
Effects of the Spanish Government's Economic Policy in Barcelona between 1884 and 1914

Pedro Voltes

University of Barcelona. Faculty of Economic Science

The very opposite of the doctrine expressed by Albert L. Meyers predominated continually in 19th century Spanish economics: « If planned investment surpasses saving and there is danger of inflation, existing surpluses should be employed by the government to counter-check part of the investment and reduce the total national expenditure ». To be sure, government expenditure exceeded saving, and although the latter increased in monetary terms, the former surpassed the amount of productivity in goods and services, engendering an almost permanent inflationary tension.

Various symptomatic treatments of this perpetual inflationary pressure, carried out by the governments of that time will be considered in the following pages. To begin with, it is immediately to be assumed, at a first level of analysis, that the intensification of the fiscal burden at the end of the 19th century both delayed and yet contained one germ of inflation, even though the immediate motive behind this was not the result of high reasonings of political economics but of the more elementary cause of constraints and urgencies. However varied the sources of available statistics may be, their scarcity prevents us from arriving at any definite conclusions. It seems that funds directed by the Spanish Exchequer towards public expenditure did not come from assets that would otherwise have gone into savings, but came from funds which should have been dedicated to consumption or investment. No official mobilization of savings was promoted towards production and this explains the sluggish development of the national income.

In the fiscal year 1882-83 the volume of the current Public Loan was drastically reduced, and the practice of balancing the budget with a deficit was established, a practice which continued until the end of the century. This is shown in the following tables:

Effects of the Spanish Government's Economic Policy in Barcelona

Years	Revenues	Expenditures	Surplus or Deficit (—)	Years	Revenues	Expenditures	Surplus or Deficit (—)
1881-82	1.080,9	784,0	296,9	1890-91	746,9	822,6	— 75,7
1882-83	818,9	749,9	69	1891-92	744,9	820,7	— 75,8
1883-84	821,2	843,2	— 22	1892-93	707,3	754,4	— 47,1
1884-85	815,2	842,6	— 27,4	1893-94	736,1	707,1	29
1885-86	798,5	884,5	— 86	1894-95	727,6	773,0	— 45,4
1886-87	866,3	888,6	— 22,3	1895-96	732,8	802,2	— 69,4
1887-88	786,8	828,0	— 41,2	1896-97	792,9	806,2	— 13,3
1888-89	730,6	832,9	— 102,2	1897-98	774,7	872,3	— 97,6
1889-90	746,2	821,8	— 75,6	1898-99	868,0	902,4	— 34,4

In the volume devoted to the study of the budget balance 1890-91 the Auditor General commented: « The result of the analysis was that 52.72% of the increase was absorbed by Pensions and the National Debt: 26.06% by the armed forces and the Department of War, and only 21.22% by other government services. This explains the difficulties met with by the government when attempting to reduce public expenditure. The balance left after expenditures on the armed forces and the public debt was of little importance, especially if compared with the degree of development reached in agriculture, railway construction, roads, ports, lighthouses, canals and other public works, the opening of the telephone and telegraph networks, postal service and the reorganization of the courts, all of which require increased expenditures for their take-off ».

Special attention is called to this paragraph because it is here that the peculiarities of the budget's structure, before Minister Villaverde's reforms, are recognizable: the financial burden of the Public Loan had come to predominate over all other collective obligations and more than half of the balance was dedicated to military spending. Social and economic development could count on only 21% of the total budget.

Villaverde's reforms aimed primarily at reducing public expenditure as much as possible, adjusting the system of taxation and remedying the insolvency of state loans by doubling its issues.

Mr. Raimundo Fernández Villaverde, Minister of Finance in the cabinet of Francisco Silvela, passed his first relevant measure in May of 1900, issuing 1,200 millions pesetas of redeemable 5% bonds. This move served to reintegrate the bank of issue's loans and at the same time consolidated the varied forms of the Floating Debt. With its 22, or taxpaying, projects, it established a new base for public finance.

Villaverde intended the fiscal stamp tax to be one of those that should be included in the integral reform of Spanish economics and finance. In his law of May 26, 1900, he included in his tax program such things as the tax on the negotiation and transfer of unregistered bonds and securities, considered modern by European standards.

The income tax imposed by Villaverde consisted of three sections: the first covered income gained by means of work and employment; the second capital profits, bonds and securities; the third, the net profits of companies. The first section had been included in other tax concepts up to that time; in the second section, bonds and securities had enjoyed a privileged position of exemption from taxes which explains the relative unimportance of this type of wealth in previous administrations. The concepts of the third section had been included in the industrial sector up to Villaverde's reforms.

Different rate scales were introduced in the first section concerning, among others, public servants, private professions, members of unlimited liability companies, directors, managers and directors of private companies, chairman and members of administrative boards.

The second section included the product of the national debt, of foreign loans corporate obligations company deeds and bonds, loans with or without mortgage guarantees, stock dividends and copyrights.

The third section included the net profits of insurance companies, anonymous and latent partnership transactions, mines cooperatives, unlimited liability companies, group asset-holders and some commercial or industrial classes who, under certain conditions, had been paying rates to the industrial and mercantile sector.

These reforms occasioned great collective resistance movement against tax reforms in Barcelona.

The immediate result of the reforms was the re-appearance of surpluses in the over-all budget balance, as originally planned by their author. The following table brings us up to the beginning of World War I:

Years	Revenues	Expenditures	Surplus or Deficit (—)	Years	Revenues	Expenditures	Surplus or Deficit (—)
1899 (2nd half)	482,9	422,8	60,1	1906	1.038,1	968,5	69,6
1900	914,3	856,4	57,9	1907	1.026,8	982,3	44,5
1901	959,1	930,6	28,5	1908	1.081,9	1.035,7	46,2
1902	957,9	905,1	52,8	1909	1.075,4	1.110,6	— 35,2
1903	978,3	974,7	3,16	1910	1.181,4	138,0	1043,4
1904	979,5	949,0	30,5	1911	1.189,1	1.183,5	5,6
1905	975,9	937,9	38	1912	1.172,0	1.155,6	16,4
				1913	1.514,3	1.531,6	— 17,3

In 1900, revenues began to follow an upward trend that was never to end. Income tax made its appearance at this time, producing 100 million pesetas annually, revenues increased from monopolies and services exploited by the administration, and existing taxes also bore increased revenues (Industrial and Mercantile, Inheritance and property transfer, and Identity document taxes, etc.).

Here we will attempt an analytic experiment relating the incidence of revenue to national wealth. To begin with, the principal use made of the increased revenues was to defray the growing costs of the Public Debt and of the pensions for which the State was responsible, consequently frustrating any redistribution of wealth that might have been hoped for or effected by a promotional economic policy. « A priori » the Budget did not expect any reaction in the rate of expansion of the national product. The analysis can be repeated from a quantitative « a posteriori » point of view.

Two distinct situations can be imagined: *a*) Budget deficits, and *b*) Budget surpluses. Expansionary effects were produced when: 1) the State increased payments for financial obligations and pensions, above and beyond the increase of revenues, as was the case between 1862-1872; 2) the State did not increase taxes in proportion to its revenues, as in 1881-1898; and 3) the State increased expenditures on goods and services at a rate that exceeded the increase in tax revenue, as in 1872-1882 (second Carlist war).

On the other hand, there was a contraction during phases of surpluses when, 1) the state increased tax revenues without effecting a proportionate increase in expenditure, as in 1850-1861; and 2) the state lowered expenditures in goods and services and transfer payments, as happened in the period immediately following Villaverde's reforms.

The period between 1862-1872 is believed to have witnessed the beginning of an expansionary phase. Immediately after the crisis of 1866, the « Caja de Ahorros » (Savings Bank) of Barcelona, preceded by the « Banco de Barcelona », closed the fiscal year registering heavy withdrawals; the « Caja » with some 2,5 millions. The heavy deficit with which the « Banco » closed the year 1868 fell to about 3 millions in 1869 final result, reflected in its books, of feverish.

Within the second expansionary period a new fall in reserves was registered by the « Caja »; in 1876, the debit balance recorded by the « Banco de Barcelona » was 10 millions; in 1879, 1 million; in 1881, 5 millions; and in 1882 it was once again 10 millions.

The « Banco de Barcelona » as well as the « Caja de Ahorros » closed 1889 with a predominance of withdrawals over deposits. This coincided with a re-animation of stock market activity.

In 1900, with the return of a period of contraction, the reserves of both banks rose anew. It is not my intention to arrive at a definite conclusion, but only to suggest congruences and affinities.

* * *

In my study on the « Cajas de Ahorros » (Savings Banks) of Barcelona (Barcelona, 1965), I showed that the periods of stock investment activity were not favourable for the accumulation of savings; capital savings were

mobilized for supposedly more profitable investments. The periods 1859-63, 1874-81 and 1899-1903 thus seems to have been clearly unfavourable for the accumulation of savings; they were periods of soaring stock market quotations and abundant stock buying activity which, along with the creation of new companies, represented strong demands for additional capital.

On the other hand, what periods can be considered to have been favourable for saving? At first sight, it would seem to be periods of crisis, when investments were hastily liquidated in order to recuperate a portion of them at least, and it is possible that a certain amount of these savings were included in deposits during periods of crisis. But the losses produced by hasty liquidations were too heavy that it does not seem likely that the capital recovered was of any considerable size. It is more reasonable to suppose that favourable situations for savings existed during periods of relative stability, when economic life enjoys freedom from anxiety and from the threat of loss. Thus considered, the periods most propitious to the accumulation of savings in the lapse of time we are examining were those of 1866-1874, 1888-1898 and 1903-1913, though the periods indicated should be taken merely as rough approximations. The tendency to invest in fixed-rate Government bonds rather than in shares seems to indicate a propensity to save (as in the first case) rather than to speculate (second case).

In any case, the extent of the expenditure borne by the Ministry of Finance at the end of the century and the disorder of its innumerable debts made the reforms introduced by Villaverde in 1899 and 1900 all the more urgent. He issued an Interior Perpetual Loan at 4% and converted it to redeemable at the same rate; he also issued 5%, redeemable bonds to which he converted the major part of overseas Debts (overseas promissory notes, Philippine mortgage obligations, Cuban mortgage notes, etc.). Villaverde respected the 4% foreign perpetual debt, some existing special bonds and those of the Treasury. After a brisk rate of redemption (4,252 millions in 1902), the Debt remained steady at the level of 11,000 millions over a decade. Between 1905 and 1907 another small effort was registered with the addition of 193 millions to the 11,484 millions in 1905.

It seems to me that the results of this experiment of comparisons between the activity of the Public Loan and the tendency of savings and deposits leads to the hypothesis that savings prospered especially in the years of moderate issues and foundered in the years of unbridled monetary euphoria.

* * *

Stolern's often quoted work, « *L'équilibre et la croissance économiques* » (Paris, 1967), is of help in undertaking the historical analysis of the third of the variables that must be considered: Government policy in the matter of determining interest rates. Stoleru, referring primarily to General de Gaulle's

stabilization policy in France, estimates that anti-expansionary effects are produced in the following way:

1. By a fall in investment and/or public expenditure.
2. Dissuasion of consumption.
3. Restriction of liquid assets and (stock) transactions.
4. Salary curbs or restraints.
5. Increase of labour costs.
6. Increase of interest rates.

The last is defined as arbitrary to adjust the proportion between investment and consumption, and under such conditions it can be estimated that in 1885 the official interest rate was fixed at 4%, within the period of decline following the « *Febre d'or* ».

This rate was generally maintained until 1898, when in the context of protectionism and the Cuban war, it was necessary to stimulate capital investment. The highest point of interest rates came in 1898 with a 5% rate which lasted two years and signified another crisis for savings.

Once this critical phase was over, interest rates followed international trends and, in 1900, in conformity with the policy of stabilization and deflation pursued by the Spanish Government for some years, fell to 3,5%. This attitude coincided with a great moment for savings, at least in Barcelona. In 1903 the interest rate rose slightly, to 4%, and it is precisely at this point that the upward curve of savings began to fluctuate and shortly to descend.

In line with international trends, interest rates increased once again in 1913, rising to 4,5%, following the increasing European tension during the gestation period of the war, and savings experiences a strong decline with a preeminence of millions of pesetas towards repayments.

Let us now consider the effects produced in official interest rates by the three typical government attitudes outlined previously. In Parsons and Smelser's often quoted work, « *Economy and Society* », it is shrewdly stated that « ... The interest rate represents one of the primary symbolic means of persuasion or dissuasion of enterprise. Although operating primarily through monetary policies, the change in interest rate reflects the attitude of policy in respect to the state of productivity and its changes in the economy... changes in the rate of interest, either fortuitous or directed by some central authority, are therefore analogous to a changing traffic-light » (page 75-76). One of the best resumés of the post-Keynesian monetary doctrines is given in this work and the formulation of this thought absorbs the pertinent teachings found in the models of Samuelson, Kalecki and especially of Hicks, in his « *Contribution to the Theory of the Trade Cycle* » (1950).

Government recourse to financing by means of loans promotes a livelier increase in the rate of interest than financing by means of taxes, and the

interest rate tends to fall when tax rates are increased with intent to reduce the volume of Public Debt. As mentioned in my study of the « Cajas de Ahorros » of Barcelona, this supposition was historically confirmed during the period from 1882 to 1898 in which an effort towards reducing the volume of the Public Debt coincided with a careful and intelligent increase in taxation. In 1898-1899 a return to large-scale public debt issues, increased taxation and a rise in the rate of interest to 4%-5% occurred simultaneously.

This evolution can be compared with the average interest rate tables of the Banks of England, France, the Reich and Austria-Hungary between the years 1852 and 1907, as presented by Hilferding in his « Financial Capital », concluding from its movements that the interest rate level is not in any way determined by profit levels but by the greater or lesser demand for monetary capital, as conditioned by more rapid or more sluggish development, tempo, intensity, and the expansion of periods of prosperity.

During 1898-99, a period of high interest rates accompanied the supposed stimulants that have been considered. Once this stage coinciding with colonial disaster, and the application of Villaverde's policies was over, the rate of interest fell to 3,5%. This observation is in keeping with the general thesis of the theory that austerity measures regarding revenues as well as expenditures result in decreasing interest rates and stimulate private investment, but at the same time lead to a fall in national income. If the government's aim is to promote expansion, these measures are clearly not advisable,

In the period being studied — in which it is obvious that the operations of intermediate financial institutions were not co-ordinated with any global development plan — the austerity of the public Treasury and low interest rates coincided with the apogee of private savings in Barcelona.

Turning now to consider the effects of the three types of government action on the national income, whose theoretical analysis is stated above, it is perceived that the experiment of reducing the use of the Public Loan as instrument preferred by the state, and using taxes instead as Villaverde did, led to an increase in the national income accompanied by an apogee of savings deposits between 1900 and 1903. After this period deposits fell, on a par with the measure of Public Treasury revenues established which increased the rate of interest.