
Financial Reconstruction in Spain after the Loss of the Last Colonies

Joseph Harrison
University of Manchester

The series of financial measures introduced in Spain in 1899-1900 by Raimundo Fernández Villaverde have been widely acclaimed by subsequent commentators. The commission set up in 1929 to consider Spain's adoption of the Gold Standard reported that "perhaps no other political work in the history of modern Spain has had such ample recognition as the reform of our Treasury after the colonial disaster".¹

More recently, in a contribution to the official history of the Bank of Spain, Gabriel Tortella referred to Villaverde's reforms as "the only national regeneration which followed the drama of 1898".²

This posthumous acclaim, however, should not obscure the fact that the Finance Minister's own intentions were less ambitious. In a speech to the *Congreso* on February 19th 1900 he declared

¹ 'Dictamen de la Comisión nombrada por el real orden de 9 de enero de 1929, para el estudio de la implantación del patrón de oro', *Información Comercial Española*, 318 (1960), 62.

² G. TORTELLA, 'El Banco de España entre 1829-1929: una historia económica (Madrid, 1970), p. 295.

his modest labours to be directed not towards the regeneration of Spain but the simple reconstitution of the Exchequer.³

As a staunch advocate of the quantity theory of money, then much in vogue in the financial circles of Madrid, Villaverde believed that there existed an automatic relationship between the exchange rate and the quantity of banknotes in circulation. Under his guidance the aim of the Spanish Treasury was to liquidate its debts with the Bank, many of them recently acquired in the costly Cuban campaign, together with a reduction in fiduciary circulation. In such a way Villaverde hoped to reverse the sharp deterioration in the value of the peseta which accompanied the final months of the Cuban war and its tragic aftermath.

When Villaverde resigned from office in July 1900 his ambitious programme remained incomplete. Above all, the continuing depreciation of the peseta was to preoccupy his successors during the following years.⁴ In the short-run, moreover, Villaverde's obsession with balancing the budget, which led the ageing José Echegaray to coin the phrase "the holy fear of the deficit",⁵ undoubtedly proved an obstacle to the reconstruction of the real economy.⁶

I

Many of the *fin de siècle* financial reformers saw the origins of the problems which beset Spain in a decree of March 1874, later approved by the Restoration régime in July 1876, which granted the Bank of Spain a monopoly of note issue. The decree

³ Cited in G. SOLÉ VILLALONGA, *La reforma fiscal de Villaverde, 1899-1900* (Madrid, 1967), p. 47.

⁴ See A. GARCÍA ALIX, *El presupuesto de reconstrucción: política comercial, banco y tesoro, subsistencias* (Madrid, 1907), *passim*.

⁵ Cited in J. G. CEBALLOS TERESI, *Historia económica, financiera y política de España en el siglo XX*, vol. 1, (1901-14) (Madrid, 1932), 178.

⁶ For an overall view of monetary policy in this period see L. OLARIAGA, *La política monetaria en España*, new edition (Barcelona, 1977), pp. 94-96 and 108-13.

of Somorrostro, as it was known, which revoked an earlier Act of 1856 allowing for "a plurality of issuing banks", was conditioned by the near bankruptcy of the state in the years after the fall of the Isabelline monarchy. Between 1868 and 1874 the level of public Debt in circulation nearly doubled, rising from 5,541 million pesetas to 10,184 million. In the latter year, following the collapse of the ill-fated Federal Republic, interest repayments on the public Debt accounted for 77 per cent of total Treasury receipts.⁷

It was to combat this deteriorating situation that in 1874 Finance Minister Echegaray announced his decision "to create on the basis of the Bank of Spain, and with the help of the provincial banks, a new financial force to come to the aid of the Public Exchequer".⁸

Among the stated objectives of the reconstituted Bank two stood out: "to create a single fiduciary circulation" and "to come effectively to the aid of commerce".⁹ Yet to the growing dismay of industrialists the former of the two objectives came to prevail in the next quarter of a century as, in the opinion of one financial historian, the Bank became the "guardian angel" of the state.¹⁰ Behind this development lay the stagnated taxation system of Spain, dating back to the reforms of Alejandro Mon in the 1840s, which forced the state to meet its financial needs through the creation of money.¹¹

⁷ G. SOLÉ VILLALONGA, *La Deuda pública española y el mercado de capitales* (Madrid, 1964), p. 27; J. MARTÍN NIÑO, *La hacienda española y la revolución de 1868* (Madrid, 1972), p. 99.

⁸ *Colección legislativa de España*, CXII (1874), p. 477.

⁹ Banco de España, *Memoria* (Madrid, 1874), p. 13, cited in R. ANES, 'El Banco de España (1874-1914): un Banco nacional', in G. TORTELLA and P. SCHWARTZ, eds. *La banca española en la Restauración*, 2 vols. (Madrid, 1974), 1, 130.

¹⁰ J. A. GALVARRIATO, *El Banco de España: su historia en la centuria 1829-1929* (Madrid, 1932), p. 121.

¹¹ The absence of any major alteration in the source of the state's revenue in the

The decree of 1874 conferred upon the Bank the right of note issue in Spain and the adjacent islands up to the sum of 750 million pesetas provided always that it maintained one-quarter of that amount in its vaults in the form of gold and silver bars.

TABLE 1

BANKNOTES IN CIRCULATION 1874-1901, IN MILLIONS OF PESETAS

Year	Amount	Year	Amount
1874	71.7	1888	719.7
1875	127.8	1889	735.5
1876	158.5	1890	734.1
1877	156.6	1891	811.7
1878	174.4	1892	884.1
1879	192.9	1893	927.7
1880	243.1	1894	909.7
1881	346.2	1895	994.9
1882	333.6	1896	1031.4
1883	350.9	1897	1206.3
1884	383.3	1898	1444.0
1885	469.0	1899	1517.9
1886	526.6	1900	1591.6
1887	612.1	1901	1638.8

Source: Banco de España, *Memorias*, cited in R. Anes, *op. cit.*, 1, 139.

As Table 1 shows, the limit of 750 million pesetas was almost reached within a decade and a half. Between 1875 and 1889 the amount of notes in circulation quintupled from 128 to 736 million

four decades after the Mon reforms is shown below:

Source of Revenue	Year	
	1850	1890-91 per cent
Direct taxation	28.1	32.0
Indirect taxation	31.2	35.6
Monopolies	27.4	20.3
State properties and taxes	6.4	4.3
Treasury reserves	6.9	7.8
	100.0	100.0

Source: J.M. Tallada, *Historia de las finanzas españolas en el siglo XIX* (Madrid, 1946), p. 111.

pesetas. Following pressure for increased military spending, two years later in 1891 Cos-Gayón renewed the Bank's privilege and extended the limitation on note issue to 1,500 million pesetas, with a one-third guarantee in precious metals.

Cos-Gayón's actions prompted a further upsurge in fiduciary circulation which continued practically unchecked for another decade, apart from the recession year of 1894. From 1896 to 1898, coinciding with the mounting campaigns in Cuba and the Philippines and the war with the United States, the annual rate of increase averaged 15.1 per cent. Aided by the decree of López Puigcerver of August 1898 which further raised the limit of fiduciary circulation from 1,500 to 2,500 million pesetas, the upward trend persisted until 1901 when the quantity of banknotes in circulation reached 1,639 million pesetas.

The increase in fiduciary circulation, which was a matter of some concern for politicians and financiers after 1891, can be explained by a number of factors.

First of all, we must bear in mind that the statistics cited by contemporaries refer to the Bank of Spain alone. After the 1874 decree the note circulation of the Bank expanded in order to compensate for the removal of the provincial bank's rights of issue.

Secondly, the growing circulation of banknotes coincided with the gradual disappearance of gold from the coinage. Gabriel Tortella calculated that the stock of gold in the hands of the public fell drastically from 1,131 million pesetas in 1874 to practically nil after 1897 when the only gold in Spain consisted of part of the metallic cover in the vaults of the Bank.¹² The disappearance of gold was itself partly the result of a drop in silver prices after the beginning of the 1870s. The Spanish Treasury bought up large quantities of the depreciated metal which it minted at a considerable profit to itself, thereby driving gold out of circu-

¹² G. TORTELLA, 'Las magnitudes monetarias y sus determinantes', in TORTELLA and SCHWARTZ, eds., *op. cit.*, 1, 472.

lation. Over the same period Spain exported large amounts of gold, particularly to France, to cover her massive trade deficit. Between 1882 and 1895 imports exceeded exports by 877 million pesetas while the international depression brought a substantial reduction of compensating foreign investment after 1882.

Thirdly, as modern economists point out, fiduciary circulation expanded as a natural consequence of Spain's economic development in the final quarter of the century. In the absence of the widespread use of cheques, banknotes were in increased demand for commercial transactions. Juan Sardá argued that the expansion of the money supply after 1891 together with the protective tariff of that year enabled Spain to overcome the worst excesses of the international depression.¹³

The beneficial consequences of the expansion of the money supply, acknowledged by a succession of later writers,¹⁴ were little remarked upon at the time. Contemporary commentators tended to stress the apparent correlation between the rise in fiduciary circulation and the depreciation of the exchange rate. (See Table 2).

TABLE 2
THE AVERAGE ANNUAL PREMIUM OF THE PESETA ON PARIS, 1881-98

Year	Premium	Year	Premium
1881	— 0.40	1890	4.33
1882	1.80	1891	6.56
1883	1.60	1892	15.32
1884	1.20	1893	18.86
1885	2.50	1894	20.15
1886	2.20	1895	14.86
1887	0.82	1896	20.65
1888	1.68	1897	29.58
1889	3.25	1898	53.85

Source: E. Théry, *La situation économique et financière de l'Espagne*, (Paris, 1899), p. 26.

¹³ J. SARDÁ, *La política monetaria y las fluctuaciones de la economía española en el siglo XIX* (Madrid, 1948), pp. 224-27.

¹⁴ See espec. OLARIAGA, *op. cit.*, pp. 92-93; TALLADA, *op. cit.*, p. 151; TORTELLA, *El Banco de España*, p. 156.

Public opinion reacted strongly against what it considered to be the deleterious effects of the higher rate of exchange, viz. more expensive imports, a rise in the cost-of-living due to the increased cost of imported foodstuffs and a resultant demand for higher wages. French observers, in particular, attacked these developments: as shareholders in the main railway companies, they received their dividends, if at all, in devalued pesetas.¹⁵

One critic of Cos-Gayón's Act of 1891, widely adjudged responsible for this state of affairs, dubbed it the main cause of Spain's economic malaise.¹⁶

II

The Treasury's growing dependence on the Bank was highlighted by the Cuban campaign of 1895-98. With the exception of the *Banque de Paris et Pay Bas* which briefly lent the Spanish state 50 million francs, foreign support for Spain's overseas adventure was almost entirely absent.¹⁷

In the year preceding the outbreak of hostilities there was a marked improvement in the country's financial position. The fiduciary situation fell by 19.8 million pesetas in 1894 (see Table 1), the deterioration of the peseta against other currencies was temporarily halted (see Table 2) while interest payments on the public Debt of 6,823 million pesetas stood at 310 million or 40.1 per cent of total budgetary expenditure. Moreover, the budget deficit, which had averaged 88.8 million pesetas for the previous

¹⁵ See for example E. THÉRY, *La situation économique et financière de l'Espagne* (Paris, 1899), pp. 7-9.

¹⁶ L. RODRÍGUEZ, *Hacienda pública y reconstitución nacional* (Madrid, 1899), p. 16; for a verdict almost as harsh see G. RODRÍGUEZ, *El crédito, los cambios y el presupuesto* (Madrid, 1892), p. 34.

¹⁷ J. M. JIMÉNEZ y RODRÍGUEZ, *Estudio crítico de la crisis monetaria* (Madrid, 1905), p. 183; J. DE DÍOS BLAS, *La Deuda pública: su unificación y extinción* (Madrid, 1898), p. 5.

decade, fell sharply to a mere 25.2 million in 1894-95 (see Table 3).¹⁸

TABLE 3
SPANISH BUDGETS FROM 1884-85 TO 1894-95, IN MILLION OF PESETAS

Year	Income	Expenditure	Balance
1884-85	772.5	893.6	— 101.2
1885-86	796.2	890.6	— 100.4
1886-87	814.6	940.1	— 125.5
1887-88	760.7	843.2	— 82.5
1888-89	713.1	854.5	— 141.4
1889-90	752.9	835.2	— 82.3
1890-91	753.9	831.2	— 77.3
1891-92	748.8	823.5	— 74.7
1892-93	719.5	767.9	— 48.4
1893-94	718.2	772.2	— 54.0
1894-95	754.3	779.6	— 25.2

Source: E. Théry, *La situation économique et financière de l'Espagne* (Paris, 1899), p. 6.

The outbreak of hostilities in Cuba surprised the Finance Ministry in Madrid which dispatched 8.75 million pesetas to the island's Governor in February and March 1895. Shortly afterwards an additional 25 million pesetas was placed at the Governor's disposal provided by advances made on the 1890 issue of Cuban 5 per cent bonds. This amount, however, fell far short of the requirements of the Spanish commander on the island, Marshall Campos, whose forces lacked even basic supplies.¹⁹

As the war proceeded, official sources in Madrid maintained that, given her perennial budgetary deficits, Spain could contribute only part of the total expenditure required to put down the Cuban revolt, viz. the cost of naval and military preparations in the Peninsula.²⁰

¹⁸ THÉRY, *op. cit.*, p. 6; DÍOS BLAS, *op. cit.*, p. 12; SOLÉ VILLALONGA, *La reforma de 1899-1900*, p. 98.

¹⁹ *The Economist*, May 11, 1895.

²⁰ *Ibid.*

The renewed deterioration in the exchange rate in 1895 and 1896 (see Table 2) brought a further appeal to foreign bankers for resources to purchase ships, arms and supplies which were fast absorbing the funds advanced by the Bank of Spain and the sale of Cuban bonds. Yet the many requests met with no response.²¹

In February 1896 *The Economist* calculated that the war in Cuba was costing Spain £ 1 million (25 million pesetas) a month, while three months later, as reinforcements arrived on the island, this figure rose to £ 1.2 million (30 million pesetas). The same paper reckoned that the first eighteen months of the struggle cost the imperial power £ 16.5 million (413 million pesetas).²²

Great difficulties were encountered by the Spanish authorities in their attempts to obtain additional finance for the military campaign in the second half of 1896.

An authorisation of the *Cortes* of June 1896 enabled the Government to raise another 372 million pesetas on Interior 5 per cent bonds redeemable in 8 years which were issued at 93 per cent of their nominal value (400 million pesetas). This operation, guaranteed by the proceeds of the Peninsular customs, was launched on November 3rd 1896. Its success far exceeded the most optimistic forecasts, enabling the authorities to cover further expenditure in Cuba as well as to reimburse advances from domestic banks and the *Banque de Paris et Pays Bas*.²³

In July 1897 one hundred million pesetas of Philippine 6 per cent bonds were issued in Manila, redeemable in 40 years. This sum was later doubled.²⁴

However, the costs of the war continued to escalate. By the start of 1898 *The Economist* estimated that monthly expenditure

²¹ *Ibid.*, 5 Nov. 1895.

²² *Ibid.*, 8 Feb. 1896, 9 May 1896.

²³ *Ibid.*, 13 March 1899; Parliamentary Papers, Diplomatic and Consular Reports on Trade and Finance (hereafter P. P.), *Report on the Spanish Estimates and Finances for the Year 1898-99*, CII (1899), 419; JIMÉNEZ y RODRÍGUEZ, *loc. cit.*

²⁴ JIMÉNEZ y RODRÍGUEZ, *loc. cit.*

had risen to £ 1.6 million (40 million pesetas) while a further £ 800,000 (20 million pesetas) was required to pay part of the nine months back pay owing to the troops. In near despair the Treasury again appealed to the Bank of Spain.²⁵

As a temporary solution to the nation's impecuniosity, on April 26th 1898 Finance Minister López Puigcerver introduced an extraordinary budget containing a bill to provide ways and means of fighting the wars in Cuba and the Philippines which by then occupied a quarter of a million men. The aim of the bill, which received the royal assent on May 17th 1898, was to supply the exact amount necessary to meet ordinary expenditure without increasing the floating Debt. To achieve this, López Puigcerver imposed an additional war tax of 20 per cent on a wide range of goods and services. He also ordered an export tax assessed at 2½ per cent *ad valorem* and a 5 per cent stamp tax on all letters and telegrams in circulation in the Peninsula and Spanish possessions.²⁶

Although it is impossible to calculate with any exactitude the costs of the three year campaign along with the Spanish American War, *The Economist* estimated at £ 120 million (3,000 million pesetas). This figure coincides with the calculations of the banker Jiménez y Rodríguez and that arrived at in Rafael Anes' recent study. A significant proportion of the funds obtained came from the Bank of Spain which, according to *The Economist*, advanced nearly £ 48 million (1,200 million pesetas) during the course of the war.²⁷

III

The colonial wars seriously exacerbated Spain's financial situation which, as we have seen, was already causing alarm to

²⁵ *The Economist*, 15 Jan. 1898.

²⁶ *Ibid.*, 7 May 1898; P. P., *op. cit.*, pp. 399 and 415-18.

²⁷ *The Economist*, 18 Feb. 1899; 20 May 1899; JIMÉNEZ y RODRÍGUEZ, *op. cit.*, p. 184; R. ANES, *op. cit.*, p. 147.

financial observers in the early nineties. The 3,000 million pesetas which the war cost the Iberian nation were reflected in the expansion of the public Debt which stood at 8,517 million pesetas at the end of the financial year 1898-99 when interest payments accounted for 42 per cent of budgetary expenditure.²⁸

Spanish Exterior Debt, which stood at 79.25 in Paris in March 1895, fell to 29.75 after the sinking of the Spanish squadron on May 6th 1898 after which it rose steadily to reach 46.50 by the end of the year. The foreign exchanges were similarly hit. In March 1895 the peseta had recovered from its earlier plight to stand at 7 per cent premium on Paris. On the news of the naval disaster it rose to 115 per cent, falling to 29 by the end of the year.²⁹

In the aftermath of the *débâcle* neither the Liberal Government of Sagasta nor the Conservative opposition appeared to possess any overall plan with which to tackle the financial crisis. Press reports quoted Overseas Minister Romero Girón, faced with the widespread belief that it was beyond the nation's capacity to raise additional revenue, as declaring his support for repudiating the Cuban debt and indefinitely suspending amortization. In similar vein, his colleague at the Exchequer, López Puigcerver, informed the lower house that Spain was under no obligation whatsoever to settle its colonial debts.³⁰ Inevitably this statement was immediately criticised by Spanish bondholders who held the bulk of such debts. The Bank of Spain in particular held in its portfolio over one thousand million pesetas of Cuban bills issued by the Overseas Ministry.

Even so, an improvement occurred after the Treaty of Paris of December 1898 by which the islands of Cuba, Puerto Rico and the Philippines were taken away from Spain. The United States'

²⁸ SOLÉ VILLALONGA, *La Deuda pública española*, pp. 28 and 39.

²⁹ JIMÉNEZ y RODRÍGUEZ, *op. cit.*, p. 180; R. FERNÁNDEZ VILLAVARDE, *El problema del cambio en España* (Madrid, 1901), p. 5.

³⁰ *La Estafeta*, 27 Feb. 1899.

government paid Spain an indemnity of 20 million dollars for the Philippines while Germany handed over 25 million pesetas as a purchasing price for the Caroline Islands. The ailing peseta was also fortified by the repatriation of savings by returning *emigrés* from Cuba. Moreover, between October 1898 and May 1899 Spaniards sold off 275 million pesetas of External Debt to syndicates and speculators in Paris, Brussels and Berlin, thereby driving up the quotation from 41 to 61 within the space of seven months.³¹

On March 4th 1899 Villaverde entered office in Francisco Silvela's so-called Government of National Regeneration. He immediately impressed observers by the enormous energy he put into preparing his programme for the reconstruction of Spanish finances.

Villaverde did not lack advice. Probably the most significant recommendations, measured by the amount of press coverage, came from the editor of the *Économiste Français*, Paul Leroy Beaulieu, who had been a respected commentator on Spanish financial affairs for almost a decade.

Leroy Beaulieu did not underestimate the enormity of the task confronting Villaverde. Yet, he noted with satisfaction the recent improvement in the economic indicators. Selecting data which turned out to be overly pessimistic, Leroy Beaulieu calculated that Spain had incurred additional debts of 4,000 million pesetas during the colonial wars. Assuming a rate of interest of 5 per cent, this would require a further 200 million pesetas to be added to the expenditure side of the budget to provide for interest payments.

The minister had, therefore, two alternatives in his forthcoming budget in order to reduce the possibility of an increased deficit; to bring in further revenue or, as the nation's farmers

³¹ *The Economist*, 20 May 1899; JIMÉNEZ y RODRÍGUEZ, *op. cit.*, p. 191.

and industrialists were increasingly urging him, to cut expenditure.³²

On the first of these options, Leroy-Beaulieu estimated that could push up her revenues only slightly to bring in no more than 800 million pesetas whereas expenditure looked like approaching 1,050 million. This left a shortfall of 250 million pesetas.

An energetic government, he argued, might expect to obtain economies in expenditure of between 50 to 60 million pesetas. This could be achieved by cutbacks in military spending and by curbing flagrant abuses in the administration. The navy might be restricted to a fleet of cruisers and torpedo boats while the army was capable of reduction in size to a fighting force of 80-90,000 men. Although the taxpayers would rejoice at such reductions, Leroy Beaulieu, in a line of argument which anticipated subsequent developments, judged this politically inexpedient. The very best that could be hoped for was a diminution of budgetary expenditure by some 30 million pesetas which still left the Exchequer with a deficit of 220 million.³³

On the basis of these and similar estimates the editor of the *Économiste Français* advised the Spanish government to reduce interest on all Debt, Interior and Exterior, by 40 per cent.

Unfortunately the authorities let slip this splendid opportunity. It was not until the following year that the two-man delegation of Comyn and Laiglesia journeyed to Paris in a desperate attempt to obtain some concession from foreign holders of stamped Exterior debt. However, by that time, the quotation

³² On the demands of the farmers and industrialists see J. HARRISON, 'The Regenerationist Movement in Spain after the Disaster of 1898', *European Studies Review*, 9 (1979), 1-27.

³³ Leroy Beaulieu's views received wide coverage in the financial press, see *El Economista*, 8 April 1899; *Revista de Economía y Hacienda*, 9 April 1899; *La Estafeta*, 10 April 1899.

of Exteriors had risen sharply while Villaverde's budget for 1899-1900 had, almost miraculously, brought in a surplus.³⁴

Villaverde's own programme was revealed to the nation in his budget speech of June 17th 1899, three and a half months after he had assumed the portfolio of Finance.

His main aim was to liquidate the effects of the war by balancing the budget. As he was to declare in a speech to the Senate on November 29th 1899:

"the heart of the problem, behind all my speeches, may be summed up in what abroad is called 'balancing the budget', i.e. a policy which causes the state to live off its own income, where the budget is in equilibrium, strong enough to support itself, with normal resources, without recourse to the use, or rather the misuse, of credit".³⁵

As an orthodox financier, he firmly rejected López Puigcerver's resort to the extraordinary budget, likening his own policy of balancing the budget to constructing a dyke in order to hold back "a sea without a shore".³⁶

Villaverde, who had done his sums better than Leroy Beau-lieu, announced that he intended to raise 937 million pesetas in his budget, compared with the normal revenue of 750 million. He also expressed the hope of obtaining a small overall surplus.

The additional 187 million pesetas to be obtained were intended to go part of the way to servicing the debts accumulated since 1895, the cost of which he put at 211 million pesetas. To this should be added a further 48 million pesetas required to cover items previously included in the colonial budgets.

³⁴ JIMÉNEZ y RODRÍGUEZ, *op. cit.*, p. 197; F. DE LAIGLESIA, *Una página de la historia contemporánea* (Madrid, 1913), *passim*.

³⁵ R. FERNÁNDEZ VILLAVARDE, *Una campaña parlamentaria: discursos pronunciados sobre el presupuesto de 1900* (Madrid, 1900), p. 221.

³⁶ *Ibid.*, p. 284.

Villaverde also admitted in his budget speech that he had set out to make a substantial retrenchment in ordinary expenditure but that his colleagues had dissuaded him from such a goal. This understatement of the facts was in reality a sad reflection of the minister's inability to impose his will on the big spending departments, above all on the War and Navy ministries.³⁷

How then did Villaverde propose to achieve his objective of raising over 900 million pesetas — which many deemed impossible — while at the same time balancing the budget?

As he viewed matters, two options remained open. On the expenditure side, Villaverde could achieve considerable savings by reducing the amount of interest payments needed to service the public Debt. Additionally, he could aim to augment revenues by a policy of tax reforms.³⁸

The first of these options was to preoccupy the hard-pressed Finance Minister until March 1900 largely because an irate *Cortes* refused to ratify his measures as long as the government prevaricated on the emotive issue of economics. Meanwhile, his proposals for changes in the types and levels of taxation, debated in 1900, were still not fully approved at the time of his resignation in July of that year.

Reducing the burden of Debt was central to Villaverde's plans as he was repeatedly to inform the recalcitrant politicians.³⁹ An Act of August 2nd 1899 set out to achieve this aim in two ways: by the suppression or temporary suspension of all amortizations of colonial and imperial redeemable debts and by a tax of 20 per cent on the coupon of all Spanish debts, except Exterior 4 per cent bonds held by foreigners. The latter were not

³⁷ *Revista de Economía y Hacienda*, 25 June 1899; *The Economist*, 8 July 1899.

³⁸ VILLAVERDE, *Una campaña*, pp. 6-9 and 16-21.

³⁹ *Ibid.*, pp. 151 and 161; *Proyecto de ley sobre conversión de Deudas del Estado* (Madrid, 1900), p. 7.

only exempted but were also entitled to payment in gold. Later, by an Act of March 27th 1900, Villaverde was authorised to convert into 4 per irredeemable consols all the redeemable debt suspended by the Act of August 1899.⁴⁰

The exemption of foreign bondholders from the 20 per cent tax was much criticised in the Peninsula.⁴¹ Yet, as *The Economist* reported in May 1899, the Spanish Treasury was not entirely a free agent in this matter.

"A communiqué from the semi-official Havas agency", it stated, "has intimated to all concerned that 'the French government has informed the Spanish Government that it would regret to see any tax laid upon or reduction made in the coupon of the Exterior Debt. It has also pointed out in a friendly way that as a greater part of the Spanish securities are in the hands of French holders, such a measure would naturally make difficult any negotiation with the French market, should Spain be obliged again to seek its assistance'. It is an open secret that for some time past the French Foreign Office had been much pressed by the same powerful financial, banking, railway and bourse interests that were more or less exercising unofficial pressure on the present and late Madrid cabinets for the same purpose".⁴²

Despite the earlier grumbles, the conversion was widely acclaimed as a success. When Villaverde left office in July 1900 one reliable source estimated that the burden of debt had been reduced by some 2,000 million pesetas.⁴³ Table 4 shows a more recent calculation by Gabriel Solé Villalonga which put Villaverde's achievement even higher at 2,200 million pesetas.

⁴⁰ *The Economist*, 3 Feb. 1900, 28 April 1900; R. ANES, *op. cit.*, pp. 174-75; SOLÉ VILLALONGA, *La reforma de 1899-1900*, pp. 103-106; TALLADA, *op. cit.*, pp. 147-50.

⁴¹ See for example JIMÉNEZ y RODRÍGUEZ, *op. cit.*, p. 196.

⁴² 'French Interference with the Reorganisation of Spanish Finance', *The Economist*, 20 May 1899.

⁴³ *Revista de Economía y Hacienda*, 15 July 1900. See also the appraisal of Villaverde's work in *The Economist*, 14 July 1900.

TABLE 4

VILLAVERDE'S REDUCTION OF SPANISH DEBT, IN MILLION OF PESETAS

Type	Amount
4 per cent Redeemable Debt	1197
Cuban bonds	622
Philippine bonds	173
Unstamped Irredeemable Exteriors	228
	<hr/> 2220

Source: G. Solé Villalonga, *La reforma fiscal de Villaverde, 1899-1900* (Madrid, 1967), p. 220.

The effect of the conversion upon the budget for 1899-1900 was impressive. The annual burden of interest on the Debt which stood at 464.4 million pesetas beforehand was reduced to 287.7 million, a net saving of 176.7 million.⁴⁴

Another indication of Villaverde's achievement was a marked increase in public confidence. Despite the 20 per cent tax on 4 per cent Interiors, their quotation rose from an average of 63.06 in 1899 to 71.46 in 1900.⁴⁵

The reduction in the burden of Debt interest, which then accounted for approximately two-fifths of budgetary expenditure, was all the more crucial to Villaverde's plans because of the difficulties he encountered in his attempt to secure from his colleagues the long awaited economies.

In peace time the various departments of defence accounted for between one-fifth and one-quarter of public spending (see Table 5). This was the area where the advocates of retrenchment urged upon Villaverde the most substantial savings.

⁴⁴ TALLADA, *op. cit.*, p. 148; SOLÉ VILLALONGA, *La reforma de 1899-1900*, p. 105.

⁴⁵ TALLADA, *op. cit.*, p. 149.

TABLE 5

CLASSIFICATION OF PUBLIC EXPENDITURE

Type	per cent
Debt Charges	37.9
Civil pensions	1.9
Political Organisation (King, Cortes, Prime Minister's Office, Ministry of State)	1.6
Military Expenditure (Army, Navy, Pensions)	22.1
Justice, Security and Police	3.9
Catholic Worship and Clergy	4.1
Home Office, General Expenditure, Posts and Telegraphs	1.7
Charities	0.1
State Education and Fine Arts	1.8
Agriculture, Industry, Commerce and Public Works	6.7
Treasury Administration	16.6
Other Costs	11.1
TOTAL	100.0

Source: I. Piernas Hurtado, *Tratado de Hacienda pública y examen de la española*, 2 vols., 5th ed. (Madrid, 1901), II, 156. The year is not specified.

The financial periodical, *La Estafeta*, which was in the vanguard of the campaign for cutbacks in military spending in the post-colonial era, considered Spain in a European context. Under normal circumstances, the paper calculated, the Spanish army absorbed 18.5 per cent of the budget, compared with a mere 12.7 per cent in Italy. Among her European neighbours only France spent a greater proportion of the budget on the army.⁴⁶

Considerable attention was focused on the top-heavy nature of the Spanish armed forces. Spain, the public was informed, had one officer for every six ordinary soldiers in 1898, compared with ratios of 1:14 in Belgium, 1:15 in Roumania, 1:17 in Italy and 1:20 in France (see Table 6).

⁴⁶ *La Estafeta*, 28 Aug. 1898.

TABLE 6

THE ARMY BUDGET IN FIVE EUROPEAN NATIONS

Country	Number of Officers	Cost of officers in million of pesetas	Army Budget in millions of pesetas	Number of ordinary soldiers
Spain	23,000	68	160	130,000
Italy	14,500	48	280	240,000
France	29,000	90	640	573,000
Belgium	3,500	—	—	48,000
Roumania	3,900	—	—	57,000

Source: *La Revista Nacional*, 15 May 1899.

In the year that the Iberian power lost Cuba, her army contained 21 lieutenant generals on active service, 15 on half pay and 11 on reserve. In addition, Spanish taxpayers had to support 42 divisional generals, 147 brigadier generals, 4 captain generals and 49 military governors.⁴⁷

Also singled out by critics of the administration for cutbacks in public spending were the navy and the Catholic Church. Out of the naval budget of 25 million pesetas, it was pointed out, no more than one-third of that amount was destined for the fleet. Spain's archbishops, meanwhile, received stipends over two-and-a-half times as large as their French counterparts.⁴⁸

Despite pressure from various quarters (the Liberal Party, the Chambers of Commerce and the newspapers included), Villaverde made the serious tactical mistake of refusing to face up to cabinet pressure with sufficient resolution. Far from yielding to popular demands for a reduction in defence spending War Minister Polavieja sought an increase in the army estimates from 144 million pesetas to 174 million. His grounds for extra cash

⁴⁷ *Ibid.*

⁴⁸ *Ibid.*, *loc. cit.*, and 27 Nov. 1899.

were that the permanent establishment of regular forces in Spain would need to be augmented by 28,000 men to prepare against the possibility of Republican and Carlist revolts at home and to take account of political complications in Europe. The Navy Minister, Gómez Imaz, similarly demanded an increase of 3 million pesetas, bringing naval expenditure in 1899-1900 to 28 million.⁴⁹ Not only would there be no cutbacks in Villaverde's budget but the minister was forced to propose an overall increase in ordinary expenditure of 40 million pesetas, of which 33 million was for defence purposes.⁵⁰

So great was the hostility within the *Cortes* to his refusal to placate the mounting tide of pro-retrenchment sentiments within the country that Villaverde was forced to take the unprecedented step of withdrawing his budget.⁵¹ Indeed, at the end of the parliamentary session, the politicians only approved the bills for the conversion of public Debt (the centre piece of Villaverde's reforms) on condition that during the summer recess considerable retrenchment would take place in the original estimates.⁵²

On October 30th 1899 Villaverde informed the *Cortes* of his intentions to reduce the original estimates by 61 million pesetas, thereby cutting expenditure for the financial year 1899-1900 from 937 million pesetas to 876 million. His new proposals, which did little to bring down military expenditure, aimed to make substantial savings in a number of "softer" areas, for example, in civil service pensions. The Liberal opposition led by Moret, however, accused him of refusing to tackle honestly the issue of economies. In consequence, the proposals were drop-

⁴⁹ *The Economist*, 8 July 1899.

⁵⁰ *Ibid.*, 6 Jan. 1900.

⁵¹ 'The Financial Deadlock in Spain', *The Economist*, 29 July 1899.

⁵² *Ibid.*, 11 Nov. 1899.

ped when Parliament entered the Christmas recess. They were never to be reintroduced.⁵³

Frustrated in his endeavours to reduce expenditure, Villaverde turned his attention to the revenue side of the budget, a task which was to occupy him during his final months in office.

Unlike the Mon reforms of 1845, which were rooted in the new liberal economic theory, the reforms of 1900 associated with the name of Villaverde were conceived in a more pragmatic sense. New taxes were introduced and existing ones modified largely in the overriding attempt to raise additional revenue. Indeed, Villaverde announced his intention "not to fundamentally alter the taxation system" in his budget speech of June 1899.⁵⁴

Villaverde's proposed tax reforms were contained in fifty four separate bills not all of which were approved. They covered a number of areas, among them production, consumption, personal taxation and inheritance.

Undoubtedly the most far-reaching of his reforms in the long-term was the so-called *ley de contribución de utilidades* of March 27th 1900 which aimed to tax personal income and the profits of industrial companies. The law, which was approved by the *Cortes* with little opposition, proved remarkably unpopular in the country as it was widely thought to be an attempt to introduce the British "income tax" into Spain. However, Villaverde's proposals were more modest in scope and included only two of the five British schedules, D and G.. Nevertheless, the new tax brought immediate short-term benefits. In the first eight years that it was in operation, the *ley de utilidades* brought in between one-tenth and one-eighth of all revenues (see Table 7).⁵⁵

⁵³ *Ibid.*, 11 Nov. 1899, 6 Jan. 1900, 14 July 1900; *Revista de Economía y Hacienda*, 5 Nov. 1899, 10 Dec. 1899, 17 Dec. 1899; VILLAVERDE, *Una campaña*, p. 620.

⁵⁴ VILLAVERDE, *Una campaña*, p. 18; L. V. PARET, *Modificaciones que en el actual sistema tributario español exigen las condiciones de la vida social moderna* (Madrid, 1918), p. 163.

⁵⁵ On the *ley de utilidades* see TALLADA, *op. cit.*, pp. 156-59; SOLÉ VILLALONGA, *La reforma de 1899-1900*, pp. 165-86.

TABLE 7

CONTRIBUTION OF THE LEY DE UTILIDADES TO TOTAL BUDGETARY REVENUE, 1900-1907

Year	Per cent
1900	11.4
1901	11.6
1902	10.7
1903	10.7
1904	12.1
1905	12.1
1906	12.6
1907	12.4

Source: Solé Villalonga, *La reforma de 1899-1900*, p. 169.

Another important source of revenue was the official stamp tax. Villaverde managed to double the income from this tax from 25.7 million pesetas in 1899-1900 to 54.4 million in the new financial year of 1900; thereafter revenues from this tax rose steadily, increasing to 72.7 million in 1907.⁵⁶

To compensate for the loss of revenues from import duties on sugar cane from the Antilles, Villaverde introduced a new tax on sugar. Whereas the previous tax brought in about 15 million pesetas annually, the new tax raised only 1.6 million in the first year of its imposition.⁵⁷ However, Villaverde's sugar tax was not primarily intended to raise revenue but as a stimulus to the indigenous sugar beet industry.⁵⁸

Much discussion surrounded Villaverde's attempt to introduce an inheritance tax, modelled on Sir William Harcourt's Death Duties Act of 1894. The minister aimed to gain accep-

⁵⁶ Intervención General de la Administración del Estado, *Estadística de los Presupuestos Generales del Estado y de los resultados que ha ofrecido su liquidación: años 1890-91 a 1907* (Madrid, 1909), vol. 117, pp. 300-301.

⁵⁷ TALLADA, *op. cit.*, p. 160.

⁵⁸ On the progress of sugar beet at this time see G. ROUTIER, 'L'industrie sucrière en Espagne', *Revue Politique et Parlementaire* (1900).

tance of the principle of a progressive rate of taxation. His intended scale began at one per cent on fortunes of less than 10,000 pesetas rising to 2.5 per cent on fortunes of 150,000 pesetas and above. However, his bill was only approved with important amendments.⁵⁹

Others among Villaverde's taxation bills were rejected altogether. For example, his attempt to raise revenue from sales of alcoholic liquor was defeated following an assault on it by vested interests led by the Duque de Almodóvar.⁶⁰

IV

The incompleteness of Villaverde's programme of financial reconstruction is most clearly demonstrated with respect to monetary policy. Over the next decade this was to become the main concern of a long line of finance ministers including Urzáiz, Rodrigáñez, González Besada, Osma and Navarro Reverter.

Although Villaverde saw as his immediate task the liquidation of the war he nevertheless hoped that his budgetary reforms would have the effect of restoring confidence at home and abroad in the depreciating peseta. Moreover, the eradication of the perennial budgetary deficit had important long-term consequences. Villaverde's successors built up a series of budgetary surpluses over the next eight years. Between 1900 and 1908 the state's revenue exceeded its expenditure by 533 million pesetas. (See Table 8).

This run of surpluses allowed the Treasury to substantially reduce its dependency on the Bank by gradually withdrawing part of the 1,111 million pesetas of Overseas Treasury bills which the Bank held in its portfolio in 1899. By 1909, when Maura's

⁵⁹ TALLADA, *op. cit.*, p. 163; SOLÉ VILLALONGA, *La reforma de 1899-1900*, pp. 205-206.

⁶⁰ SOLÉ VILLALONGA, *La reforma de 1899-1900*, pp. 234-36.

TABLE 8

THE SPANISH BUDGET, 1900-1908, IN MILLIONS OF PESETAS

Year	Revenue	Expenditure	Balance
1900	994.8	906.1	88.7
1901	1,023.4	987.3	36.1
1902	1,020.3	973.4	46.9
1903	1,039.0	1,016.7	22.3
1904	1,039.2	985.2	54.0
1905	1,032.5	966.3	66.2
1906	1,110.3	998.6	101.7
1907	1,085.7	1,015.2	70.5
1908	1,072.1	1,025.9	46.2

Source: A. MORA, *Presupuestos generales del Estado: datos sobre la discusión, desarrollo y liquidación de los correspondientes a los ejercicios de 1900 a 1923-24* (Madrid, 1923), 2, pp. 36-37.

naval programme again caused the budget to go into deficit, only 100 million pesetas of Overseas bills remained in the Bank's portfolio.⁶¹

Despite the patriotic actions of the Bank of Spain in rescuing the state from the verge of bankruptcy during the Cuban campaign, the loss of the last colonies led to an upsurge of recriminations towards the Bank, whose share-holders were generally considered to be profiteering from Spain's tragic predicament.⁶²

In a widely acclaimed agreement between the Treasury and the Bank signed on August 2nd 1899, Villaverde succeeded in reducing the limits of the fiduciary circulation from 2,500 million pesetas to 2,000 million and brought down the interest paid on the Overseas bills from 5 per cent to 2½ per cent.⁶³

⁶¹ TALLADA, *op. cit.*, p. 149; SOLÉ VILLALONGA, *La reforma de 1899-1900*, p. 249.

⁶² See for example the *Revista de Economía y Hacienda*, 1 Jan. 1899. For an expression of anti-Bank sentiments see L. RODRÍGUEZ, *La actual crisis financiera: historia mal-dita* (Madrid, 1902), esp. pp. 6-15. A defence of the Bank is provided by JIMÉNEZ y RODRÍGUEZ, *op. cit.*, pp. 184-86.

⁶³ *La Gaceta de Madrid*, CCXXXVIII, Vol. C, 216 (4 Aug. 1899), 430; *Revista de Economía y Hacienda*, 13 Aug. 1899; *The Economist*, 19 Aug. 1899.

Given the conciliatory stance of Villaverde, the Bank was a willing collaborator in these measures. In addition, the Bank also assisted the Finance Minister in his endeavours to reduce the general level of interest rates so as to encourage a revival of business activity.⁶⁴

Unfortunately, Villaverde's cheap money policy ran counter to his hopes of reducing the fiduciary circulation. Between December 31st 1898 and December 31st 1900 the quantity of banknotes in circulation increased by more than 10 per cent from 1,444 million pesetas to 1,592 million. In addition, the average annual premium of the peseta on Paris rose from 24.80 in 1899 to 29.55 in 1900.⁶⁵

The continued depreciation of the peseta throughout 1901 gave rise to a passionate debate among politicians and economists. On one side was a lobby, including a number of French experts, which attributed the deterioration situation to the excessive fiduciary circulation which it blamed largely on the privileged position of the Bank of Spain. Aligned against this prestigious group was an assortment of Spanish commentators who, while not altogether ignoring monetary factors, placed greater emphasis elsewhere, above all on the balance of payments. This second school, moreover, emphasised the benefits to the business community of a depreciating peseta. They likewise remarked upon the self interest which motivated the majority of foreign commentators. In the midst of the polemic stood Villaverde, equidistant from the extremes of the two schools, awaiting the opportunity to return to office.⁶⁶

⁶⁴ R. ANES, *op. cit.*, pp. 176-77.

⁶⁵ E. J. LACOMBE, *Études sur le change espagnol* (Paris, 1905), p. 47; D. VILLAR GRANGEL, *El problema de los cambios* (Madrid, 1906), p. 54; B. NOGARO, 'Le problème du change espagnol', *Revue Économique Internationale* (Oct. 1910), p. 64; G. ROUX, *Le change espagnol et son amélioration actuelle* (Montpellier, 1911), p. 22.

⁶⁶ On the position of Villaverde in this debate see SARDÁ, *op. cit.*, p. 217. For an indication of the reverence of the financial press for Villaverde at this time see *El Economista*, 13 Dec. 1902.

The monetarist case was well put in an article of January 1901 in the Parisian daily *Le Temps*, much quoted south of the Pyrenees. In no uncertain terms the French paper argued that the depreciation of the peseta was the product of the insufficient metallic guarantee of the currency and of the strong links between the Treasury and the Bank of Spain.⁶⁷

Even greater impact was made on Spanish financial circles by a book written in February 1901 by Édmond Théry, editor in chief of the *Économiste Européen*.⁶⁸

Théry claimed that in the seven months since the resignation of Villaverde not a step had been taken to reverse the depreciation of the peseta.⁶⁹ Nevertheless, most people agreed that the deteriorating rate of exchange was prejudicial to the majority of national interests. He singled out for attack the Bank of Spain, accusing it of neutralising government attempts to reduce fiduciary circulation.⁷⁰

To remedy the situation Théry urged the Spanish government to liquidate, as rapidly as the state of the market permitted, those advances not already reimbursed by the Bank, to ban the minting of the depreciated silver (which was to all intents and purposes fiduciary money) and to maintain a balanced budget. He also suggested that the railway companies be permitted to collect part of their receipts in gold.⁷¹

Théry was joined in the debate by his colleague, Paul Leroy Beaulieu, editor of the *Économiste Français*, who also lent his support to the call for a reduction in fiduciary circulation. The depreciation of the peseta, he argued, discouraged imports of foreign

⁶⁷ Cited in the *Revista de Economía y Hacienda*, 3 Feb. 1901.

⁶⁸ E. THÉRY, *Le problème du change en Espagne* (Paris, 1901), *passim*. See also the criticism of this work by R. FERNÁNDEZ VILLAVÉRDE, *El problema del cambio en España*, *passim*.

⁶⁹ THÉRY, *Le problème du change*, p. 5.

⁷⁰ *Ibid.*, p. 70.

⁷¹ *Ibid.*, pp. 98-101.

capital without which Spanish industrial development would be impeded.⁷²

Another Frenchman, Eugène Lacombe, vice president of the *Association Nationale des Porteurs Français de Valeurs Étrangères*, likewise emphasised the dangers of a high rate of exchange for Spain, since it involved an increase in the cost of imported raw materials, a rise in the cost-of-living, unstable foreign trade (due to fluctuations) and a lack of incentive to French railway companies whose investment in the Spanish railway network was, he argued, much needed.⁷³

Unlike most of his compatriots, Lacombe played down the effects of the rise in the fiduciary circulation — by which he meant note issue — but called for a ban on the minting of silver.⁷⁴

This neighbourly advice was echoed in the Madrid financial press. In the *Revista de Economía y Hacienda* Enrique Mercader attacked the excessive printing of bank notes which, he suggested, was the main cause of the depreciation of the exchange rate.⁷⁵ José Ceballos, editor of *El Economista Hispano-Americano*, criticised the unchallenged minting of silver and the insufficient metallic cover for the depreciating peseta, calling for the demonetisation of the white metal and a reduction in the size of the Banks' portfolio.⁷⁶

The anti-monetarist case also got an airing in the press, often with a disclaiming editorial note. Foremost in this cause was Pedro Corominas who rejected the view that fiduciary circulation was overlarge, arguing instead that additional amounts of banknotes were necessary in an expanding economy for the purpose of transactions. Corominas maintained that it was a mistake to single out the Bank of Spain as the villain of the

⁷² *Revista de Economía y Hacienda*, 7 April 1901.

⁷³ E. LACOMBE, *Le change espagnol* (Paris, 1901), pp. 10-14.

⁷⁴ *Ibid.*, p. 69.

⁷⁵ *Revista de Economía y Hacienda*, 10 Feb. 1901, 24 April 1901, 4 Aug. 1901.

⁷⁶ *El Economista Hispano-Americano*, 3 May 1901.

piece. The Bank, he argued, had little influence on fluctuations in the rate of exchange. If blame had to be apportioned, then he pointed to the poor performance of Spanish exporters and the massive purchase of foreign vessels, which together had contributed to a trade deficit of 151 million pesetas in 1900 (See Table 9).⁷⁷

TABLE 9

THE FOREIGN TRADE OF SPAIN 1898-1913, IN MILLIONS OF PESETAS

Year	Imports	Exports	Balance
1898	661.6	865.4	203.8
1899	989.8	815.1	— 174.7
1900	944.5	794.0	— 150.5
1901	908.7	757.1	— 151.6
1902	886.8	813.7	— 73.1
1903	934.0	901.4	— 32.6
1904	921.2	917.5	— 3.7
1905	1059.1	954.3	— 104.8
1906	1015.4	897.9	— 117.5
1907	947.8	943.6	— 4.2
1908	981.6	896.3	— 85.3
1909	957.0	925.9	— 31.1
1910	1000.0	970.5	— 29.5
1911	994.9	976.4	— 18.5
1912	1052.2	1045.7	— 6.5
1913	1309.1	1079.3	— 229.8

Source: *Anuario Estadístico de España* (Madrid, 1948), pp. 633-34.

The argument over the balance of payments was taken up by Emilio Rúa in the same journal who called for Spain to adopt the Gold Standard on the grounds that it would force deflationary policies on the government, thereby making Spanish goods more competitive in world markets.⁷⁸

⁷⁷ *Revista de Economía y Hacienda*, 17 March 1901, 9 June 1901.

⁷⁸ *Ibid.*, 25 Aug. 1901.

Other writers stressed the advantages of a high rate of exchange in that it benefited Spanish producers of wine, fruit, minerals and manufactures while at the same time restraining imports. Little wonder, argued the economist Francisco Godinez, that foreign interests were up in arms.⁷⁹

At the level of policy making, however, the monetarists won the day and were soon to attempt to introduce a series of measures aimed at restoring the value of the peseta.

In March 1901 Sagasta appointed Angel Urzáiz as Finance Minister in his Liberal administration. Urzáiz immediately announced that he considered excessive fiduciary circulation as an issue of extreme gravity requiring urgent study.⁸⁰

To tackle the situation Urzáiz introduced a bill for the suspension of mintings of silver which was estimated as having a circulation of 800 million pesetas. Only after strong opposition in the *Cortes* did he withdraw from his bill a proposal calling for the removal from circulation of all five peseta pieces (silver *duros*).⁸¹

In order to meet the Treasury's needs abroad as well as to obtain gold to boost the reserves, Urzáiz next announced a bill for the payment in gold of part of all customs duties.⁸²

In May 1901 he mooted the idea of establishing a new relationship between the Treasury and the Bank with the expressed intention of reducing the fiduciary circulation.⁸³

Before long the press detected a new spirit abroad at the Exchequer: balancing the budget was firmly replaced as the first priority by ameliorating the rate of exchange.⁸⁴

Despite Urzáiz's frenzied activities, this claim proved little

⁷⁹ *Ibid.*, 7 April 1901. For similar responses see *El Economista Hispano-Americano*, 7 July 1901 and *El Economista*, 1 Feb. 1902.

⁸⁰ *Revista de Economía y Hacienda*, 10 March 1901.

⁸¹ *Ibid.*, 17 March 1901; *The Economist*, 14 Dec. 1901.

⁸² *The Economist*, *loc. cit.*, SARDÁ, *op. cit.*, p. 230.

⁸³ *Revista de Economía y Hacienda*, 19 May 1901.

⁸⁴ *Ibid.*, 8 Sept. 1901.

more than wishful thinking. During his first seven months in office, from March to September 1901, the premium on Paris actually rose from 34 to 43.⁸⁵

Finally, on January 22nd 1902 Urzáiz presented his bill to create an issuing department at the Bank of Spain entirely separate from its other operations. The Bank's liabilities would be the notes issued while its assets were to consist of the gold and silver in its vaults plus 900 million pesetas in treasury bills bearing an interest of $2\frac{1}{2}$ per cent.

Although the bill dealt exclusively with the creation of a separate issuing department, Urzáiz made no secret of his intentions of imitating the English Bank Act of 1844 which divided the Bank of England into note-issuing and banking departments.⁸⁶

Faced with insurmountable opposition, not least from the Bank's directors, Urzáiz was obliged to modify his original proposals. No mention was made of fiduciary circulation. The Minister had wanted to fix a limit of 500 million pesetas whereas the Bank, which would have preferred no limit at all, refused to go below 750 million.⁸⁷

As soon as the bill was announced the Governor of the Bank, Gullón, tendered his resignation while the board of the Bank declared the bill unacceptable to the interests not only of its own shareholders but also of the general public.⁸⁸

Few supporters could be found for Urzáiz's bill, which was a radical departure from Villaverde's conciliatory attitude. It was attacked in both the Spanish and foreign press as incomplete and impractical.⁸⁹

⁸⁵ JIMÉNEZ y RODRÍGUEZ, *op. cit.*, p. 205.

⁸⁶ *Revista de Economía y Hacienda*, 21 Jan. 1902; *El Economista*, 25 Jan. 1902; *The Economist*, 1 Feb. 1902.

⁸⁷ *The Economist*, *loc. cit.*, SARDÁ, *op. cit.*, p. 230.

⁸⁸ *The Economist*, *loc. cit.*, and 15 March 1902.

⁸⁹ *Revista de Economía y Hacienda*, 26 Jan. 1902, 9 Feb. 1902; *El Economista*, 1 Feb. 1902; R. ANES, *op. cit.*, p. 179.

In the *Cortes* two counterbills were tabled by opposition elements prominent among whom was Villaverde, while a parliamentary commission, set up to discuss Urzáiz's proposals, considerably modified them.⁹⁰

Urzáiz was left with little alternative but to resign. He was replaced by Tirso Rodríguez who himself further diluted the recommendations of the Commission.⁹¹

The Act of May 13th 1902 concerning the relationship between the Treasury and the Bank involved a compromise between all parties. The Bank was granted ten years to divest itself of its 4 per cent Interior bills while the proposal to create an issuing department was dropped. At the same time, Rodríguez announced his intention of restricting fiduciary circulation by increasing the level of the metallic cover held in the vaults of the Bank.

Somewhat belatedly, the Act also compelled the Bank to develop its commercial relations as originally stipulated in the 1874 decree. This was intended to further distance the Bank from the Treasury. Observers noted, however, that the Bank had been moving in this direction over the past three years as the establishment of new branches bore witness.⁹²

As Sardá points out, the main aim of Rodríguez's Act was that, in the long-term, open market operations would drain money out of circulation and hence improve the exchange rate.⁹³

Yet, when Rodríguez left the Finance Ministry in November 1902 his measure was quietly forgotten. For a brief period he was replaced by Eguilior, a former governor of the Bank. On December 2nd 1902 Villaverde was again offered the Finance portfolio.⁹⁴

⁹⁰ *El Economista*, 1 March 1902; *Revista de Economía y Hacienda*, 2 March 1902; JIMÉNEZ y RODRÍGUEZ, *op. cit.*, p. 207.

⁹¹ *El Economista*, 22 March 1902.

⁹² *Revista de Economía y Hacienda*, 13 April 1902; 20 April 1902; *The Economist*, 4 April 1903; R. ANES, *op. cit.*, pp. 181-82.

⁹³ SARDÁ, *op. cit.*, p. 222.

⁹⁴ *El Economista*, 22 Nov. 1902.

The passing of Urzáiz and Rodríguez heralded a new era at the Exchequer. No longer did the authorities hope for panaceas to stave off the deterioration of the peseta. Future measures were presented as mere palliatives.

Villaverde was to serve as Prime Minister for brief spells in 1903 and again in 1905. In a pamphlet published in June 1903 he announced his intention of re-establishing the circulation and free minting of gold. This he presented as a bill to the *Cortes* on October 21st 1903.⁹⁵

The bill saw the adoption of the gold standard as a distant ideal, unattainable in the short-term. To curb speculation against the peseta which Villaverde considered the main factor pushing up the rate of exchange, he created a Bureau of Exchange "with a view to make foreign exchange more stable and to reduce by degrees the gold premium".⁹⁶ The bill again required an active collaboration between the Governor of the Bank, the Director General of the Treasury and the Finance Minister. The bureau would buy and sell whenever it was deemed expedient with the operation guaranteed by the production of the Almadén mines to the extent of 75 million francs.

Although Villaverde's bill was never approved, the adoption of the gold standard remained the long-term objective of Finance Ministers until the First World War while a commission was set up to study the matter as late as 1929.⁹⁷

The peseta, meanwhile, made a spirited recovery on world money markets after 1906, when the average premium on Paris

⁹⁵ R. FERNÁNDEZ VILLAVERDE, *Proposición de ley para regularizar y mejorar el cambio exterior y para procurar el restablecimiento de la circulación y libre acuñación de la moneda de oro* (Madrid, 1903); *El Economista*, 25 July 1903, 1 Aug. 1903, 24 Oct. 1903; *The Economist*, 5 Sept. 1903.

⁹⁶ *The Economist*, *loc. cit.*, in July 1901 the deputy Gómez Acebo claimed that there existed in Madrid 400 establishments which survived by speculating against the peseta; see LACOMBE, *Études sur le change espagnol*, p. 73.

⁹⁷ See *Dictamen de la Comisión nombrada para el estudio de la implantación del patrón oro*, *passim*.

fell to 12.75; by 1910 it was down to 6.55. Contemporaries noted wryly that this improvement was achieved without restricting the fiduciary circulation which increased by 228 million pesetas between 1899 and 1910. At the same time, the volume of silver coinage in circulation also increased.⁹⁸

The main factor which brought about the improvement in the position of the peseta was an upturn in the international trade cycle after 1906 which led to increased amounts of foreign capital being invested in Spain, above all from France, Great Britain, Belgium and Switzerland. Between 1905 and 1913 Spain received over 500 million pesetas of foreign investments which brought a dramatic improvement in her balance of payments situation.⁹⁹

In conclusion, the financial policies of Villaverde after the colonial disaster, although unpopular at the time, brought a rapid improvement in Spain's finances. However, the blind orthodoxy of his successors often resulted in misconceived measures which in the short-term at least were to have detrimental effects on the real economy.¹⁰⁰

⁹⁸ ROUX, *op. cit.*, pp. 34 and 82.

⁹⁹ SARDÁ, *op. cit.*, p. 242.

¹⁰⁰ On the failure of proposed agrarian reform measures at this time due to lack of finance, see my article 'The Spanish Famine of 1904-1906', *Agricultural History*, 47 (1973), 300-307.

