedged their bets. Capital exports during the first months of the Republic reached very high levels.²² Prices in the stock-exchange went down, as Table 8 shows, with the fastest decline taking place in 1931.

Preoccupied by political problems, the government relegated those economic to a very secondary level. No respectable republican expert was willing to

¹⁹ J. PALAFOX, *La incidencia de la depresión económica mundial de los años treinta y la crisis de la economía española*, Doctoral Dissertation, Universidad de Valencia, 1978 (unpublished), pp. 238-58.

²⁰ R. PERPIÑÁ GRAU, *Memorandum sobre la política del carbón*, Valencia, Centro de Estudios Económicos Valencianos, Report, no. 144 b.

²¹ Although they were muted until 1931. Cf., for instance, LEAGUE OF NATIONS, ECONOMIC INTELLIGENCE SERVICE, *World Economic-Survey, 1931-32*, Geneva, League of Nations, 1932, Graph between pp. 64 and 65.

²² Well informed contemporaries estimated them at 2,000 million pesetas, (budget expenditures were, 3,853 million in 1931). Cf. F. EGUIAZU, *Intervención monetaria y control de cambios en España, 1900-1977*, Madrid, Información Comercial Española, 1978, p. 85.

Table 7. INDEX OF INDUSTRIAL PRODUCTION
Sep. 1929 = 100

| | Industrial Production | Steel Output | Textiles output (wool and cotton yarn) |
|------|-----------------------|--------------|---|
| 1928 | | | |
| III | 88.2 | 75.9 | 116.7 |
| IV | 84.1 | 82.2 | 94.2 |
| IX | 94.1 | 90.2 | 146.5 |
| XII | 91.7 | 97.6 | 83.2 |
| 1929 | | | |
| III | 96.8 | 99.3 | 75.6 |
| VI | 98.6 | 107.6 | 77.4 |
| IX | 100.0 | 100.0 | 100.0 |
| XII | 100.9 | 109.4 | 95.8 |
| 1930 | | | |
| III | 100.3 | 112.6 | 88.5 |
| VI | 94.4 | 101.2 | 96.4 |
| IX | 99.5 | 83.5 | 111.0 |
| XII | 97.7 | 69.9 | 93.5 |
| 1931 | | | |
| III | 102.5 | 79.8 | 104.8 |
| VI | 99.0 | 72.7 | 99.9 |
| IX | 95.4 | 65.7 | 110.2 |
| XII | 88.1 | 43.5 | 80.4 |
| 1932 | | | |
| III | 95.2 | 56.8 | 119.6 |
| VI | 92.2 | 56.8 | 121.0 |
| IX | 86.7 | 49.7 | 90.7 |
| XII | 87.7 | 43.2 | 117.1 |
| 1933 | | | |
| III | 85.0 | 52.7 | 82.9 |
| VI | 82.3 | 56.9 | 77.5 |
| IX | 81.3 | 49.9 | 125.2 |
| XII | 83.9 | 65.3 | 78.7 |
| 1934 | | | |
| II | 85.3 | 50.8 | 86.8 |
| III | 89.7 | 70.9 | 85.9 |

Source: BANCO DE ESPAÑA, Servicio de Estudios, *Ritmo de la crisis económica española en relación con la mundial*, Madrid, Banco de España, 1934.

Table 8. STOCK EXCHANGE INDEX (shares)
Oct. 1929 = 100

| Date | Index | Date | Index |
|------|-------|------|-------|
| 1929 | | 1932 | |
| I | 96.7 | I | 67.0 |
| IV | 99.5 | IV | 64.8 |
| VII | 98.9 | VII | 59.1 |
| X | 100.0 | X | 57.9 |
| 1930 | | 1933 | |
| I | 97.0 | I | 52.9 |
| IV | 95.8 | IV | 52.1 |
| VII | 93.2 | VII | 52.2 |
| X | 96.9 | X | 51.8 |
| 1931 | | 1934 | |
| I | 91.7 | I | 54.3 |
| IV | 87.4 | IV | 53.2 |
| VII | 75.1 | VII | 53.7 |
| X | 67.7 | | |

Source: BANCO DE ESPAÑA, Servicio de Estudios, *Ritmo de la crisis económica española*, cit.

take up the Finance portfolio in the spring of 1931.²³ And it had to be assigned to a well known socialist leader, Indalecio Prieto, who, from the moment of his appointment, proclaimed to all wanting to listen his absolute incompetence in financial matters. One wonders whether this confession from a socialist Finance Minister would make businessmen more or less fretful... In any case, Prieto's efforts were almost exclusively directed at continuing Argüelles's unsuccessful attempts to balance the budget, a policy which became less and less opportune as time went on, but which was shared by most influential politicians, such as Manuel Azaña, soon to become Prime Minister.²⁴ An implicit criticism of this policy came in July 1931, when a group of Basque industrialists wrote a widely publicized report asking the Cortes for the restoration of law and order (after the disorders and church burnings in May) and the resumption of high public expenditure programs.²⁵ Another feature of Prieto's economic policies was his confrontation with the Bank of Spain, which in the end led to the enactment of the 1931 Banking Law and to Prieto's removal from the Ministry of Finance.

²³ A. RAMOS OLIVEIRA, *Historia de España*, 3 vols., México, Compañía General de Ediciones, 1952, Vol. III, p. 160.

²⁴ M. AZAÑA, *Obras Completas*, Vol. IV, *Memorias políticas y de guerra*, México, Ediciones Oasis, 1968, p. 201.

²⁵ The report has been reproduced in *Papeles de Economía Española*, 1980, N. 1.

Table 9. BANK OF SPAIN:
DISCOUNTS AND LOANS ON COLLATERAL
(in pesetas of 1913)

| | (1) Discounts | (2) Total line of credit | (3) Loans on collateral Utilized | (4) Available | (5) % Col. 3+2 |
|------|------------------|--------------------------------|--|------------------|----------------------|
| 1923 | 615.7 | 1,026.0 | 647.7 | 378.2 | 63.1 |
| 1924 | 557.2 | 1,178.1 | 700.2 | 477.8 | 59.4 |
| 1925 | 490.2 | 1,349.1 | 881.5 | 467.5 | 65.3 |
| 1926 | 402.5 | 1,384.3 | 884.3 | 500.0 | 63.9 |
| 1927 | 340.6 | 1,299.8 | 638.7 | 661.0 | 49.1 |
| 1928 | 411.1 | 1,548.6 | 761.9 | 786.6 | 49.2 |
| 1929 | 451.3 | 1,569.1 | 779.1 | 790.0 | 49.7 |
| 1930 | 394.0 | 1,530.1 | 731.8 | 798.3 | 47.8 |
| 1931 | 824.7 | 1,795.4 | 958.4 | 837.0 | 53.3 |
| 1932 | 668.5 | 1,771.4 | 891.8 | 879.7 | 50.3 |
| 1933 | 714.8 | 1,844.8 | 892.8 | 952.0 | 48.4 |
| 1934 | 695.3 | 1,611.8 | 701.2 | 910.7 | 43.5 |
| 1935 | 680.4 | 1,306.8 | 497.4 | 809.4 | 38.1 |

Source: BANCO DE ESPAÑA, Reports.

The tensions between the Bank of Spain and the government did not start with the proclamation of the Republic. From the large trade surpluses Spain had during the Great War, the Bank had accumulated large stocks of gold. During the twenties several governments wanted to use this gold (or part of it) to raise the quotations of the peseta and eventually to enact the gold standard. The Bank was reluctant to part with its specie in pursuit of an uncertain goal, but politicians (not in Spain alone) tenaciously clung to revaluation and the gold standard as a matter of national prestige. After resisting as best they could Calvo Sotelo and Argüelles, it is not surprising that the Bank of Spain should have their worst clashes with the mercurial Socialist Finance Minister, in the first republican government. In June 1931, Prieto had threatened the Bank with a reform of the 1921 Banking Law if they did not cooperate with his stabilization policies,²⁶ and this threat was repeated in September.²⁷ The Bank appears to have demurred; in response, the bill was rapidly drafted, submitted and approved; against the Bank's useless resistance, it became law on 26 November. Its final text shows the haste with which it was put together. Prieto's was a

²⁶ BANCO DE ESPAÑA, *Actas Consejo general*, 22. oct. 1931.

²⁷ AZAÑA, *Obras, completas*, cit., IV, 1931, 1 and 4 Sept. 1931.

Table 10. ANNUAL AVERAGE RATES OF GROWTH OF SELECTED
BALANCE-SHEET ITEMS
(Current prices and constant prices)

| | (1) | (2) | (3) All Banks | | | | (4) | | (5) 6 Big Banks | | (11) | (12) |
|-----------------------|-----------|-----|---------------|------|-----------|-------|-----------|------|-----------------|------|-----------|-------|
| | 1923-1934 | | 1923-1930 | | 1930-1934 | | 1923-1934 | | 1923-1930 | | 1930-1934 | |
| | a | b | a | b | a | b | a | b | a | b | a | b |
| Total Capital | 3.0 | 3.4 | 4.4 | 4.7 | 0.5 | 1.0 | 3.0 | 3.4 | 4.7 | 5.0 | 0.0 | 0.5 |
| Total Deposits | 5.3 | 5.7 | 8.3 | 8.6 | 0.2 | 0.7 | 7.3 | 7.6 | 10.4 | 10.7 | 2.0 | 2.4 |
| Savings Deposits | 9.3 | 9.8 | 10.4 | 10.8 | 7.5 | 8.1 | 16.9 | 17.3 | 19.3 | 19.6 | 12.8 | 13.4 |
| Current Accounts | 2.9 | 3.4 | 7.4 | 7.7 | - 4.2 | - 3.6 | 3.6 | 3.6 | 8.0 | 8.3 | - 3.7 | - 3.0 |
| Portfolio | 6.5 | 6.9 | 9.2 | 9.6 | 1.9 | 2.4 | 9.1 | 9.5 | 12.9 | 12.2 | 2.8 | 3.3 |
| Discounted Bills | 3.5 | 3.9 | 7.0 | 7.3 | - 2.4 | - 1.8 | 4.0 | 4.4 | 8.4 | 8.7 | - 3.1 | - 2.6 |
| Public Bonds | 8.6 | 9.0 | 10.1 | 10.5 | 6.0 | 6.5 | 13.3 | 13.7 | 16.8 | 17.2 | 7.4 | 7.9 |
| Industrial Securities | 6.6 | 7.1 | 10.7 | 11.1 | - 0.1 | 0.4 | 9.7 | 10.1 | 14.5 | 14.9 | 1.8 | 2.4 |
| Loans | 3.8 | 4.2 | 7.6 | 8.0 | - 2.5 | - 2.0 | 3.0 | 3.4 | 7.3 | 7.7 | - 4.1 | - 3.6 |

^a Current prices.

^b Constant prices.

Source: Calculated from Tables 5 and 6.

Table 11. INDUSTRIAL PRODUCTION INDICES

| Year | (1) Coal | (2) Electric Power | (3) Mining | (4) Metallurgy | (5) Agricultural Machinery | (6) Transport equipment | (7) Building Materials | (8) Chemicals | (9) Foodstuffs | (10) Textiles | (11) General Index |
|------|-------------|--------------------------|---------------|-------------------|----------------------------------|-------------------------------|------------------------------|------------------|-------------------|------------------|--------------------------|
| 1929 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1.30 | 99.6 | 105.8 | 90.8 | 75.8 | 140.2 | 60.9 | 101.6 | 106.7 | 104.4 | 126.6 | 101.2 |
| 1931 | 98.7 | 110.3 | 68.2 | 59.3 | 88.1 | 49.7 | 89.8 | 98.7 | 118.1 | 122.3 | 98.7 |
| 1932 | 95.6 | 116.2 | 41.1 | 47.6 | 97.9 | 16.0 | 78.1 | 98.1 | 115.8 | 135.5 | 94.7 |
| 1933 | 83.9 | 114.9 | 38.1 | 46.1 | 63.3 | 10.0 | 77.0 | 107.2 | 110.1 | 124.9 | 91.0 |
| 1934 | 83.1 | 119.9 | 35.5 | 54.5 | 80.2 | 11.2 | 75.1 | 115.2 | 133.5 | 131.6 | 98.6 |
| 1935 | 96.8 | 129.3 | 38.5 | 52.9 | 66.6 | 10.4 | 79.8 | 130.9 | 131.7 | 128.7 | 103.3 |

Source: CONSEJO DE ECONOMÍA NACIONAL, *La Renta Nacional de España*, Madrid, Diana, 1945, p. 213.

Table 12. DAILY WAGES IN SEVERAL SECTORS, IN CURRENT PESETAS AND INDEX NUMBERS

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
|-------------------|--------|-------|------------|-------|----------|-------|-------------|-------|------|-------|-------|-------|
| | Mining | | Metallurgy | | Textiles | | Agriculture | | | | | |
| | | | | | Men | | Women | | Men | | Women | |
| | Ptas | Index | Ptas | Index | Ptas | Index | Ptas | Index | Ptas | Index | Ptas | Index |
| 1925 | 7.32 | 97.5 | 7.81 | 97.7 | 6.69 | 97.4 | 2.99 | 97.7 | 5.25 | 94.6 | 2.63 | 93.9 |
| 1926 | 7.32 | 97.5 | 7.85 | 98.2 | 6.65 | 96.8 | 2.97 | 97.1 | 5.27 | 95.0 | 2.64 | 94.3 |
| 1927 | 7.38 | 98.3 | 7.87 | 98.5 | 6.65 | 96.8 | 2.98 | 97.4 | 5.32 | 95.9 | 2.65 | 94.6 |
| 1928 | 7.44 | 99.1 | 7.95 | 99.5 | 6.80 | 99.0 | 3.02 | 98.7 | 5.46 | 98.7 | 2.73 | 97.5 |
| 1929 | 7.51 | 100.0 | 7.99 | 100.0 | 6.87 | 100.0 | 3.06 | 100.0 | 5.55 | 100.0 | 2.80 | 100.0 |
| 1930 | 7.63 | 101.6 | 8.09 | 101.3 | 6.91 | 100.6 | 3.09 | 101.0 | 5.61 | 101.1 | 2.92 | 104.3 |
| 1931 | 8.00 | 106.5 | 8.44 | 105.6 | 7.05 | 102.6 | 3.13 | 102.3 | 5.72 | 103.8 | 3.05 | 108.9 |
| 1932 | 8.20 | 109.2 | 8.50 | 106.4 | 7.14 | 103.9 | 3.20 | 104.6 | 6.02 | 108.5 | 3.16 | 112.9 |
| 1933 | 8.39 | 111.7 | 8.74 | 109.4 | 7.40 | 107.7 | 3.22 | 105.2 | 6.20 | 111.7 | 3.29 | 117.5 |
| 1934 | 8.47 | 112.8 | 8.82 | 110.4 | 7.50 | 109.2 | 3.31 | 108.2 | 6.69 | 113.3 | 3.34 | 119.3 |
| 1935 | 8.84 | 117.7 | 9.02 | 112.9 | 7.75 | 112.8 | 3.43 | 112.1 | 6.37 | 114.8 | 3.41 | 121.8 |
| 1936 ^a | 9.03 | 120.2 | 9.37 | 117.3 | 8.22 | 119.7 | 3.72 | 121.6 | 6.85 | 123.4 | 3.77 | 134.6 |

^a January-June.

Source: Calculated from *Anuario Estadístico de España*, 1943. Peseta wages are unweighted averages of maximum and minimum daily wages.

Pyrrhic victory: three weeks after the passage of the law he was shuffled from Finance to Public Works.

The Banking Law of 1931 was designed to increase the control the state had on the Bank of Spain.²⁸ It pursued two rather contradictory aims: one, to influence more closely the credit policies of the Bank with the obvious purpose of shifting its loans towards a more "public minded" policy; and two, to use the Bank, and its gold, to bolster the peseta in the international markets with a view to decreeing its convertibility. The government's control was secured through several means: first, three members of the Bank's board would be directly appointed by the Ministry of Finance; second, the interest rate policies of the Bank, which had in fact always been considerably influenced by the government, were not legally subjected to the approval of the Finance Minister, who could also require changes in the rates; third, the Bank's accounts were to be inspected by resident officials; and fourth, the norms regulating the loans from the Bank to the government were eased.

The principal aim of the law (it was mentioned in its first article) was the recovery of the peseta, and the establishment of the gold standard. This was a

²⁸ See text in *Gaceta de Madrid*, 27 nov. 1931.

Table 12a. DAILY REAL WAGES IN SEVERAL SECTORS
IN 1925 PESETAS AND INDICES*

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
|-------------------|--------|-------|------------|-------|----------|-------|-------|-------|-------------|-------|-------|-------|
| | Mining | | Metallurgy | | Textiles | | | | Agriculture | | | |
| | | | | | Men | | Women | | Men | | Women | |
| | Ptas | Index | Ptas | Index | Ptas | Index | Ptas | Index | Ptas | Index | Ptas | Index |
| 1925 | 7.32 | 88.3 | 7.81 | 88.5 | 6.69 | 88.3 | 2.99 | 88.7 | 5.25 | 85.6 | 2.63 | 85.1 |
| 1926 | 7.58 | 91.4 | 8.13 | 92.2 | 6.88 | 90.8 | 3.07 | 91.1 | 5.46 | 89.1 | 2.73 | 83.3 |
| 1927 | 8.13 | 98.1 | 8.67 | 98.3 | 7.32 | 96.6 | 3.28 | 97.3 | 5.86 | 95.6 | 2.92 | 94.5 |
| 1928 | 8.46 | 102.1 | 9.04 | 102.5 | 7.74 | 102.1 | 3.44 | 102.1 | 6.21 | 101.3 | 3.11 | 100.6 |
| 1929 | 8.29 | 100.0 | 8.82 | 100.0 | 7.58 | 100.0 | 3.37 | 100.0 | 6.13 | 100.0 | 3.09 | 100.0 |
| 1930 | 8.45 | 101.9 | 8.96 | 101.6 | 7.65 | 100.9 | 3.42 | 101.5 | 6.21 | 101.3 | 3.23 | 104.5 |
| 1931 | 8.77 | 105.8 | 9.25 | 104.9 | 7.73 | 102.0 | 3.43 | 101.8 | 6.32 | 103.1 | 3.34 | 108.1 |
| 1932 | 9.10 | 109.8 | 9.43 | 106.9 | 7.92 | 104.5 | 3.55 | 105.3 | 6.68 | 109.0 | 3.51 | 113.6 |
| 1933 | 9.76 | 117.7 | 10.16 | 115.2 | 8.60 | 113.5 | 3.74 | 111.0 | 7.21 | 117.6 | 3.83 | 123.9 |
| 1934 | 9.59 | 115.4 | 9.99 | 113.3 | 8.49 | 112.0 | 3.75 | 111.3 | 7.12 | 116.2 | 3.78 | 122.3 |
| 1935 | 9.95 | 120.0 | 10.16 | 115.2 | 8.73 | 115.2 | 3.86 | 114.5 | 7.17 | 117.0 | 3.84 | 124.3 |
| 1936 ^b | 9.99 | 120.5 | 10.37 | 117.6 | 9.09 | 119.9 | 4.12 | 122.3 | 7.58 | 123.7 | 4.17 | 135.0 |

* The deflator used is the official wholesale price index as reproduced in PARIS EGUILAZ, *El movimiento de precios*, cit., or in *Estadísticas básicas*, cit.

^b Wage data for January-June only.

Source: Calculated from Table 12.

surprising admission of intent to make two months after the United Kingdom had abandoned the standard and also after the failure of Calvo Sotelo's policies in support of the peseta just two years before. In the minds of many, this failure was one of the key causes of the downfall of Primo de Rivera's Dictatorship. According to an anonymous but well informed and able commentator, this was "the first time that the Government of the Republic has been heard to mention the project of establishing the gold standard".²⁹ But it was even more surprising in view of the severe curtailment decreed by the law of the Bank's already limited discretionary powers of money management. As the Bank itself complained when the bill was being discussed,

The obligation is assigned to the Bank of maintaining the gold standard and regulating credit without being granted the means which are normally necessary according to practices which are current in the world.³⁰

Naturally, these two aims, reactivation to help the government in combating the depression, and stabilization to support the peseta and establish the gold standard, were incompatible and could not be achieved simultaneously. The

²⁹ "El Banco de España desde su fundación", in *Anuario Financiero y de Sociedades Anónimas de España*, 1934, pp. 281-300. We have translated a text from p. 298.

³⁰ Bank of Spain, *Actas Consejo General*, 30 October, 1931, our translation.

gold standard was, of course, never adopted, and the peseta's quotation fluctuated depending more on the vagaries of international markets and policies than on the rather desultory actions of the Spanish authorities.

On the whole although the Spanish authorities proclaimed their intent to maintain a deflationary policy, their actions were far from consistent.

Interest rates were kept comparatively high after 1931, but they were gradually reduced (Table 13). On the other hand, budget deficits increased, and reached record heights by 1935; the Bank of Spain was increasingly called upon to help finance the deficits and to support government projects. The Bank's accounts show a rather stable banknote circulation and volume of discounts. Table 9 shows a mild decline (except for 1933) of Bank of Spain lines of credit actually used by its customers.³¹

It has frequently been stated that the government's and the Bank's deflationary policies were among the "contributing factors of the social malaise of the period and perhaps of the 1936 civil war".³² Even if we leave aside the "premonition of the civil war", this statement is highly debatable. The fact that interest rates and credit volume moved downward in a parallel fashion suggests

Table 13. BANK OF SPAIN INTEREST RATES

| Year | (1) Discount | (2) | (3) | (4) | (5) | (6) Personal Loans |
|------|---------------------|-----|-----|-----|-----|--------------------------|
| | Loans on collateral | | | | | |
| 1920 | 6.0 | | 4.5 | | 5.5 | 6.5 |
| 1921 | 6.0 | | 4.5 | | 5.5 | 6.5 |
| 1922 | 5.5 | | 4.5 | | 5.5 | 6.0 |
| 1923 | 5.0 | | 4.5 | | 5.5 | 5.5 |
| 1924 | 5.0 | | 4.5 | | 5.5 | 5.5 |
| 1925 | 5.0 | | 4.5 | | 5.5 | 5.5 |
| 1926 | 5.0 | | 4.5 | | 5.5 | 5.5 |
| 1927 | 5.0 | | 4.5 | | 5.5 | 5.5 |
| 1928 | 5.5 | 4.5 | | 5.0 | 5.5 | 6.0 |
| 1929 | 5.5 | 4.5 | | 5.0 | | 6.0 |
| 1930 | 6.0 | 5.0 | | 6.0 | | 6.5 |
| 1931 | 6.5 | 5.0 | 5.5 | 6.0 | | 7.0 |
| 1932 | 6.0 | 5.0 | 5.5 | 6.0 | | 7.0 |
| 1933 | 6.0 | 5.0 | 5.5 | 6.0 | 7.0 | 7.0 |
| 1934 | 5.5 | 4.5 | 5.0 | 6.0 | 6.5 | 6.5 |
| 1935 | 5.0 | 4.0 | 4.5 | 5.0 | 6.0 | 6.0 |

Source: *Estadísticas Básicas*, cit. and Bank of Spain, Board reports.

³¹ P. MARTÍN-ACEÑA, *Spanish Monetary Policy, 1919-1936*, Unpublished manuscript, december, 1979; Bank of Spain, Reports and *Actas Consejo General*.

³² J. SARDÁ, "El Banco de España (1931-1962)", in *El Banco de España. Una historia económica*, Madrid, Banco de España, 1970, p. 424 (our translation); in the same, but more cautious, vein, F. EGUIDAZU, *Intervención monetaria*, cit., 96.

that it was demand shifts towards the origin rather than supply restrictions that were the causal factor of the mild deflation.³³

Verbal testimonies support this contention. The reports of the leading banks never complain about shortages of liquidity or credit attributable to the policies of the Ministry of Finance. On the contrary, they decry the "difficulty of giving adequate and lucrative employment [to their increasing resources] due to the manifest inactivity of industry, commerce, and business in general".³⁴

All evidence suggests that it was the deteriorating expectations in the "real" sector due, among other things, to the "social malaise" that depressed credit and monetary variables, rather than a deflationary monetary policy.

The repercussions of the international depression contributed also to the problems of the real sector. The impact of the external slump, however, was less hard than in most European countries. The high tariff protection, reinforced by the Dictatorship, and the relative unimportance of foreign capital investment during the twenties isolated the Spanish economy from the rest of Europe.

Foreign trade was a very modest share of national income (8.1% for imports and 6.2% for exports were the averages for the 1924-28 period). The depreciation of the peseta cushioned the downward shift in foreign demand.

Unquestionably, however, the export sector was seriously hit by the narrowing of markets in the United States, Great Britain, France, and Germany above all. Mining and the traditional agricultural export sectors, such as oranges, wine, and olive oil suffered the beggar-my-neighbor policies which became so widespread after 1931. But the situation could be summarized in the words of a publication by the Bank of Spain:

The great depreciation of the peseta as the world crisis broke out and spread prevented the fall in our prices and sheltered us from the depression. The closed and self-sufficient character of our economy on the one hand, our little industrialization on the other [plus] the rudimentary character of our system on the whole and in its small financings and businesses, all this has facilitated our relative isolation from the economic world and has contributed to make the crisis superficial.³⁵

³³ Temin uses the same reasoning to reject monetarist explanations of the Depression in the U.S. Cf. P. TEMIN, *Did Monetary Forces Cause the Great Depression?*, New York, Norton, 1976, pp. 121-137.

³⁴ BANCO ESPAÑOL DE CRÉDITO, report, 1932-33, Our translation.

³⁵ BANCO DE ESPAÑA, Servicio de Estudios, *Ritmo de la crisis económica española en relación con la mundial*, Madrid, Banco de España, 1934, p. 354. Our translation.

Banks and Industry in Depression

The economic contraction which took place in Spain during the thirties and whose causes we have briefly discussed, undoubtedly affected the banking system: the high growth rates of the twenties disappeared, and even in some cases turned negative; some banks experienced serious difficulties, and a few had to close doors. But nothing massive or dramatic occurred, no really important banks suspended payments; no large scale "salvaging operation" was required. In this the Spanish case distinctly differs from those of Italy, Austria or Germany; something which superficially may appear all the more surprising since Spain was soon to become the theater of a bloody civil war. Whatever economic causes can be ascribed to the conflict, a general banking crisis is not among them.

Tables 5, 6 and 10 summarize the situation. The number of banks affiliated with the Superior Banking Council (*Consejo Superior Bancario*) decreased by about 10% from 1928 to 1934; but we do not even know whether they went out of business or just interrupted their affiliation. Only one real resounding liquidation took place during the thirties, and this was that of the *Banco de Cataluña* in the spring of 1931. Rather special circumstances concurred, as we shall see, in this episode. As to the main items in the balance sheets of banks, it is obvious that the dazzling growth of the twenties was checked in the thirties, but no drastic downturn occurred. The only items which decreased were those relating to commercial banking, namely, current account deposits, discounts, and loans. Longer-term assets and liabilities, such as the securities portfolio (public bonds and industrial securities) and savings deposits all experienced healthy increases. The banking system as a whole never had a liquidity problem. The evidence runs quite in the opposite direction.

Table 14 shows some of this evidence: in it, Column 1 lists the system's main resources, namely capital plus deposits; Column 2, its main earning assets, i.e., portfolio and loans. The ratio of these two declined overtime, but the downturn came in 1928 and the trough in 1931. After that date the trend swung back and the tendency was for resources to overtake earning assets. The liquidity squeeze, therefore, if there ever was one, eased off after 1931. This analysis can be refined for some years: if we subtract public debt bonds from the bank's portfolio the liquidity situation as portrayed by the evolution of the resources-earning assets ratio should be more accurately reflected, for we know that most of these government bonds could be used for automatic collateral loans at the Bank of Spain; from the standpoint of liquidity, therefore, they could be considered almost as cash. Unfortunately, our data do not permit us to make the subtraction for all the years; but we can do it for enough of them so

Table 14. ALL BANKS: RESOURCES/EARNING ASSETS RATIO
(Cols. 1,2 and 4, in million of 1913 pesetas)

| Year | (1) Resources ^a | (2) Earning assets ^b | (3) Resources/ earning assets ^c | (4) Not-gov't earning assets ^d | (5) Resources/ non-gov't assets ^e | (6) Cash/ earning assets Ratio | (7) Cash/ non-gov't assets |
|------|-------------------------------|---------------------------------------|---|--|---|--|-------------------------------------|
| 1923 | 2,871.8 | 2,687.1 | 1.0687 | 2,015.8 | 1.4252 | 0.1811 | 0.2414 |
| 1924 | 2,858.6 | 2,603.1 | 1.0982 | n.a. | n.a. | 0.1922 | n.a. |
| 1925 | 2,966.2 | 2,460.7 | 1,2054 | n.a. | n.a. | 0.2262 | n.a. |
| 1926 | 3,261.7 | 2,673.5 | 1.2200 | n.a. | n.a. | 0.2274 | n.a. |
| 1927 | 3,861.7 | 3,042.9 | 1.2691 | n.a. | n.a. | 0.2345 | n.a. |
| 1928 | 4,738.9 | 3,814.2 | 1.2424 | n.a. | n.a. | 0.2285 | n.a. |
| 1929 | 4,629.6 | 4,548.1 | 1.0179 | 3,304.4 | 1.4010 | 0.1944 | 0.2675 |
| 1930 | 4,890.9 | 4,906.5 | 0.9968 | 3,557.4 | 1.3749 | 0.1832 | 0.2527 |
| 1931 | 3,811.4 | 4,452.2 | 0.8561 | n.a. | n.a. | 0.1953 | n.a. |
| 1932 | 4,413.0 | 4,538.7 | 0.9723 | 3,084.3 | 1.4308 | 0.2067 | 0.3041 |
| 1933 | 4,857.2 | 4,918.9 | 0.9875 | 3,343.4 | 1.4528 | 0.2035 | 0.3073 |
| 1934 | 5,040.6 | 5,106.6 | 0.9886 | 3,369.3 | 1.4984 | 0.1967 | 0.2981 |

n.a.: data not available.

^a Total capital plus total deposits (col. 4 + col. 7 in Table 5).

^b Portfolio plus loans (col. 11 + col. 12 in Table 5).

^c Total employments minus public bonds in portfolio (col. 11 - col. 9 in Table 5).

^d Col. 1 / col. 2.

^e Col. 1 / col. 4.

Source: Calculated from *AFYDSADE*.

the broad trend shows quite clearly: the ratio of bank resources to non-government earning assets seems to have declined during the twenties, reached a trough in or around 1930, and then climbed up very quickly, reaching a peak in our last year, 1934. The cash-earning assets ratio shows very similar outlines. Although the figures are not strictly comparable, some manuscript reports by the Bank of Spain Research Department (*Servicio de Estudios*) appear to justify the assumption that this state of affairs endured until the outbreak of the war.³⁶

These elementary analyses, therefore, confirm the truth of the *Banesto's* complaint in 1933 about the lack of "adequate and lucrative employment" to its resources. Rather than a fall in the money supply, the predominant force in the money markets of Spain seems to have been a fall in demand.

If from the banking sector as a whole we shift our attention to the "big six", the mixed banks which had the closest relationship with the industrial sector, the conclusions are fairly similar.

It is quite obvious that the "big six" also saw their activities curbed by the depression. It is noteworthy, however, that they tended to become more mixed

³⁶ BANCO DE ESPAÑA, *Cuadros estadísticos correspondientes al estudio de la situación económico-financiera de España, Julio, de 1936*. (Manuscript in the Library of the Bank of Spain).

or, in other words, that they became more specialized in investment banking. Their loans and discounts decreased faster than those of the average bank; their portfolio of industrial securities increased while that of the other banks decreased during the thirties. It is interesting to point out that the divergence was sharpest between the "big six" (plus the Banco Pastor, a leading investment bank) and the smaller mixed banks, which divested themselves of some 30 million constant pesetas in industrial securities between 1930 and 1934 (Table 3). The large mixed banks also acquired increasing amounts of public debt bonds; in this they followed the general trend; but they subscribed in larger quantities than the average not only in absolute, but also in relative terms.

The "mixed" policies of the "big six" can be considered successful in so far as their combined profit rate remained above the average (Table 15). It declined, however, during the thirties, in a fashion similar to that of all banks. We should also note that the "big six" rate masks surprising deviations around the mean which bear thorough investigation.

The reasons for the relative stability of the banking sector are several, but one seems to stand out: the impact of the Great Depression on the Spanish economy was relatively mild and delayed. It is difficult, if not impossible, to isolate external from internal factors in the Spanish crisis of the thirties. But we have shown that there were very considerable internal independent elements to have provoked a sharp downturn in 1931 and then a moderate and partial recovery in the ensuing years.

Table 15. RATES OF PROFITS: ALL BANKS AND "BIG SIX"
(Profits/Paid-in Capital)

| Year | (1) All Banks | (2) "Big Six" |
|------|------------------|------------------|
| 1922 | 16.34 | 18.97 |
| 1923 | 18.76 | 18.96 |
| 1924 | 16.39 | n.a. |
| 1925 | 15.32 | n.a. |
| 1926 | 14.96 | n.a. |
| 1927 | 16.67 | n.a. |
| 1928 | 18.24 | n.a. |
| 1929 | 16.21 | 18.92 |
| 1930 | 15.49 | 18.57 |
| 1931 | 10.80 | n.a. |
| 1932 | 10.93 | 13.16 |
| 1933 | 10.82 | 12.65 |
| 1934 | 11.70 | 13.08 |

n.a.: data not available.

Source: Calculated from *AFYDSADE*.

The critical year of 1931 witnessed a series of unique developments centered around the fall of the Monarchy and the proclamation of the Republic. A general atmosphere of disquiet and expectation seriously affected business circles and the economy in general. A middle-sized bank went out of business, several more were rumored to be on the verge of bankruptcy,³⁷ and a very substantial withdrawal of bank deposits and capital evasion took place. But the situation of the banking sector improved in the following years.

The case of the Bank of Catalonia is instructive, because it shows the confluence of political and economic forces in the only resounding bank failure of the thirties. The Catalonia was established in 1920 and experienced a very fast growth process during the twenties; it had close ties with the high circles of the Dictatorship, especially with Calvo Sotelo³⁸ and took a part in many of the regime's pet projects (Banco Exterior, Banco de Crédito Industrial, Petrol Monopoly). It also had large investments in a cork manufacturing and exporting firm (Compañía Nacional del Corcho), whose situation was seriously impaired by the international depression.³⁹ According to Cabana the Catalonia was forced to suspend payments because Prieto ordered CAMPSA (the Petrol monopoly) to withdraw its deposit with the bank. It seems doubtful, nevertheless, that the withdrawal of a company account, however large, should cause the liquidation of a bank and a criminal suit against one of its managers. It is more plausible that the CAMPSA account may have been withdrawn not only for reasons of political revenge, but also because the Catalonia's troubled situation was known to the Ministry of Finance and the decision was made to safeguard the company's monies against a suspension of payments.

To conclude this point, the case of the Bank of Catalonia was paradigmatic because, first, it entailed the liquidation of one of the economic allies of the Dictatorship; second, it marked the failure of an industry with a large dependence upon foreign markets and very seriously affected by the international depression; and, third, it was a fairly isolated case.

Export industries were hurt by the Depression, and heavy industries were hit by the relative decline in government expenditures. But all in all Spanish industry as a whole seems to have withstood the thirties relatively well. Table 11 tells us what happened. The general (weighted) industrial index shows a mild decline from 1931 to 1933, and a recovery in 1934 and 1935. However, more meaningful than the general index are the partial indices, which exhibit

³⁷ AZAÑA, *Obras Completas*, cit., IV, 7 and 17 July, 1931.

³⁸ CABANA, *La banca*, cit., pp. 112-116.

³⁹ It apparently managed to sell some cork shares to the semi-official Banco Exterior: vid. AZAÑA, *Ibid*, 17 July 1931.

two clearly diverging trends: a sustained fall in the output of heavy industry and export activities (Columns 3, 4, 5, 6 and 7), and a clear increase in chemicals, consumer industries, and power (Columns 1, 2, 8, 9 and 1);⁴⁰

The growth of light industry appears to have been greatly aided by the income redistribution process which took place during the thirties, and whose most important manifestation was the widespread increase in real wages (see Table 12). Coupled with a relatively moderate unemployment rate, somewhere around 7.5%,⁴¹ this implied a vastly expanded popular purchasing power, which undoubtedly increased the demand for foodstuffs, clothing, and other consumer goods. The growth in these final demand industries no doubt produced an induced effect upon power and the chemical industry, this last one also stimulated by the expansion of agricultural output, which was evident during the thirties (with the exception of viticulture).

The increase of lower incomes also served to cushion, from the bank's standpoint, the fall in companies's deposits. Current account deposits decreased, but this was more than compensated by the growth in savings accounts. After a dip in 1931, banks's total resources went up steadily mostly due to the increase in savings deposits. The problem for the banking sector was not, as we know, a shortage of liquidity, but rather of employments for these resources. Non-government earning assets of banks declined steadily (Table, 14 column, 4) until 1933, and then recovered, but only partially. This explains why banks should have turned increasingly to purchasing government bonds and also why the profit rate should have declined, however mildly (Table 15).

⁴⁰ Some comments on the discrepancies between Tables 7 and 11 are in order here. The sources of the tables are different, and so are the series included in the indices and possibly their weights.

The indices in Table 7 come from a volume published by the Bank of Spain in 1934 comparing Spain's economic performance with those of several major countries. Spanish figures were gathered and treated by the Bank's research department, while international data were gathered from League of Nations's publications. Table 11's indices were published in a volume by the Consejo de Economía Nacional (CEN) in 1945 and are part of a first attempt to estimate a series of Spanish National Income for approximately the first half of the twentieth century. While having the advantage of having been published at a later date, the CEN figures seem to us to be less trustworthy. They have been criticized both partially and *in toto*. The explanations given in the volume are rather vague as to the sources and weights in the indices. A careful comparison of the two tables, however, reveals that the discrepancies are far from irreconcilable. The trends in the "textile output" and "general" indices are roughly similar although the indices in Table 7 are clearly under those in Table 11. The textile index in Table 7 includes wool and cotton yarn; the textile index in Table 11 includes only cotton (the CEN specifies "raw cotton"; this is confusing, as raw cotton is an industrial input rather than an output; the CEN may have used raw cotton imports as a proxy for cotton yarn output, but this is not spelled out clearly in the text). In spite of their imperfections, however, the indices in Table 11 seem to us to be acceptable for the impressionistic analysis we are carrying out here.

⁴¹ Cf. BANCO DE ESPAÑA, *Cuadros estadísticos*, cit.; and *Estadísticas básicas*, cit.

Table 16. TWO ESTIMATED OF SPANISH NATIONAL INCOME, 1919-1935, IN CONSTANT PESETAS

| | (1) CEN ^a | (2) Index of Col. 1 1929 = 100 | (3) Alcaide ^b | (4) Index of Col. 3 1929 = 100 |
|------|-------------------------|--------------------------------------|-----------------------------|--------------------------------------|
| 1919 | 167,910 | 80.7 | 315,252 | 76.2 |
| 1920 | 179,861 | 86.5 | 319,413 | 77.2 |
| 1921 | 172,248 | 82.8 | 316,922 | 76.6 |
| 1922 | 168,207 | 80.9 | 322,767 | 78.6 |
| 1923 | 177,131 | 85.2 | 330,916 | 80.0 |
| 1924 | 174,970 | 84.1 | 338,527 | 81.9 |
| 1925 | 186,912 | 89.9 | 364,111 | 88.0 |
| 1926 | 183,003 | 88.0 | 372,033 | 90.0 |
| 1927 | 196,142 | 94.3 | 393,501 | 95.2 |
| 1928 | 186,154 | 89.5 | 403,147 | 97.5 |
| 1929 | 207,953 | 100.0 | 413,558 | 100.0 |
| 1930 | 198,806 | 95.6 | 411,266 | 99.4 |
| 1931 | 198,178 | 95.3 | 418,924 | 101.3 |
| 1932 | 212,316 | 102.1 | 434,314 | 105.0 |
| 1933 | 191,317 | 92.0 | 429,840 | 103.9 |
| 1934 | 215,648 | 103.7 | 451,384 | 109.1 |
| 1935 | 208,580 | 100.3 | 442,758 | 107.1 |

^a In millions of pesetas of 1953.

^b In millions of pesetas of 1964.

Sources: Col. 1: CONSEJO DE ECONOMÍA NACIONAL, *La Renta Nacional de España, 1940-1964*, Vol. VI, as reproduced in PEDRO SCHWARTZ, *El Producto Nacional de España en el siglo XX*, Madrid, Instituto de Estudios Fiscales, 1977.

Col. 3: JULIO ALCAIDE INCHAUSTI, "Una revisión urgente de la Renta nacional española en el siglo XX" in Ministerio de Hacienda, *Datos Básicos*, cit., Vol. I.

Cols. 2 and 4: Calculated from the above.

The trends of the banking sector as a whole appear magnified in the "big six". They turned to public debt bonds at a faster rate than the average bank, while their commercial assets declined faster than average also. Most interestingly, the "big six" took advantage of the depression in stock exchange prices to expand their industrial portfolio (See Tables 3 and 10), while the other banks were doing just the opposite. The "big six" probably did this to prevent the stock of their own companies to fall excessively. But it is symptomatic that they should have been able and willing to do it. Their expectations could not have been all that pessimistic.

Conclusions

For the purposes of this meeting probably the most salient conclusion to be drawn from this study is that the Spanish banking system stood up remarkably well to the Great Depression, and that it did so after a period of accelerated growth in the twenties during which very strong links between banks and

industry were created and reinforced. Although the largest Spanish banks, as their Italian or German counterparts, were mixed banks, their substantial industrial portfolios did not weigh them down excessively.

A lot of research remains to be done on the topics dealt with in this paper, but some provisional hypotheses can be sketched about the causes of this stability.

First, the impact of the Great Depression on Spain was muted and delayed, owing to Spain's relative backwardness, its high degree of agricultural self sufficiency, its high tariff barriers, and the early depreciation of the peseta (in fact, the peseta appreciated steadily in terms of sterling and dollars, and held its own against the franc, after 1931).

Second, industry also benefited from the redistribution of income which followed the proclamation of the Republic. This stimulated consumer goods industries, agriculture, power, and chemicals. This also brought about a steady increase in savings deposits, which more than compensated for the loss of resources by the banks due to a decline in current account deposits. The stimulus to light and other industries about compensated the fall in export, mechanical, and construction industries.

Third, monetary policies were not as restrictive as it was previously believed. Interest rates, although high, declined from 1931 onwards. Furthermore, the increasing control of the Bank of Spain by the government as a consequence of the Banking Law of 1931 made the Bank more responsive to social needs. The records of its Board show how Prieto's strictures were not lost upon the Board's members. Skilfully prodded by the successive governors and by the three new Board members (all government appointments), and desirous to avoid confrontation with the Finance Ministers who held the post after Prieto, the Bank became more liberal in its loan policies toward semi-official institutions. We have no way at this point to gauge the effect of this new attitude upon the banking community at large, but it can logically be assumed that it contributed to augment business confidence.

