

# The House of Rothschild in Spain, 1812–1941

Miguel A. López-Morell

THE HOUSE OF ROTHSCHILD IN SPAIN,  
1812–1941

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*Universidad de Murcia, Spain*

*Translated by*  
STEPHEN P. HASLER



ASHGATE

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## IV



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# Metric and Monetary Equivalents

## *Spanish monetary system:*

4 reales = 1 peseta (rates for other currencies appear in Appendix 1)  
*peso fuerte* = silver coin of one ounce in weight, equivalent to 8 silver reales or 20 reales *de vellón* = 5 pesetas

Many documents of the first half of the nineteenth century equate this to the piastra. Some texts apply an updated exchange rate of 1 piastra = 5.26 pesetas. Between 1864 and the creation of the peseta at the end of 1868 the escudo was used. It was equal to 10 reales or a half *duro*.

## *French monetary system:*

1 franc = 100 centimes

## *British monetary system prior to 1970:*

1 pound sterling = 20 shillings  
1 shilling = 12 pence

## *General weights:*

tonne = 1,000 kg = 2,204 American pounds (used in Spain)  
US tonne = 2,000 pounds  
UK tonne = 2,240 pounds

## *Traditional surface measurements:*

1 *pie castellano* = 1/3 of a *vara* = 278.5 mm  
1 *vara castellana* = 0.8359 metros  
1 m<sup>2</sup> = 13 square *pies*

## *Oil capacities:*

1 UK gallon = 4,5434 litres  
1 US gallon = 3,7585 litres

1 barrel = 42 US gallon = 159 litres (the US barrel was not used until well into the twentieth century)

*Mercury measures:*

1 *Frasco* (flask) = 3 *arrobas* = 75 *libras castellanas* = 0.75 *quintales castellanos*

1 *Frasco* = 34.507 kg

*Bullion measures:*

**Old Spanish system:**

1 *marco* = a half pound = 230.046 grams = 8 ounces.

**Old system for gold (jewellers):**

1 grain = 0.000499 grams

4 grams = 1 carat

24 carats = 96 grams = 1 ounce of 1,000 thousandths

*Modern system (British):*

1 ounce = 31.103 grams

1 bar = 400 ounces

1 troy pound = 12 troy ounces

*Copper types:*

**Unrefined copper qualities:**

Copper matte = 20 to 80 per cent copper

Copper shell = 70 to 95 per cent copper

**Semi-refined copper qualities:**

Blister = 98 to 99.4 per cent copper

Black = 95 to 98 per cent copper

**Refined copper qualities:**

*British:*

Standard = 99 a 99.3 per cent copper

Best Selected = 99.75 per cent 100 and over

Tough = 99.25 per cent

*American:*

Electrolytic = 9990 per cent and over

Lake, high conductivity = 99.90 per cent

Lake, with arsenic = 99.40 per cent

Casting = 98.5 to 99.8 per cent

# Abbreviations

ABE	Bank of Spain Archives, Madrid
ACD	Parliamentary Archives, Madrid
AFFE	Spanish Railway Trust Archives, Madrid
AFRT	History of Mining and Metallurgy Foundation Archives, Río Tinto, Huelva
AGA	General Administration Archives, Alcalá de Henares, Madrid
AHN	National Historical Archives, Madrid
AMAAEEF	French Foreign Affairs Ministry Archives, Paris
AMEFF	French Ministry for Economy and Finance Archives, Paris
AN	National Archives, Paris
APR	Royal Palace Archives, Madrid
Arch. RTplc	Río Tinto Public Limited Company Archives, London
ARL	Rothschild Archives, London
ARP	Rothschild Archives, Paris. Centre des Archives du Monde du Travail (Roubaix)
ArMetaleurop	Metaleurop Archives, Sauvigny-sous-Bois, France
<i>BOMH</i>	<i>Spanish Inland Revenue Gazette</i>
CIAP	Compañía Iberoamericana de Publicaciones
CHMB	Compagnie Hullière et Métallurgique de Belmez
DSCCD	Minutes on the Sessions of the Cortes (Congreso de los Diputados)
GM	<i>Madrid Gazette</i>
LME	London Metal Exchange
MZA	Madrid to Saragossa and Alicante Railway Company
PVSCD	Procès-Verbaux des Séances du Conseil d'Administration (Actas del Consejo de Administración)
RD	Spanish Government Royal Decree
RM	Revista Minera
RO	Royal Order
RTCo.	Río Tinto Company Limited
SECEM	Sociedad Española de Construcciones Electromecánicas
SEMI	Sociedad Española Mercantil e Industrial
SMMP	Société Minière et Métallurgique Peñarroya



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## Prologue to the English Edition

There are few greater satisfactions for scholars than that of making their work available to their colleagues and, in my case, also to lovers of history in general and economic history in particular. Yet, I find myself in such a happy situation thanks to this English edition of a book, which originally appeared in Spanish as a continuation of my Ph.D. thesis, and which saw the light after almost 10 years of research, beavering away in French, British and Spanish archives, with the enthusiasm that is the prerogative of the budding historian.

This version has been faithful to the original publication by Marcial Pons Historia. Numerous updates or amendments might have been included, but the task would have been a never-ending one. Clearly, some subsequent contributions of importance do not appear. One case in question is Herbert H. Kaplan's book on the early years of Nathan Mayer Rothschild, which I recommend as further reading to the first chapter of my own book. I would add that I had the good fortune to coincide with the author for some months while working in London in 1998. Then there are the magnificent works by young historians of economics such as Rafael Castro or Adoración Álvaro, and established writers such as Miguel Pérez de Perceval, Nuria Puig or Eugenio Torres, which are all further examples of important contributions to the study of foreign investments in Spain. There are also my own later publications on the business networks of the House of Rothschild in Spain, the Rio Tinto, Peñarroya or Almaden mining companies, or the financial relations the House has maintained with successive Spanish governments, which have appeared in *Business History*, *Revista de Historia Económica*, *Revista de Historia Industrial* and the *Boletín Geológico y Minero*, not to mention the various collective books I have coordinated or have been fortunate enough to participate in.

This edition has been made possible thanks to the institutional support received from the European Association for Banking and Financial History (EABH), which saw fit to award me the 1999 Youth Scholar Prize for an earlier piece of work that dealt exclusively with the Rothschilds' relations with the Rio Tinto mining company. It is the tradition of this prestigious institution to publish the works of the prizewinners and I am deeply grateful that it allowed me to do so with the complete, finished work, as part of the Ashgate series *Studies in Banking and Financial History*. I am keenly aware that Teresa and Gabriel Tortella, Melanie Aspey, the staff at EABH, starting with Gabriella Massaglia, Marnie Giuriana, Carmen Hofmann all the way through to Deputy Chairman, Manfred Pohl, have made it possible for this book to appear. The support of the Spanish Ministerio de Cultura which has borne the full costs of the translation has

also been decisive. I would also like to express my gratitude to Carlos Pascual, of Marcial Pons, who willingly ceded the rights of his publishing house, and to Tom Gray, at Ashgate, who has been the lynchpin for this edition. Neither should I omit to mention my translator, Stephen Hasler, who in the course of his writing has, I suspect, developed more than an inkling of interest in this complicated yet fascinating world of the Rothschilds.

The latest stage in my progress has brought me to the prestigious Minda de Gunzburg Center for European Studies at Harvard University as Visiting Scholar. I like to think that the welcome afforded me here is also in some way a recognition of what has now become quite a journey.

Last, and certainly not least, my thanks to my wife, Mercedes Bernabé, who has been my mainstay throughout. Without her all this would never have been.

Miguel A. López-Morell  
Center for European Studies  
Harvard University, June 2012

# Introduction

Some years ago, thanks to a good friend and to a small measure of luck, I was able to take part in one of the few visits to that holiest of holies – the strong room of the Bank of Spain. It was an occasion that enabled me to satisfy one of the great curiosities for a historian of economics, especially when, as is my case, that historian has spent years wading through documents that allude to such places, but that one never gets to see.

If memory serves me well, the visit entailed passing through no fewer than three armour-plated doors, then a lift ride down to some six floors below street level, and crossing a small drawbridge which led to the last of the five chambers of the bunker, which is where the greater part of the bank's gold reserves are held. One of the ladies in our group asked if there was anything in that room of the gold of the Jews. It was no idle question for there had, for some months, been a fair amount of reflection and speculation in the press about the thorny issue of the gold confiscated from Jews sent to the death camps before and during the war, and the use to which it had been put by the German regime to pay governments and individuals, with the full consent of prestigious financial entities. The Spanish government, concerned about media reaction, had been swift to set up an enquiry committee, in which my colleague Pablo Martín Aceña had been put in charge of scientific aspects. Our guide that day, a gentleman of seemingly surprisingly little culture and of worrying prejudices to be working in a bank, replied sharply: "Madam, there is nothing left from that period because it was all taken by the Reds to Russia [his exact words], nor has there been any Nazi gold here." I did not stop to argue with the guide, who seemed totally in keeping with the other relics in the vaults of the bank. After all, I was there merely as the companion of my friend, a kind of last-minute stowaway as it were. However, I remember well that we had barely advanced a few steps further when my friend drew my attention to one of the shelves in the room. There, in front of us, gleamed a whole column of gold bars sealed with an eagle and a Nazi swastika. It was a memorable moment and not without its grotesqueness, but my surprise doubled when I noticed that, as chance would have it, next to the German bars lay some others that bore the name of N.M. Rothschild & Sons and the year they were cast: 1941.

That image left its mark on me. I already knew that the Rothschilds had supplied gold to the Bank of Spain for over a century, as will be explained in this book, but I could never have imagined, in those confrontational times when stark ideas were boiling over into violence around the world, that the Franco regime would have simultaneously bought gold from its theoretical allies and from the powerful, emblematic Jewish banking family that was being persecuted all over Europe by

the Nazis; the self-same members of that “Jewish–Masonic conspiracy” which Franco and his propaganda machine never tired of castigating in long-suffering post-war Spain.

Without wishing to trivialize the anecdote, it was a moment that was a highly metaphorical climax of many thoughts that had been spinning round in my head on the meaning of money in the historical development of societies, for there comes a time when one becomes convinced that money knows nothing of ideologies, countries, parties or anything similar. Furthermore, money ends up with curious fellow travellers on journeys through strange, almost paradoxical, lands.

I have no doubt that the surname Rothschild will arouse different reactions in each reader. Many may well be stirred by the mystique that has gathered around these great financial and industrial dynasties, their desire for luxury and exclusiveness, and, above all, their capacity to amass power and social standing. Others may well see in the surname the exaltation of outright capitalism in its most harmful form, the beginnings of political power kowtowing to financial capital, of corrupt administration or the unbalanced distribution of incomes. In short, all the evils associated with modern economic development.

These are issues that interest me to a lesser extent, which is not to say that I wish to withdraw from what is a crucial debate on current political and economic thought, but simply because, like the majority of Spanish economic historians, I wish to approach the Rothschilds from a much wider perspective: their contribution to an economy which, like that of contemporary Spain, was lagging behind, which was very much in need of business initiative, capital and technology, and which wanted for even a minimal amount of organization. It is clear that these contributions, like others from abroad, were of great importance, but they did not come free, nor would the way they were carried out be free of controversy and arguments. This debate, from my point of view, has brought about important advances in the study of our economic development, but it has also involved a lot of speculation and a lot of digging up of the same topics again and again and, it must be said, a lot of rather ill-founded conclusions.

It was to shed some light on the different aspects of this phenomenon that I had taken the decision some ten years earlier to complete an arduous yet passionate piece of research. I consider myself fortunate to have had access to original sources and the chance to perform in-depth studies. If I have fallen short, then the fault is squarely mine. My position has at no time been lacklustre, but it must lie with the reader to make his or her own judgements and reflections.

I would like to point out that the research has had its own particular history which has to some extent dictated the development of the contents and even the starting hypotheses, which would evolve as the work progressed and as the information unearthed produced fresh clues for analysis and new questions to be answered.

The origins of this study are to be found in an earlier, much less ambitious, project on the presence of British miners in Huelva and in particular at Rio Tinto. The constant allusions in the references to the Rothschilds among the shareholders

of the British company encouraged me to undertake research at the archives of the former Rothschild Frères of Paris, which I was able to do during a short stay that tied in with the Erasmus Programme of the Lumière University of Lyon. During this visit to the Archives Nationales,<sup>1</sup> I was pleasantly surprised to find not only a wealth of information about the Rio Tinto Company but also a sizeable store of original documents on activities carried out in Spain.

After this “discovery” there followed a much sounder project to study the relation of this famous banking house with the company, which would form the core of my dissertation, completed in June 1996. The study, which was awarded the European Association for Banking History Prize in 1999, would have been the basis of my Ph.D. thesis, had it not been for an overwhelming curiosity to research more into the financial investments and activities of the House of Rothschild in Spain. At the time it seemed a huge and risky bet for it meant broaching a huge time period and an awesome range of subjects. Yet after seven years of further research, I can only say that I have been privileged to enjoy an experience that many a historian of economics would have jumped at.

The sources consulted have always been first-hand and have come mainly from the archives of the British and French branches of the family. I have been able to check these valuable records against documents held by Spanish administration (the Archivo Histórico Nacional and Archivo de la Administración Civil de Estado) on the leading financial institutions for the period such as the Bank of Spain (thanks to its Archivo Histórico and its Archivo del Registro), as well as the archives of foreign administrations that also played their role in the process, like the French Foreign Office, the Ministry of Economy and Finance and the Ministry of Commerce. Along with all the information collected from these sources, the surviving records of the firms controlled by the Rothschilds in Spain have also been consulted, for example those of the former Sociedad Minera y Metalúrgica Peñarroya, conserved by the Metaleurop, those of the Rio Tinto Company, in London, as well as those conserved at the mine itself, and those of the Compañía de Ferrocarriles de Madrid a Zaragoza y Alicante, which are held in the archives of the Fundación de los Ferrocarriles españoles.

In this venture to cover the whole development of the Rothschilds’ main investments in Spain from their origins to the final winding up in 1941, I have preferred, in the first 10 chapters, to keep to the chronological order of events and follow the internal development of the investments.

In the first three chapters the reader will note that the greater part of the information is of a bibliographical nature, which I have on occasion set right. The reason for this is that the period analysed, 1811–1855, has been the only one that the historiography has treated in depth, specifically in the works of

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<sup>1</sup> At the time these were in Paris but at the time of writing are now located in the Centre des Archives du Monde du Travail, the new business section of the Archives Nationales located in Roubaix.

Josep Fontana, Victoriano Martín and, especially, Alfonso Otazu,<sup>2</sup> who provide a wealth of information on most of the Rothschilds' activities in Spain during these years. I therefore chose to make use of the contributions of these authors with the idea of concentrating on the contents of the later chapters, where, as I understand, my research has more novelty. For the first period I have merely included some partial conclusions drawn from the discovery of new data and added to those offered by Otazu.

The final two chapters, in contrast, offer the most important global conclusions. In the first of these I highlight a series of behavioural traits of the Rothschilds and their firms which recur during the period of their involvement, which characterize it, and which, to a certain extent, explain it. In the final chapter, the aim is to establish some of the principal consequences of the Rothschilds' presence in my country across all their spheres of action and over the whole period in question. Nevertheless, the earlier chapters offer some partial conclusions which, I believe, make the whole easier to understand.

The book that the reader is holding is the fruit of six years of intensive work (eight, if we include the preparation of the dissertation) carried out at five different universities and three departments, drawing on information from 16 archives and numerous libraries from three countries. Such a voyage supposes many encounters and, almost inevitably, it is impossible to mention all those who accompanied me and who always offered their kindness, help and support. I offer my apologies here and now to those who are not mentioned expressly.

In the academic sphere, it was Rafael Sánchez Mantero who unwittingly fired the starting gun when he sent me to the Pierre Léon Centre for Economic and Social History, under the auspices of Yves Lequin and Sylvie Schweitzer, back in 1994. It was the same person who would put me in touch with Professor Broder, who was so kind as to put his signature to a recommendation that I could work at the old House of Rothschild Frères. It was Inés Roldán who paved the way to the London archives of the family. Professors Forrest Capie and Leslie Hannah offered me all their support and advice during my stay in London in 1998. Likewise many, many colleagues have all given of themselves to this work, and in doing so have made it theirs as well: José Luis García Ruiz read everything I wrote and always came up with intelligent suggestions; Miguel Pérez de Perceval talked through some of the sections with me and provided incalculable logistic support in computer matters; María Teresa Pérez Picazo and Mercedes Bernal devoted hours to diligently proofreading the whole manuscript; other friends from departments where it has been my privilege to work (Economics and History of Economics at the University of Huelva; Economic Theory and Political Economics in Seville; Applied Economics at Murcia) all patiently listened to and bore my doubtless excessive ramblings about my work. For all of them I retain deep feelings of gratitude, as I do for those who sat on the panel at my Ph.D. thesis: Pedro Tedde, Antonio Gómez Mendoza, José Luis García Ruiz, José María O'Kean and José Ignacio Martínez

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<sup>2</sup> Fontana (1977), Martín Martín (1980) and Otazu (1987).

Ruiz, and to my supervisor, Antonio Miguel Bernal who, without knowing me, generously offered to direct this work in that distant September of 1994, accepting all my proposals and channelling them into the form they take today.

I cannot pass over the inestimable collaboration that I received during my research from a wide group of archivists, whose professionalism and kindness sped things up enormously. Some offered their anonymous but highly fruitful work. Neither can I forget the diligence of so many workers at places like the Ministry of Economics and Finance, Foreign Affairs, the Archives Nationales in Paris, the Centre d'Archives du Monde du Travail at Roubaix and the magnificent team at the Archivo Histórico Nacional and the Archivo de Alcalá. With some I had the good fortune to work in close collaboration: Teresa Tortella made available the almost endless archives of the Bank of Spain and her prodigious knowledge of sources on foreign investment in Spain. In the same archives I had the luck to enjoy the kind help of Elena and Virginia; Victor Gray and Melanie Aspey were of fundamental aid during my visit to the Rothschilds' archives in London; Philippe Brugère played a similar role when I was visiting the Metaleurop archives; Miguel Muñoz and Raquel Letón of the Fundación de los Ferrocarriles Españoles unveiled the excellent features of one of the best company archives it has been my pleasure to visit.

My family, albeit so often behind the scenes, was ever close. Nobody believed in me more than my parents and my siblings (among whom I include the "in-laws"). They may not at times have understood my burning of so much midnight oil, but I am certain that over time they came to realize that it was all for the best. Without them, none of this would have had much sense.

Luis and Chari Morell welcomed me with real warmth into their home during the long stays in Madrid, spending their free time with me and offering thoughtful advice that I always cherished. In Paris it was Rosalía Arrebola and Joel Acker who gave me lodging and a lot more than mere company. There again I was fortunate enough to be able to share some treasured moments with the residents of the Colegio de España. In London I had friends at the Barbican YMCA and others, like Fernando and Sira, to make the City a friendlier place. My friends from El Portil: Luis, Reyes, Miguel, Carmen, Antonio José, Montse, Ana, Fernando, Esther, Cristina and Antonio, are my pride, my trusted confidants and my support wherever I find myself.

Mercedes was so hugely generous with her support, confidence and infinite tenderness that I often catch myself wondering whether I would have made it through to the end without her.

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# Chapter 1

## Early Contacts and Failed Attempts to Set Up in Spain, 1812–1833

The Rothschilds have been linked to Spain for as long as they have been linked to their fortune, and thus much longer than is generally imagined. In fact, the first big business deal by this family of Jewish bankers was in Spain, when they financed the Duke of Wellington's army, trapped in the Iberian Peninsula by the troops of Napoleon. It was to be the first in a long list of operations by the Rothschilds in Spain and in the rest of Europe in times of war and financial crises. This ability to act where other financiers beat a retreat was one that they were to develop with uncanny success in the years to come.

Of course, the above episode is not linked directly to any operation with the Spanish government, whose legitimacy at the time was divided between the government of Bonaparte and the Cortes, which was hemmed up in Cadiz, nor did it have any repercussions for any particular industrial or commercial Spanish institution. Yet, what is of interest here is that it did accelerate the family's first contacts with the Spanish financial networks of the time. It supposed a series of relationships that were to prove fundamental in the development of the Rothschilds' later activities in Spain.

### **Financing Wellington**

The history of the great deals made in Europe during the Napoleonic Wars is blurred by the political and economic disorder of the time and the lack of reliable information. The reasons behind this dearth of knowledge are many and varied: some lie in the blatantly illegal nature and the secrecy that shrouded a good number of the operations; others in the fact that information has been lost, and, finally, many of the explanations proffered are the fruit of mere improvisation. One way or another, the historian has had his work severely hampered.

Of what there is no doubt, however, is that this period of crisis would witness the rise and consolidation of some of the families that would control European banking for the rest of the nineteenth century. Of all these families, it was arguably the Rothschilds – who started from practically nothing – who would best grasp the opportunities offered by the upheavals of the trade and capital markets and who, in the end, would obtain the highest profits due to their skill when it came to taking on risks.

Nathan Mayer (1777–1836), the third of the five male children fathered by Mayer Amschel Rothschild, had been sent to England in 1798 to oversee the family's cloth exports to the Continent. By then, the Rothschilds had vastly improved their standing in the Jewish ghetto in Frankfurt and, while it is true that they remained mere financial intermediaries in the court of the prince-elector of Hesse-Kassel, William IX,<sup>1</sup> had already accumulated enough financial resources to complement his early financing operations with the flourishing trade that importing British manufactured products supposed.

The young Nathan quickly learnt the ropes in bustling Manchester which was in the heyday of the Industrial Revolution, and he was soon setting up bigger and bigger contracts to exchange cloths in England or to send it to Germany and elsewhere on the Continent at lucrative profits. The business prospered and began to accumulate capital, a process that Nathan would firmly consolidate in 1806 through his marriage to Hannah, the daughter of the London-based Jewish businessman Levi Barent Cohen. There is a little doubt that it was a classic case of a marriage of convenience, sealed with a solemn contract between the families. It would take Nathan into the heart of the small, closed circle of London's Jewish bankers and businessmen, so enabling him to spread quickly beyond the classical business deals and into the world of banking.<sup>2</sup>

Nathan's first years in England coincided with the climate of war that was sweeping through Europe during the late eighteenth and early nineteenth centuries, perhaps the time of greatest change in the Continent's long history. There was an unstoppable evolution in which the budding liberal bourgeois revolution, opposing the ailing structure of the *ancien régime*, sought to transform the very basis of politics, society and European economics under the most radical dictates of the Enlightenment. The American Revolution and that country's ensuing independence would be the field of experiment that would produce its definitive consequences in France in 1789 and thereafter.

The monarchies of Europe, even the English monarchy, saw the French Revolution as a serious threat to the status quo and they shunned a process that was to become more and more radical and virulent after the execution of Louis XVI. France's immediate neighbours, led by Austria-Hungary, declared war on the budding French republic in an attempt to restore the old order, pen in the revolutionaries within their own area and put a halt to the revolutionary tide which was beginning to threaten some of the small Italian and German principalities.

Apart from their purely military activities, the counter-revolutionary governments began to turn to other initiatives which bear some of the markings of what we might consider modern economic warfare, although they were limited to the enforcement of a series of trade restrictions that in the vast main affected Anglo-French relations.

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<sup>1</sup> Ferguson (1998: 48–49 and 65–67).

<sup>2</sup> Ferguson (1998: 62).

Trade blocks between these two nations went back to 1793 and they were held in place almost continuously through to 1815. At the beginning they were clearly politically based and the decision could be taken by different levels of authority with some subsidiarity. However, when the anti-revolutionary coalition finally took on board that the changes in France were there to stay, the trade disagreements took on an altogether more economic slant. France was not only responding to British maritime hostilities but was also seeking to cut off Britain's access to the Continent, so isolating her from her allies and, equally importantly, cutting off supplies, stifling her booming export industry, while favouring its own national industry. The National Convention and later the Directoire quickly discovered how difficult it was to keep up a blockade outside one's own territory. The enforced closure of frontiers was mostly artificial and had little real effect. England held on to its markets in Central Europe and the Mediterranean, where the French found it impossible to control the flow of trade, most of which entered France under the flags of other countries or via trade routes other than the Channel. In an attempt to reinforce its actions, the Convention tried to extend its control to Italy, Egypt and the West Indies, so sparking off Nelson's Atlantic and Mediterranean campaigns and the alliances between France and Spain, under the control of Manuel de Godoy, to hem in Great Britain on all fronts.

When Napoleon came to power a fleeting agreement was signed under the Peace of Amiens in March 1802, but it was no more than a flash in the pan that would be followed by progressively tougher stances in relations. In 1803 the French Consulate passed new measures to step up the blockade and to put more pressure on its enemy. More measures followed – the Berlin and Milan decrees of November 1806 and December 1807, respectively – which extended the prohibition on entry to the ports of the empire to any vessels coming from Great Britain or its colonies and to all vessels that had received goods from the enemy either in port or at sea.

Bonaparte was convinced that the only way to stifle and overcome British sea dominance was from the land, and so he backed up his decrees with a huge plan to conquer the rest of Europe. Any territory washed by the Atlantic, the Mediterranean or the Baltic that refused to follow the orders of the French emperor in this matter risked sanctions or even invasion, as would occur in Italy, the Rhine Confederation, Poland, Holland, Russia and the Iberian Peninsula. Without a doubt, the troop movements had a short-term effect on British production and exchange. At least it was so in 1807 when Britain sporadically lost its Continental markets and saw drastic reductions in goods from overseas. To cap it all, Jefferson took measures to counter French and British interventionism, so making trade between North America and Europe more difficult. The outcome was a fall in British exports of 25 per cent during 1808. Yet Napoleon had never calculated the real costs of securing continuous loyalty from so many territories at the same time, nor the possibility that Britain might adapt to the circumstances

by boosting the trade with its colonies in Asia<sup>3</sup> or by seeking out new markets in Latin America, where Spain's diminishing control over its colonies provided easy pickings for British traders who, barely a year after the hiatus caused by the blockade, were enjoying a near monopoly in the South Atlantic. A dynamic trade triangle made up of Latin America, Great Britain and the Continent<sup>4</sup> was mapped out in a matter of months. The results of all this uncertain tug-of-war would not be seen for some time, but the consequences would be instrumental in the development and outcome of the conflict.

The tightening of the Continental blockade did nothing to hold back the Rothschilds' businesses. During the preceding years the family had extended its circle of business and trade relations to other small German, Austrian and Danish principalities, even going so far as to supply the invading French army. For his part, Nathan continued to ship goods to the Continent, although the shipments became increasingly more akin to smuggling in their nature.<sup>5</sup> Indeed, far from reducing its activities, the family set about taking advantage of the constant fluctuations in the currency and goods markets through the increasingly lucrative business of international bills of exchange. The fact that the Rothschilds were working across various marketplaces and that their family businesses were tightly coordinated soon showed them the importance of having foreknowledge of the evolution of exchange rates, troop movements and the outcome of campaigns. This was the era in which the legend of the Rothschilds as masters in the art of astutely, if not slyly, managing information about far-off markets, thanks to their flair for coded messages sent by posts or carrier pigeon, first took root. Information as a fundamental element of commercial and financial activity took on new economic meanings in their hands as they skilfully played the stock markets and dealt in strategically important merchandise in what was becoming a highly dynamic and unpredictable milieu.<sup>6</sup>

The Rothschilds' fortunes took a turn for the better in 1809 when the Prince of Hesse, who wanted to invest huge amounts of cash accrued from hiring out his troops in the Central European campaigns, ordered them to make a series of purchases of British bonds (the famous 'Consols') over the following years.<sup>7</sup> It was then that Nathan Rothschild moved from Manchester to London, setting up in

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<sup>3</sup> Cuenca (2001: 60–61 and 64–67) demonstrates that the British balance of payments was in the main kept in the black during the Napoleonic Wars only by the arrival of capital and merchandise from India.

<sup>4</sup> In 1813 the Cadiz Cortes offered Lord Castlereagh an agreement authorizing British traders to do business for three years in its American territories in exchange for a sovereign bond issue. The British Foreign Secretary refused as he did not need any such authorization to continue doing what Britain had been doing freely for some years; Fontana (1981: 211).

<sup>5</sup> An activity in which his experienced father-in-law, Cohen, was able to prepare him well. Ferguson (1998: 73–74 and 60 and 62).

<sup>6</sup> Ferguson (1998: 101–104).

<sup>7</sup> Ferguson (1998: 69–72).

premises in New Court, a tiny cul-de-sac off St Swithin's Lane, where the banker Moses Haim Montefiore lived. A short walk from the Bank of England and the Stock Exchange and a privileged place to be in the heart of the City, it was to become the permanent British headquarters of the family.

It was a time when London was undergoing a singular transformation. Events had led to the City's receiving huge amounts of capital and talented financiers who had fled in the face of the successive waves of revolution, Napoleonic expansion and the Continental blockade. These new elements were a tremendous boost to London's "golden mile" and the city began to edge out Amsterdam as the European capital of finance while strengthening its commercial dominion in the Atlantic. The situation would remain so for the rest of the century.<sup>8</sup> Nathan Rothschild enjoyed great fortune and benefited from conditions that had little to do with him directly. The deaths in 1810 of Francis Baring and the prestigious Jewish banker Abraham Goldsmid caused a surprising halt in the City's activities. Goldsmid's death had left the large Jewish trade and finance community of London without ahead and Nathan became to some extent a type of arbitrageur. He was not about to let the opportunity go by and, armed with his unconcealed ambition and good contacts, was able to take advantage of the confusion and do business almost independently.

Striking while the iron was hot, the family decided to take the risk and reshape and scale up their activities.<sup>9</sup> The aim was to bring the system of manufacturing into line with the Rothschilds' increasing number of commercial and financial exchanges. So it was that what had been sporadic exchanges of bills and currencies began to be a key part of their business.

The family's first step was to send the youngest son of Mayer Amschel Rothschild, James, off to Paris to act as a kind of bridge for a better circulation with the other European markets. At just 19, and with a letter of presentation from Baron Dalbert<sup>10</sup> under his arm, James set up in the French capital and quickly went about making initial contacts with recognized bankers such as Perrégaux, Mallet and Laffite. From then on the plan was quite simple: James's mission was to pick up depreciated bills of credit raised in London and bought in Paris or sent from Hamburg and Frankfurt by his brothers Anselm, Karl and Solomon, and resell them in England through a network of agents strategically situated in Dover

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<sup>8</sup> Neal (1990: Ch. 9) and Kindleberger (1988: 360–364).

<sup>9</sup> In 1810 the male members of the Rothschilds drew up an agreement to establish a family business that set out the participation by fathers and sons and established how profits from operations were to be distributed among them. The agreement was periodically renewed and supposed the legal basis of the family business's internal workings until 1905. Ferguson (1998: 283–287). All the subsequent family agreements can be found in ARL, 000/89 and ARP, 132AQ 1 and 2.

<sup>10</sup> Dalbert, whom Napoleon appointed viceroy to control the Confederation of the Rhine, was a partner of Mayer Hamshel Rothschild in various supplying businesses in 1810. Ferguson (1998: 9 and 73).

and Calais. These bills were in turn collected by Nathan in London as quickly as possible so as to buy guineas, with which to continue operations. This complex manoeuvre led to net profits that are difficult to assess with any real accuracy, although it does seem certain that this purchasing in kind of bills raised in London gave returns of at least 15 to 20 per cent.<sup>11</sup>

At the height of the blockade one is forced to ask just how aware the French government was of what was going on and, if it were aware, why it chose not to get involved in a business that a large part of the Parisian financial world was in on. Historians seem to agree on this point. Basically, it appears that the emperor was badly advised in this matter by his minister Mollieu, who, in turn, had got the wrong idea business wise when it came to applying the blockade. He thought that once Great Britain had been deprived of its European markets, it would be sufficient to allow or even legalize the massive exit of guineas from the country for the drain on capital to take the British economy irreversibly towards ruin in a matter of months.<sup>12</sup> Thus, the French police turned a blind eye to these discounts and the government hastened to promote them, going so far as to provide special export–import licenses, which in time proved to be counterproductive.<sup>13</sup>

Yet the argument for encouraging the bleeding Britain of its gold and silver through smuggling was not entirely misplaced, for the country did, indeed, have to weather a severe monetary crisis during these years that was brought on by the constant drain on these metals caused by the constant warfare against the Napoleonic troops. The result was a severe lack of mediums of payment, which led Britain to abandon the gold standard in 1811 and to encourage a massive circulation of banknotes.<sup>14</sup> In these circumstances, cash flows abroad were strictly forbidden, so placing the Rothschilds' activities, like those of other smugglers, firmly outside the law.

But what Napoleon or his minister, or even the British themselves, could never have imagined was that a part of the capital might reach and benefit anti-Napoleonic troops on the Continent. This was exactly what happened in the Iberian Peninsula and it was a decisive proof of Napoleon's failure.

Napoleon had invaded Spain in 1808 on the pretext of trying to force Portugal to cease trade with England. It was not difficult to take advantage of the infighting among the Bourbons to put his brother, Joseph, on the throne and occupy the country with his troops. With the exception of the odd stronghold such as Cadiz, Spain became another satellite country of the French empire in spite of the open and overwhelming resistance of the population, which forced Napoleon to maintain a contingent of around 350,000 troops in the country.

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<sup>11</sup> Bouvier (1967: 41 and 43) and Ferguson (1998: 93).

<sup>12</sup> Bouvier (1967: 44) and Ferguson (1998: 94).

<sup>13</sup> The Rothschilds themselves obtained a legal licence in 1810 to trade with Great Britain from Gravelines, Bouvier (1967: 44).

<sup>14</sup> Neal (1990: 190–200) and Kindleberger (1988: 84–86).

The British General Arthur Wellesley, later to become the 1st Duke of Wellington, had disembarked near Lisbon in August 1808 with the intention of giving support to the insurgents. His efforts proved useless and from the outset he was hard pushed to contain the advance of the French and to hold any positions. The British troops were holed up in the extreme west of Portugal hemmed in by the sea and the land until the end of 1811. Cut off, Wellington could only maintain a defensive strategy with the little help the local population could offer. Yet the British troops did not wish to impose any absolute martial law, preferring to give their confiscations a certain legality, and swore to make appropriate payments within a stipulated period. Given the lack of cash, payments were made through certificates, so-called "Wellington banknotes", which were handed over to the peasants and small traders of Spain and Portugal, who could not do much with documents that, in the best of cases, could be cashed in Lisbon. Inevitably, wholesalers and bankers made hay, buying the notes up at a discount and then redeeming them with the British authorities at a profit of around 25 per cent.<sup>15</sup>

However, at the beginning of 1812 the direction of the war changed dramatically. Napoleon, no longer content to do away with all opposition among the Western European nations, began his huge campaign against Russia, which had defied the Empire and was trading with Britain. The campaign was intended to make an example of Russia but it required new levies in France and the withdrawal of large numbers of troops across Europe. The largest contingent came from the Iberian Peninsula where Joseph was kept on the throne. The number of troops in the Grande Armée in Spain was reduced by half, yet they remained just as widely spread out as before, and at the mercy of persistent guerrilla attacks. Wellington saw his chance and marched his army against the French. A few weeks later the British had crossed the border and took Ciudad Rodrigo on 19 January 1812, then Badajoz on 6 April. The 22nd of July saw the first important British victory at the Battle of Salamanca, known in Spanish as the *Batalla de los Arapiles*. Joseph fled to Valencia and his armies had to abandon Andalusia and re-form further north. Wellington, amid popular acclaim, entered Madrid on 12 August, shortly after being named "Commander-in-chief of the Spanish forces in the Iberian Peninsula" by the Cortes in Cadiz.

The success of these first operations had been complete and huge amounts of territory had been retaken by the anti-Napoleon alliance, yet the victory proved fragile and temporary. The campaign had been hugely expensive for the Duke. He needed some 100,000 pounds a month to maintain an army that had swollen from 40,000 to 80,000 soldiers in 1812 and 1813. The accounts could never have been healthy and in all likelihood crashed at the height of the offensive. Battered by the French counterattack, and with its credit at an all-time low and dependent on support that failed to arrive, the British army suddenly abandoned Madrid in

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<sup>15</sup> Fontana and Garrabou (1986: 100–101) and Weller (1962).



November 1812. The following January Wellington wrote to London, laying out the desperate financial straits he was in.<sup>16</sup>

John Charles Herries, First Commissioner of the Inland Revenue, and the person in charge of raising funds for Wellington, was powerless to help the Duke in such difficult times. The old financing system had worked for a time in spite of its failings, but it collapsed when hostilities broke out. Expenses had overshot what was available and London was soon flooded by Spanish and Portuguese bills of exchange that were difficult to collect. The alternative would have been to send special cash assignments to the front, but the British government could find no way round Napoleon's effective land and sea blockade.

Nathan Rothschild quickly realized the opportunity that the situation offered him and took to availing the Duke of funds to maintain his credit. This could only be done thanks to the wide, well-connected network the family had. In a few weeks he had given the instructions and his brothers began to devote a significantly increased volume of their activity to the benefit of Wellington. London and Frankfurt were the foci for an operation in which the Rothschild worked in coordination with family members and correspondents in Amsterdam, Berlin and Prague. The aim was to gather as many English guineas, Austrian guildens, Dutch florins and even napoleons from all over the continent and get them to Paris, where James would pay them into French banks for bills of exchange on Spanish banks. These were then sent as swiftly as possible to Spain where they were exchanged for the Wellington banknotes that the Spanish dealers were sending towards the Pyrenees.<sup>17</sup>

The Rothschilds' contact in Spain in charge of coordinating and realizing the exchanges was the merchant banker Vicente Bertrán de Lis. He was from a family of Valencian bakers, whose fortune had come from importing grain to supply the city of Valencia and the army. Since 1808 Vicente and his brothers had been very active in the struggle against Napoleon, first in Valencia, then in Cadiz, and finally among the most combative group of liberals in Madrid, where they would play an important role during the 1820s.<sup>18</sup> Even when Cadiz was surrounded by the French, Bertrán de Lis seems to have kept up the supplies, and word of this may have reached the ears of Nathan Rothschild and encouraged him to seek out the contact. At this time, the Valencian trader and financier already had a young man in his pay who was soon to make his mark on Spanish politics and economics, the Cadiz-born Juan Álvarez Mendizábal,<sup>19</sup> through whom he clearly organized a lot of the supply to the city when the Cortes were sitting there.

<sup>16</sup> Kindleberger (1988: 323) and Ferguson (1998: 88–95).

<sup>17</sup> Bouvier (1967: 42–43), Ferguson (1998: 93–95 and 99) and Rull (1988: 2–5). Bouvier adds that Carl Rothschild travelled to the Pyrenees to help along the transactions.

<sup>18</sup> Fontana (1979: 75) and Ardit (1977: 77, 120–121, 145, 156, 175 and 259). Vicente's son, Manuel, would continue the family tradition in politics and held various ministerial posts during the *década moderada* (1844–54).

<sup>19</sup> Janke (1974: 8–9), Gille (1965: 197), Fontana (1974: 340) and Rull (1988: 8).

Meanwhile, the British authorities were not slow to catch on to Nathan Rothschild's activities. Far from punishing the daring banker, the government realized that the Rothschilds had put their finger on the problem that had been troubling the British so much in the last months. It may very well be that in the first conversation between Nathan Rothschild and Herries a plan was aired to give even greater scope to the operations and to coordinate them through the British Treasury. In any case, while claims that Nathan was transferred to the Treasury office seem unlikely, there is no doubt that the Rothschilds immediately began working alongside the government. Even though their relations would not be official until 11 January 1814,<sup>20</sup> there is evidence that operations had already gone ahead some time earlier with the consent of the government.

The main flow of transactions began in February 1813, although it is possible that a good number of Wellington's banknotes had arrived in Paris from Spanish and Portuguese bankers and were in James's hands before this date. Whatever the case, the quantities were sufficient to maintain the value of the Spanish-British army bills. With these new resources Wellington was able to go back on the offensive in Spain and in March he retook Madrid, driving the French forces northwards until he finally defeated them in Vitoria three months later on 21st June. So ended six years' French military occupation of the Iberian Peninsula.<sup>21</sup>

So just how much money did the Rothschilds transfer to Wellington and how much did they get out of their risk-fraught operations? The truth is that, however much one delves into the family archives, there seems to be no specific accounts covering the operations of these years. There are two possible explanations: the Rothschilds took the precaution of removing any trace of their clandestine activities or there were errors in the Rothschilds' bookkeeping during these years. Surprisingly, they had still not adopted double-entry accounting, and inevitably there was occasionally a lack of coordination in the transactions. Anselm, Solomon, Karl and James were right to complain about the risks involved, for Nathan was negotiating new deliveries at a speed that was far in excess than they were able to liquidate. This meant that, sporadically, there were substantial deficits that could have spelt disaster for the whole business.<sup>22</sup> So from the information we have available, providing any accurate figures is no easy matter. Nonetheless, we can put forward figures that, albeit only roughly, point to a possible total.

It is reckoned that the British government transferred around 42.5 million pounds to its troops and allies on the Continent between 1811 and 1816 and that at least half the amount went through the Rothschilds.<sup>23</sup> According to our

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<sup>20</sup> Ferguson (1998: 94) and Bouvier (1967: 44) put 1813 as the year the Rothschilds began working with the Exchequer.

<sup>21</sup> Ibid.

<sup>22</sup> Ferguson (1998: 109–111).

<sup>23</sup> Kindleberger (1988: 322–323). The figures are even greater according to Cuenca (2001: 60), who reckons that between 1808 and 1815 the mean annual transfers for the war amounted to 16.2 million pounds.

information, the total amount of this that arrived in Spain stood at 1,400,000 pounds in 1813, although it cannot be said what proportion of this figure had been handled by the Rothschilds. It is also fair to assume that the figure does not take into account the family's dealings outside the control of the British Treasury. What can be stated is that the contract of January 1814 specified the delivery of 600,000 pounds in cash to Wellington over the following months, and that the British government was already in debt with the Rothschilds to the tune of 1,167,000 pounds five months after the agreement.<sup>24</sup> Again, it is impossible to be certain how much of this corresponds to the contract and what part had been handed over to Wellington in the months immediately before. On the other hand, we do know that, according to the contract, the recognized profits ran from 2 to 8 per cent in commissions alone, plus the greater margins to be earned from playing the exchange rates (which were in constant variation) as well as the usual profits to be gleaned from the discounts on the unpaid bills they handled. It is hardly surprising that Nathan Mayer Rothschild would some years later refer to this operation as the deal of his life.<sup>25</sup>

Yet it must be said that, although these figures were astronomical for the time, the importance of these operations lay not so much in the financial gains they must have represented as in other aspects of far greater reach. Thanks to this first great deal, the Rothschilds found favour with the British government and with the whole anti-Bonaparte alliance in general, which would reward them handsomely in the coming years for their services in the form of preferential treatment in the financing of the military operations of 1814 and 1815 and in the organization of the European bond issues to finance the post-war reconstruction. After August 1814 the Rothschilds financed a large part of the cost of maintaining Austrian, Russian and Prussian troops in French territory. Louis XVIII himself was able to return to France thanks to a loan of 200,000 pounds made by the Rothschilds and in 1815, following the return of Napoleon from Elba, they would again put up the money – a total of 18 million pounds – for the anti-French mobilization through to Waterloo.<sup>26</sup>

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<sup>24</sup> Ferguson (1998: 95) and Fontana (1973a: 50–51).

<sup>25</sup> Kindleberger (1988: 323) and Ferguson (1998: 94 and 98–99). The Rothschilds' "miraculous" increase in wealth in these years has given rise to a number of legends. One of the most famous of these involved the purchase of 800,000 pounds' worth of gold bars from India which were used to sustain operations in Spain. There have also been claims that the Rothschilds financed their operations from 1806 thanks to the "treasure" of Prince William of Hesse; but, as Ferguson (1998: 71–72) explains, the family were never ceded the latter's entire wealth, at most just a small part. Nevertheless, the 664,850 pounds in "consols" that the Prince "left" in their hands during his exile may have been used as surety for some of the earlier operations.

<sup>26</sup> Ferguson (1998: 102–107) and Gray and Aspey (1998: 10–11). In acknowledgement of these services the Emperor of Austria named the five brothers "Barons of the Empire" in 1816, so entitling the Rothschilds thenceforth to use the word "baron" or "von" before their surname. Only Nathan would forego this prerogative in the following years.

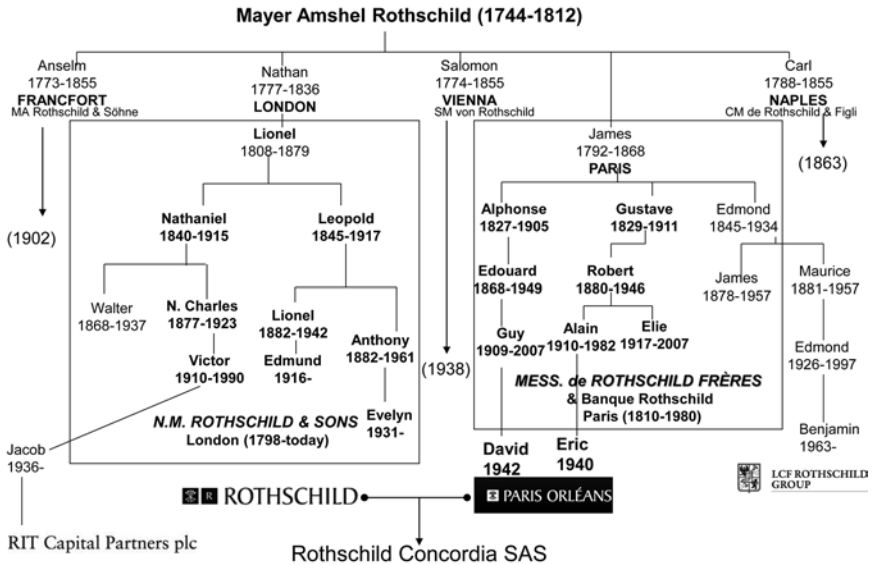


Figure 1.1 Genealogy and structure of the House of Rothschild

In the following years the brothers had to play it alone on their own markets, and they were all individually successful: Nathan reinforced his relations with the British Treasury and took charge of the financial affairs of many important government figures as well as of members of the royal family; Anselm in Frankfurt, Karl in Naples and Solomon in Vienna all won the public finances of German and Austria-Hungarian principalities; in Paris, James was held back for a few years by his youth but, with extraordinary precociousness, managed to consolidate his position on the Parisian markets within two decades. Some years later he would take over from Nathan as unofficial head of the House.

Competition with other banking houses was also very important, however. Barings of London and Hope & Co. of Amsterdam initially held most of the sovereign loans to finance the compensations due after the French war. The Rothschilds acted diligently, as is shown by the fact that James quickly took over a great part of the negotiations.<sup>27</sup> Yet the haste required to take advantage of such a favourable situation for large financial operations drove the Rothschilds to become even more imaginative.

<sup>27</sup> Cameron (1974: 122).

Nathan soon found how to steal a march on his rivals. His idea lay in a new form of public bond loan which contained a number of innovations that were highly attractive for investors. In the first place the main issue would be made in London, although they could be purchased on any of the main European markets; the bonds would be issued in pounds, not in local currency, and at a fixed exchange rate so as to reduce the risk involved; and they would be amortized in the English way. Furthermore, interest was to be paid in pounds, again at a fixed exchange rate, or, if the owner so desired, the bonds could be exchanged for other debt bonds at any of the Rothschilds' establishments or at those of their associates.<sup>28</sup> The system, unprecedented on the European financial stage, was piloted with the Prussian issue of 1818, and was a complete success and would later be considered as the first great modern issue. So it was that the famous Rothschild network, the offspring of the contraband of the Napoleonic Wars, would be the motor behind the first international network of payments and public debt in the world.

Over the next 10 years the issuing of sovereign loans on behalf of various European governments came to be the family's principal area of business, and one in which they were without equal. In London alone, the House issued bonds to a value of 250 million pounds during the period 1815 to 1859, far in excess of the 66 million issued by their nearest rival, Barings. The figures give a good idea of their importance on the City market. The figures for Paris were slightly lower but no less spectacular, with James managing to issue around 1,100 million francs' worth of foreign sovereign loans between 1813 and 1830.<sup>29</sup>

In short, in a mere decade the Rothschilds had accumulated the capital<sup>30</sup> and the relations necessary for them to abandon the unhealthy Frankfurt ghetto and to control what was to be the best and most resourceful financial network in the world. The powers wielded by the Rothschilds lay in their overwhelming control of the tools for public financing on which the precarious economies of the European states depended more and more at the beginning of the nineteenth century. They were to gain such an extraordinary predominance in the political and economic framework that developed in the aftermath of the Napoleonic Wars that they were to be given the honorific title of "Bankers of the Restoration".

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<sup>28</sup> Ferguson (1998: 131–139). Gille (1965: 182) does not attribute this innovation to Nathan Rothschild but to his brother James in Paris.

<sup>29</sup> Ferguson (1998: 289–290), Chapman (1984: ch. 2) and Bouvier (1967: 70).

<sup>30</sup> The share capital of the Rothschilds' business grew from 9,900 pounds in 1797 to 50,600 (1807), 72,700 (1810), 336,000 (1815) and 1,772,000 pounds (1818). Ferguson (1998: 286).

### **The Enforced Wait, 1815–1833**

The family's wartime operations during the 1812–1814 period had not spread to the spheres of Spanish authority and the fact that we have no indication of any plans or actions by the Rothschilds for Spain in the period 1814–1820 merely confirms their lack of interest during the early years of the reign of Ferdinand VII. Nonetheless, this was no impediment to their continuing to be in contact with their old partners Bertrán de Lis and Mendizábal.

The remoteness of the Rothschilds' relations with Spain had a lot to do with a lack of business opportunities in a Spain whose economic situation can only be described as lamentable (especially that of its public treasury) and to a series of political and diplomatic demands from abroad. The outcome of all this was an ambiguous approach that featured various attempts by the family to get involved in Spanish public finances, but with no real continuity and no small degree of confusion. We will look now at the most important elements in play here.

#### *The Difficult Post-war Period in Spain*

The Spain Ferdinand VII found on his return was a far cry from the proud imperial country his ancestors had created. The country had been torn apart by 21 years of almost uninterrupted war and six years of occupation, looting and economic stagnation. Agriculture and livestock farming had been hit hard on all fronts; countless industries – some of them highly emblematic such as the ceramic producers Buen Retiro and the Béjar weavers – had disappeared; trade networks, and not just the American ones, were noticeable for their absence, while the markets were in dire straits with prices that had slumped by 60 per cent.<sup>31</sup> Yet of all the losses it was certainly the loss of human life that had had the worst effect on the national economy, although it is difficult to venture any accurate figures. Some estimates of little reliability put the figure at anything from 300,000 to a million violent deaths during the occupation. Whatever the figure, no expert questions that the loss of life was certainly very high.<sup>32</sup> Nadal<sup>33</sup> goes so far as to classify the period 1808–12 as the greatest demographic disaster in Spain since the great epidemics of the mid-seventeenth century. The population was further whittled down by the loss of a small but significant group of intellectuals, politicians and businessmen who had thrown in their lot with the French. They were forced to leave the country, so reducing drastically the small intellectual elite that had appeared with the Enlightenment.

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<sup>31</sup> Artola (1983: 593–595).

<sup>32</sup> Pérez Moreda (1997: 54) puts the figure at around 800,000.

<sup>33</sup> Nadal (1984: 132).

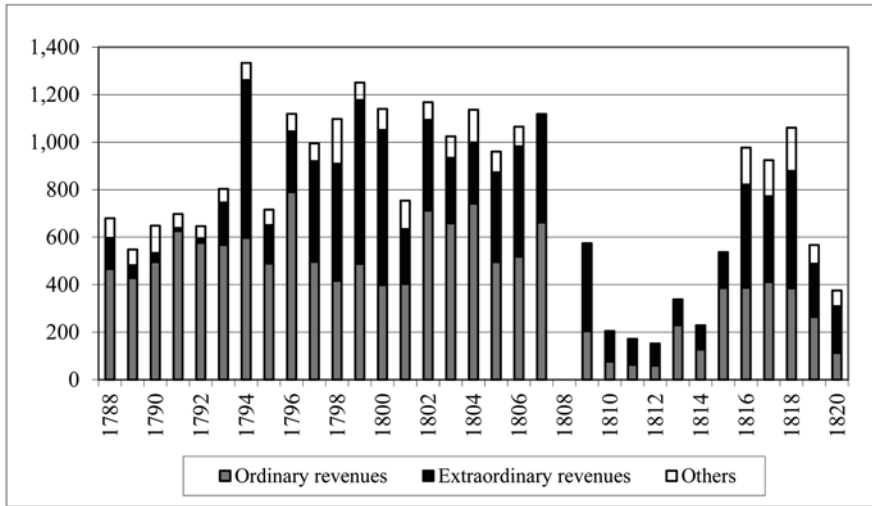


Figure 1.2 Spanish tax revenue, 1788–1820 (in millions of reales)

The figures available for state and public finances are somewhat more revealing, though hardly less scarce, but they do point essentially to the same conclusion. In 1814 the Spanish Crown was technically bankrupt. The War of Independence alone had pushed all the administrations deeply into debt. The State was already burdened by a huge debt inherited from the *ancien régime*<sup>34</sup> and it recognized only 4,000 million reales' debt generated by the conflict, in the main through delays built up in the Treasury. Even so, the amount of debt in circulation stood at around 12,000 million reales,<sup>35</sup> more than 10 times the Spanish annual tax income at the time. However, apart from this “circumstantial” difficulty, which basically could be solved with patience, dedication, order and some sacrifice on the part of the government and citizens, the nature of the problems affecting the public finances was much more complex.

The main root of the problem for the government was its own incapacity to make radical changes to its obsolete, counterproductive model, not to mention the fact that the loss of revenue from the Indies had still not been assumed. Again there are no clear figures,<sup>36</sup> but whichever way we look at it, we always get the idea that things were beyond control and there were huge shortfalls in post-war

<sup>34</sup> By the outbreak of the war, Spain had already amassed a debt of 7,194,266,839 reales under various items of public debt, which accrued annual interest payments of 219,595,474 reales. The largest part of this over the long term was the *vales reales*, at just over 1,900 million reales. Artola (1986: 87).

<sup>35</sup> Fontana (1973a: 99–101 and 1974: 381).

<sup>36</sup> Prior to the 1850 law that put the state accounts into order one must tread warily when dealing with the State's income and expenditure and budgets (when they existed)

fiscal Spain. An example can be found in the repeated figures given in the report of the ecclesiastic and politician Juan Escoiquiz, according to which in 1815 the State received 350 million reales in revenue against the 850 million in expenses, of which almost half were given over to financing the troops based on the Pyrenean border.

If we focus in more detail on the sphere of revenue and consider a long-term view, the situation seems especially depressing. As Figure 1.2 shows, State income during the first part of the reign of Ferdinand VII never regained the levels it had enjoyed prior to the war, not even during the months of Minister Garay's short-lived initiatives (January 1817 to September 1818), and it would sink irrevocably during the last years of the period in question. One feature that stands out is the State's continual resorting to extraordinary revenues, in preference to ordinary revenues (State taxes and income in the main). This method of financing the public accounts, which had had its precedent in the Spain of the Catholic Monarchs, could be justified during the war years but once the situation had "returned to normal" all it did was to underline the government's inability to return to normal levels of revenue.

It might have been possible to solve the situation had it been tackled with a series of drastic measures focused on two basic ideas: by constraining expenses or by increasing income to cover back debts and current costs. The first option was discarded from the start as it meant preparing a budget, something that Ferdinand VII repeatedly refused to do.<sup>37</sup> The second option afforded only two real possibilities. A medium- to long-term increase in revenue could be sought, which would require a rationalization of the tax system or the unpopular measure of increasing existing taxes. But there was never the political will to set about the necessary measures. In fact, in the face of the reform activity of the Cortes of Cadiz or the "afrancesados" – literally the "frenchified" – close to Joseph I, the governments of Ferdinand VII opted to do just the opposite, in other words, nothing at all, or to destroy the political and economic work previously proposed in a return to institutions and norms that now had nothing to do with the reality of the situation in Spain and the rest of Western Europe.<sup>38</sup> The government might have deferred the debt to a future period through sovereign loans to raise cash over the short term that could be repaid when there was an upturn in the economy. Given the little leeway afforded by the domestic capital markets, such issues would have

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were adhered to. For budgets prior to this date, antecedents, problems, composition, etc., see Fontana (1973a: ch. 5).

<sup>37</sup> Ferdinand VII considered that any State income and expenses budget was an attack on his authority and, therefore, did authorize any to be prepared until 1828. Fontana (1973a: ch. 5).

<sup>38</sup> Artola (1983: 596) points out the force of the decree of 23 June 1814, which restored all "the laws, instructions and rules that had been in effect in 1808". Among other things, this included the repeal of the single contribution, the tithes and the return of the properties expropriated under the confiscations of the government of Joseph I.



been made abroad, as other neighbouring countries were doing. The policy was discarded from the outset due to the explicit refusal of the ministers of the Spanish Exchequer of the early years of the reign of Ferdinand VII to resort to foreign credit. The decision could not be justified by the arguments put forward, since in spite of the considerable domestic debt and the existence of some, unrecognized, inherited debt, the country's foreign debt was left unscathed.

In short, adherence to a public policy that no longer had anything to do with the economic reality of the country left Spain outside the financial circuits of the post-war period and explains in part the lack of interest shown by the Rothschilds. Put another way, there was nothing really to attract them. Spain quite simply turned its back on the initiatives of the Rothschilds and other banking houses at a time when other nations in a similar situation were throwing themselves into them.

### *The Failure of the Trienio Liberal's Financial Gamble*

The lamentable lack of political vision shown by Ferdinand VII went beyond the sphere of public finance. The economic crisis and the institutional vacuum slowly spread and led to the first military uprisings of the century, led by Vidal in Valencia, Ezpoz and Mina in Pamplona and Porlier in La Coruña, among others. Mixed interests were involved – a few liberals who sought reforms and the more general discontent caused by the economic situation. The Riego Uprising of 1 January 1820 was not unlike the others in its lack of both organization and means. And while it perhaps enjoyed greater support from the supporters of liberalism, such as Quiroga, Alcalá Galiano, Evaristo San Miguel and the ubiquitous Bertrán de Lis and Mendizábal,<sup>39</sup> it, too, seemed doomed to fail from the outset. Yet, surprisingly, the rebel troops were able to march on Madrid without hindrance and in the face of complete indifference on the part of the population and incompetence on that of the government, whose soldiers had abandoned it to its fate. The capital remained completely unscathed, since the terrified king did not hesitate to summon a new liberal government and to swear in the 1812 Constitution.

This turn of events was no more than the logical consequence of the inexorable disintegration of the Ferdinand VII regime, which finally succumbed to its own contradictions and its incapacity to find a way out of the crisis. It was, in short, the end of an era that Fontana would categorically define as the “rupture” of the Spanish *ancien régime*.<sup>40</sup> It was a change that would almost certainly have spelled the definitive consolidation of liberalism in Spain had it not been for foreign interventions some years later.

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<sup>39</sup> Janke (1974: 10–24). Although well-known liberals, Bertrán de Lis and Mendizábal also held a large number of the army contracts. They were, indeed, simultaneously in contact with the insurgents and the government.

<sup>40</sup> Fontana (1974); see, in particular, p. 331.

Once in power, the liberals set about installing their own regime with all its consequences. Their plan of reforms included, among other measures, the introduction of the political system outlined in the Cadiz Constitution; the continuation of the confiscation process; the reform of the penal and seigneurial systems; new social and education policies, and the rationalization of the State accounts. While the last of these was not the most important of the liberals' policies, it may well have been the one in which they invested most effort. From the start they showed a much more decisive approach to solving the age-old problems of finance than had the previous governments. With an inherited short-term debt of 900 million reales,<sup>41</sup> and the ongoing difficulty of how to increase revenues, the first step in putting the accounts in order was to regain foreign confidence, which meant recognition of the debts taken on during the Spanish War of Independence. In this way, they would obtain access to secure resources and thus gain a firm foundation for carrying out the reforms and for fighting the economic depression.<sup>42</sup>

Although fully aware of certain technical problems, most scholars have praised the stance adopted by the liberals of the Trienio to raise funds to escape from the financial vicious circle, while not depleting further the little capacity afforded by the shortage of national savings.<sup>43</sup> The sovereign loans of the Cortes were in this sense an indication of a more realistic understanding of the situation. America was no longer in a position to provide funds that in the past had patched up the deficits in public accounts, and taking on the new debts was a first step of a more ambitious plan towards settling the scores outstanding from the *ancien régime* and to facing the future with some sort of security.

The new government sent agents abroad to negotiate one or two loans with the most prestigious banking houses. It was a complicated task, to be sure, what with the fragile and unstable image of the new government and Spain's notorious insolvency in international circles. In London, the banker Bernales, as ordered, went straight to Nathan Rothschild to seek out his opinion and try to persuade him to come in on the operation. The Spanish government correctly believed that the presence of the Rothschilds would serve to entice other banking houses while at the same time avoid its having to work with second-rate entities that would entail greater difficulties and expenses. Yet, to the government's despair, Nathan Rothschild proved reticent and did not even make an offer.<sup>44</sup> The government agents then tried their luck with his brother in Paris and were more favourably received.

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<sup>41</sup> Artola (1983: 751). Total public debt at the beginning of 1820 stood, according to Camilo Labrador (Carrera Raya (1987: 48), at 14,361,512,940 reales, of which 7,466,732,657 figured as "debts with no interest from unpaid returns and Treasury debt".

<sup>42</sup> Sardá (1970: 47 and 60) confirms that the devaluation caused by the monetary reform of 25 June 1821 sought, among other things, to facilitate the sale of foreign sovereign loans.

<sup>43</sup> Sardá (1970: 59) and Del Moral (1975: 172–173).

<sup>44</sup> Broder (1981: 371–372).

We do not have records as to the contents of the negotiations between James Rothschild and the government agents, but we do know that in July he came up with a proposal that apparently had little to do with negotiating the sovereign loan: he offered to act as an intermediary in a deal with Mexico over a jealously guarded asset controlled by Spain – the Almaden quicksilver (mercury) mines.<sup>45</sup>

The banker's interest was more than justified, since, although the family's interests in gold refiners and dealers were still not fully established, there is no doubt that James would have been tempted by the profits to be made from such a tremendously strategic product at that time. He may also have been drawn by a desire to emulate the old agreements of the Fuggers with the Emperor Charles V on this resource,<sup>46</sup> even if it did mean getting involved in a loan for the weakly Spanish government.

During this period quicksilver, or mercury – which is extracted from the ore cinnabar – was in short supply. Many uses had been known since antiquity in the areas of paint, cosmetics and medicine, but it was only in the mid-sixteenth century that an industrial application appeared in the form of the extraction of precious metals, thanks to one of mercury's most peculiar properties – its capacity to form amalgams with all metals except iron. The process was developed by Bartolomé de Medina in 1555, and was as crude as it was effective, since it allowed the wholesale extraction of silver in the impure minerals found in abundance in Peru and Mexico without the need to resort to the scarce fuels of these mining areas. In short, it solved what had hitherto been the main technical problem in extracting American silver, that of energy.<sup>47</sup>

Ever since it had gained exclusive ownership of the Almaden deposits in 1523,<sup>48</sup> the Spanish Crown had had little difficulty in taking advantage of its monopoly rights on the metal. For three centuries it had been able to maximize profits from the sale of the mercury, prevent any unwanted issues of Peruvian and Mexican silver and, at the same time, get a monopoly in mercury, an essential element, in its fabulous, albeit misdirected, imports of precious metals from America. Mercury, or quicksilver as it was then known, was to become a real

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<sup>45</sup> Report of 12 July 1820, AHN, State Section, file 97.

<sup>46</sup> Carande (1983, 1st edn 1967).

<sup>47</sup> Although refined during the nineteenth century, the method continued to be used in the Mexican silver mines. Furthermore, with the passing of time mercury grew in value when it was discovered that it could be used to plate metals, to manufacture scientific instruments, for paints and mirrors and, especially, as a detonator in weapons, which would lead to its use in the chemical and military industries until well into the twentieth century. Fernández Pérez (1999: 141), Martín (1980: 187–188), and Romero and Olivero (1986: p. 282).

<sup>48</sup> The largest and oldest of the mines were those at Almaden, although, in 1564, further mines were opened at Huancavelica, near Potosí. This second seam exclusively supplied the Peruvian silver mines (although on occasion it proved insufficient), while the Almaden production went mainly to México or was sold on to European manufacturers at astronomical prices.

jewel in the Spanish Crown and one of the few assured sources of income for the state coffers, and would remain so even after the loss of the American colonies. Not in vain had Charles V used its established reputation for profitability to guarantee and pay off some of the loans taken out with the Fuggers when he was proclaimed Emperor in 1520.<sup>49</sup> Almost three centuries later, the situation was repeating itself. The troubled government needed large amounts of ready cash and the Almaden production was again to be the lure for foreign investors.

A positive response from the Spanish government might have led to an agreement for a sovereign loan from the Rothschilds, yet the minister of finance Canga-Argüelles turned down the Almaden offer on the grounds that it was not in line with the law, preferring to continue with the system of direct sales in New Spain.<sup>50</sup>

After the failure of the agreement between the liberals and the Rothschilds, several British banks made offers to the Spanish government in the autumn of 1820, offering to issue the loan with discounts of nearly 50 per cent. However, quite suddenly and surprisingly, the French houses of Laffitte and Ardoin, Hubbard et Cie. offered to issue, at a nominal interest of 70 per cent, a very attractive loan issue indeed that was unprecedented in a Europe still embroiled in the financial crisis of 1818–20.<sup>51</sup> The loan issue went ahead swiftly and without problem.

Immediately after signing this first issue, the Spanish government reopened negotiations with the Rothschilds. After its recent success, it sought to launch a larger issue on the market to tackle all its outstanding foreign debt in one go, thus reconverting almost all the State's outstanding liabilities. However, the new representative, Joaquín María Ferrer, negotiated fruitlessly with Nathan Rothschild, since Ferrer refused to agree to interests on the debt issued being paid in London instead of Madrid, with the result that the liberal government quickly shied away from participating in the Rothschilds' system. Even so, negotiations continued and, although James initially refused to sell some of the bonds of the so-called *Empréstito Nacional* in Paris, in November 1821 he did sign an agreement to sell 40,000 bonds of the issue,<sup>52</sup> The agreement, however, never went ahead for reasons unknown, but this did not prevent the family's continuing to make

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<sup>49</sup> Carande (1983, 1st edn 1967: vol. 1, 482–483; vol. 2, 13–20 and 45–52) and Martín (1980: 33–48).

<sup>50</sup> Reply from the government to James Rothschild of 18 September 1820, AHN, State Section, file 5,324, num. 120. The Rothschilds did not insist, mainly because of the sudden declaration of Mexican independence in 1821, which brought an abrupt end to mercury deliveries in the former viceroyalty. Martín (1980: 188). On the mercury monopoly of the eighteenth century through to 1821, see Dobado (1997).

<sup>51</sup> Artola (1986: 99–100) stresses that this was “the most moderate [issue discount] demanded in Europe in the last years”.

<sup>52</sup> Artola (1986: 100) and Broder (1981: 371). Of the 103,435,000 reales issued under the *Empréstito Nacional*, 28,796,284 were sold abroad. Fontana (1973a: 205).

use of the foreign services of the Cortes, rather than those of Baguenault, for the remainder of 1821 and through to 1823.<sup>53</sup>

In April 1822, perhaps encouraged by the success of the liberals, Nathan Rothschild began to speculate seriously on Spanish prices. By then, the Spanish government was closing on a third issue with Ardoin, Hubbard et Cie., for the massive reconversion of the outstanding debt. However, the government needed fresh funds to compensate for Spain's growing budgetary deficit. It was then that Nathan reached an agreement with fellow Londoners Campbell and Irving to make a joint offer for the new issue which consisted of an issue of 348 million reales, in debt bonds at 5 per cent, with a discount in the region of 40 per cent. Finally, however, the issue was carried out by Ardoin and partners in October and was sold almost entirely in London.<sup>54</sup>

Many guesses can be hazarded to explain the apparent failure of the Rothschilds to win the deal, for it is not clear whether Ardoin and partners bid more and better or whether pressure from Metternich in Vienna to stop the Rothschilds supporting the revolutionary Spaniards held some sway. This has been a point of perhaps too much speculation, and certain clarifications are required. It is true that the Rothschilds had a certain obligation towards the Holy Alliance, which was opposed to the new regime in Spain as it was to all the other new monarchies and liberal republics. Indeed, since the Congresses of Troppau and Laybach, the Holy Alliance had enjoyed the financial support of the Rothschilds and never more so than in the first counter-revolutionary actions in Naples in March 1821.<sup>55</sup> Yet when it came to Spain, the bankers were deliberately ambiguous, an anti-Metternich strategy that it was to repeat on many occasions in the following decades and which essentially consisted of playing a double game and never committing itself to either side.

Indeed, in October 1822, coinciding with Congress of Verona at which the heads of the Holy Alliance met to discuss the situation in Spain, the Rothschilds' double dealing bordered on the reprehensible. On the one hand, Solomon Rothschild, who had accompanied Metternich to the event, sought to reassure him by denying any possible relation with operations in Spain, and in one letter wrote:

I will confine myself to stating that Your Highness may rest assured that we have never concluded any loan with the Spanish government, that we shall not conclude any such loan, and that we have refused such offers as have been made to us in this matter as decisively as we have in Your Highness's knowledge refused similar offers in the past.<sup>56</sup>

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<sup>53</sup> Gille (1965: vol. 1, 109) and Otazu (1987: 30). It is assumed that this was just for payments in Paris.

<sup>54</sup> Gille (1965: vol. 1, 109) and Broder (1981: 393).

<sup>55</sup> Ferguson (1998: 138–140).

<sup>56</sup> Letter from Solomon Rothschild to Metternich dated 22 October 1822, published by Corti (1928a: 806–807) and Gille (1965: 109).

On the other hand, Nathan and James Rothschild were continuing their negotiations with the Spanish liberals, a sure sign that the family placed more weight on the possibilities of doing good business in Spain than on upsetting the Austrian Chancellor, who needed them more than they needed him.

Meanwhile, however, both politically and diplomatically, the position of Spain had deteriorated significantly in comparison with the countries of the Holy Alliance. The fall of Martínez de la Rosa and the arrival of the hot-headed San Miguel as president of the Board of Ministers had created a political instability in Spain that could not be sustained. The liberals themselves appeared fiercely divided in the eyes of a public that could see no sense in a great part of the reforms and which had grown impatient at their failure to secure quick results. At the same time, the pressure of the Catholic Church and the more conservative groups had helped to reinforce the royal strongholds inland. The king for his part no longer hid his hostility towards the government, which served only to further discredit the regime and sow disquiet among the more intransigent leaders of the great European powers. Among these, only Great Britain insisted in its support for the revolutionary government, though not so much it seems on account of any liberal idealism as for its own interests in assuring the returns on the sovereign loans issued during the preceding years.<sup>57</sup> The British public continued to place its faith in the political process and the Spanish bonds traded with certain stability.

While in Verona there was open talk of an armed intervention in Spain, James Rothschild was not only exchanging letters with Bertrán de Lis but was also planning with him at the end of 1822 to negotiate a way forward for the liberal government or, at worst, a change to a less impassioned government. When Metternich found out about these plans, he accused the Rothschilds of colluding with the liberals and, despite repeated denials by Solomon, did all he could to push ahead with the negotiations within the Holy Alliance to put an end to Spain's "irregular" situation.<sup>58</sup>

Finally, despite British reticence, the conservatives triumphed in Verona and the Duke of Angoulême crossed the Pyrenees with his Hundred Thousand Sons of Saint Louis in April 1823, determined to restore by force the absolute power of the Bourbons.

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<sup>57</sup> Gille (1965: 113).

<sup>58</sup> Nathan, for his part, insisted on organizing a new sovereign loan for the Cortes. However, he met with opposition from the British government, which on this occasion favoured non-intervention. Stifled by a deficit of nearly 550 million reales, the Cortes had to issue the following sovereign debt loan (800 million reales) through Bernaldes, who refused it the moment the issue had begun, forcing the government to transfer the operation to house of Campbell of Lubbock. Ouvrard, meanwhile, preferred to support the exiled royalists. Otazu (1987: 31), Corti (1928a: 814–816), Gille (1965: vol. 1, 111), Ferguson (1998: 140–141), Bouvier (1967: 77–78), Artola (1986: 25) and Del Moral (1975: 189–190).

*The Unsuccessful Attempts with Ferdinand VII*

With the change in power in Spain, the Rothschilds again revealed their opportunistic character and quite unscrupulously lined up with the invading army and its patrons. While not directly financing the invading forces, the Paris House immediately offered its services to the French Prime Minister Jean-Baptiste de Villèle to cover the overheads of the campaign through two large sovereign loans – an outstanding issue of French Treasury bills for 120 million francs and the other, specifically designed, of 462 million francs in *rentes*, which were sold very successfully on the Paris Stock Exchange.<sup>59</sup> At the same time the Rothschilds sent a certain Benin to Spain with the mission of arranging possible agreements with the new Spanish authorities and to offer financial support to Angoulême, who had enjoyed unlimited credit from the House during the campaign. This had ended immediately after the liberation of Ferdinand VII in Cadiz (where the Cortes had taken refuge), thanks, in great part, to the 2 million francs in bills that Nathan had forwarded to bribe certain liberal parliamentarians.<sup>60</sup>

During the advance of the French troops James Rothschild went so far as to offer his services to the Regency, which replied in June 1823 with a demand for 200 million reales. The banker promised to consult with his brothers on the matter. The circle seemed to have closed and everything was ready for the Rothschild to take financial control of the situation with the consent of all the interested European powers.<sup>61</sup> Yet once again things did not turn out as planned.

The problems in agreeing on a financial solution to the military campaign and the restoration of political order were complex from the start, despite the efforts of de Villèle in Paris to give some coherence to the political decisions of the restored monarchy. Coordinating this aim with the interests of all the parties and with the existence of various centres of power turned out to be very complicated indeed. Without consulting the French government, Angoulême took it upon himself to confirm in power a provisional junta in April as a replacement for the exiled Urgel Regency. This junta, which was made up of a preponderance of ultraconservative elements from the royalist opposition, had an unconcealed desire to take revenge on the liberal politicians and were fanatically in favour of the restoration of royal authority in its absolutist form, including the return of the *corregidores* (Crown officials) to the town councils, the creation of a royalist paramilitary corps and a purge of those in the administration associated with the liberal regime.

<sup>59</sup> Ferguson (1998: 140–141).

<sup>60</sup> Corti (1928a: 819–820) and Bouvier (1967: 78). With respect to this last operation, Fontana (1994: 57), quotes Ouvrard's biographer, Jacques Wolf, and suggests that the payment may have been made by Ouvrard and not the Rothschilds.

<sup>61</sup> De Villèle himself, while he was happy for the Rothschilds to be involved in the Spanish operation, firmly forbade Ouvrard from doing so. Gille (1965: vol. 1, 113–115).

The Regency that a month later replaced the junta in Madrid did little to modify this discourse, continuing to undo the political and economic bases of the liberals in much the same spirit as its predecessor. This was a repeat of the “normalization” measures that had taken place at the end of the War of Independence, although this time they were even more radical than in 1814. Successive decrees re-established the tithe and the old system of taxation, the suspension of the sales of the possessions of the Church and the return of possessions to the religious orders, the restitution of all the legislation pertaining to seigneurial estates and other lesser measures that together meant a full-blown return to the *ancien régime*.<sup>62</sup> In short, an uncontrolled gut reaction on the part of Spanish royalists was unfolding, and it would go way beyond what the French government or even Metternich would have wished.

Of all the decisions adopted by the provisional government the one that was to have most repercussions internationally and which would cause most concern to the Holy Alliance was without doubt that of repudiating all the debts issued by the constitutional Cortes, a figure that nominally stood at 2,717.1 million reales. Even though there was a later attempt to justify the measure on the grounds that it was impossible for the Treasury to assume the huge interest payable on the issues of the Cortes (103 million reales annually),<sup>63</sup> the measure was beyond all economic or political logic, since it attacked the roots of Spain’s credit worthiness and put the monarchy and the Spanish Treasury in very difficult position for the future.

Indeed, the response of the markets and the financial sector of Europe was immediate and drastic – the price of Spanish stocks slumped to 15 per cent of their nominal value. International rejection of the Regency’s decision was exemplified in London, where a specially formed Committee of Spanish Bondholders demanded the immediate closure of the London Stock Exchange to any new issue of Spanish debt.<sup>64</sup>

Following these events, the Rothschilds’ attitude, as a multinational financial entity, inevitably became more nebulous over the next months. Although the family had already made a good deal with the issues of the French *rentes* in 1823, they could not forego the opportunity to act as the financial tutors to the new regime. They were also aware, however, that this had to be done without jeopardizing their relations with the British and French governments, whose diplomatic strategies were diametrically opposed to those of Spain.<sup>65</sup> There was also the fact that the

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<sup>62</sup> On the research into this period, see Esteban de Vega (1998).

<sup>63</sup> The decision was not even taken initially by the king, but by the Provisional Regency, in July 1823, although it was later ratified by the monarch. Artola (1986: 111) and Fontana (1973a: 88–89 and 210–215).

<sup>64</sup> Artola (1986: 148 and 156). We should recall that of the 608.5 million reales’ cash issued by the Cortes, 499.5 million was taken up in London and just 109 on the Paris Stock Exchange. Broder (1981: 403).

<sup>65</sup> As had occurred in the run-up to the war, the British and French governments adopted divergent positions towards the Spanish monarch’s decision. While the British



actions of the Regency, and later those of Ferdinand VII, were totally unacceptable to the bankers, who understood and supported the arguments of the British holders of Spanish funds. It seems highly likely, therefore, that the Rothschilds were actively involved in the manoeuvre to close the stock markets. It should not be forgotten that the issue of sovereign loans to the various European governments on the London and Paris stock exchanges was the principal family business. It was indispensable that the Spanish government fulfil its obligations to pay, like the other countries that sought finance on the international markets, if the confidence of investors was not to be lost and future issues to be assured. However, as we shall see later, it is important to note that during the following decades the Rothschilds would not hesitate to use their control on the French and British debt committees for holders of Spanish sovereign bonds when it suited them, and they would use their influence to put pressure on the negotiation of certain financial operations with the Spanish government.

However, instead of taking a long-term view, the provisional Regency authorized its minister for the Treasury, Juan Bautista Herro, to negotiate an extraordinary issue of foreign debt directly with Paris in order to raise the above-mentioned 200 million reales and so obtain finance in the middle of the campaign. Herro immediately contacted the leading French bankers in the belief that their loyalty to the royalist cause and the support of his government would suffice to make the Stock Exchange receptive. In fact, he could not find a single house of any prestige that was willing to negotiate unless the matter of the repudiation of the debt by the Cortes was reconsidered.<sup>66</sup>

Much against de Villèle's wishes, the issue unexpectedly ended up in the hands of an almost unknown French banker called Louis Guehbar, on the suggestion of the Marquis de Croy.<sup>67</sup> This fellow, whose only recommendation was that he enjoyed good relations with the Russian ambassador and that he was the only person willing to play the Stock Exchange with these bonds, negotiated conditions that were far from favourable for Spain. Under the terms of the issue, 334 million reales would be issued in cash at 5 per cent interest with a loss of 40 per cent, plus 5 per cent commission, all of which left the amount that the government would receive at 180.3 million reales. The amount was to be forwarded by the banker and would be repaid through 10 annual payments, in turn guaranteed by various mortgages on the profits from the Spanish colonies, Almaden, the Madrid taxes on consumption and the *Noveno* tax. The Regency at least took the precaution of

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openly supported the London Stock Exchange authorities, the French government abolished the prohibition on issuing foreign sovereign debt loans in Paris, beginning with the Spanish. Furthermore, it awarded a monthly advance of 2 million francs to keep the government in power, as well as maintaining a contingent of 45,000 troops in Spain until 1828. Cameron (1971: 90–91) and Gille (1965: vol. 1, 113).

<sup>66</sup> Fontana (1994: 57–58).

<sup>67</sup> *Ibid.*

not authorizing the delivery of the cash to Guehbard before receiving the amounts agreed on.<sup>68</sup>

But the *Empréstito Real*, as this transaction would be labelled, was doomed from the start. Guehbard was not a banker of any weight or prestige, nor did he have the resources or contacts to guarantee the issue, not to mention the fact that most of his Parisian colleagues were hostile towards him. The outcome was that he was only able to sell a small portion of the stipulated amount.<sup>69</sup>

Naturally, without this money, the provisional government's accounts were in a sorry state by the end of 1823. The forecasted public deficit for 1823–24 was over 500 million reales, and there was little to suggest that there might be a solution in the short term, especially now that the whole tax system had been taken apart. The financial situation had become so worrying that even de Villèle intuited a political collapse. He therefore persuaded the Rothschilds to make an offer to help the monarchy out of its predicament. Nathan, along with his brother James and the houses of Baring and Reid Irving in London, drew up a proposal for a huge sovereign debt issue of 2,400 million reales, in bonds at 5 per cent, issued at 60 per cent, with which the whole debt of the Cortes could be paid off and which would generate an extra 600 million in cash to cover the government's immediate needs. The signatories, aware of the risks involved, demanded cover for the future interest payments in the form of the incomes from Spain's American colonies along with an additional guarantee from the French government. However, the Regency refused to agree to any transaction involving the Cortes bonds and the French government was unwilling to provide any guarantee, so the deal was frustrated even before anything definite could be negotiated.<sup>70</sup>

Nevertheless, for two more years the Rothschilds persisted in trying to persuade the Spanish government to take up the issue, even though this went against the advice of their envoy in Madrid, Renevier, who knew there the Spanish government's accounts were much to confused to risk any type of agreement.<sup>71</sup> Renevier's advice developed out of the hugely contradictory and confusing policies being followed by the governments of the restored monarchy, those led by the marqués de Casa Irujo (3 December 1823 to 9 February 1824) and Ofalía (9 February 1824 to 11 July 1824). In these and the following cabinets through till 1832, the man in charge of the Treasury was Luis López Ballesteros, an officer of the *Dirección General de Rentas* (Head Revenue Office) who had been put in the post precisely to give some direction to the public accounts and to solve the financial problem. Instead, however, Ballesteros merely tried to consolidate to the Regency's counter-reforms to the tax system through a systematic return to the old taxes and duties, which, of course, had little to offer. Soon after starting his

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<sup>68</sup> Artola (1986: 147 and 149), Fontana (1973a: 208–211) and Gille (1965: vol. 1, 115).

<sup>69</sup> Only 9.3 million in the first six months of the contract. Artola (1986: 148).

<sup>70</sup> Corti (1928a: 321–322), Gille (1965: vol. 1, 123), Broder (1981) and Fontana (1994: 58).

<sup>71</sup> Benín had died a few months before in Seville. Gille (1965: vol. 1, 117).

programme of “reforms”, the minister was forced to accept that State income was barely enough to cover the costs of the national administration.<sup>72</sup> In spite of the little faith he had in the advantages of controlled debt, he could only put into effect a decree for the issue of 800 million reales abroad, a figure that, according to him, would balance his books during the following years.

Following his own convictions and the orders of the king, Ballesteros continued to refuse to recognize the debts of the Trienio, so to avoid suspicions and to give some credibility to the issue he set up a *Caja de Amortización* with fixed funds of 80 million reales, followed by a decree ordering the setting up of the *Gran Libro de la Deuda*<sup>73</sup> – a great debt ledger – where all the debts recognized by the Crown and Spanish State were duly recorded.

In the summer of 1824, the new government commissioner, Javier de Burgos, negotiated the options for the issue in London and Paris. As far as we know, the most important meetings were with the Rothschilds, arranged by the Russian and Austrian ambassadors, although the results gave little cause for hope. Nathan would contract to nothing without Spain’s express recognition of the debt of the Cortes, something which Burgos was not authorized to provide. James, however, proposed a middle way – to purchase all the bonds of the Trienio in circulation now that they were trading at barely a fifth of their nominal value, and then launch a new, sounder, issue at a rate of between 65 and 80 per cent of the 800 million reales. Nothing, however, came from it. A further meeting in Paris, which included the new Minister of State and President of the Board of Ministers would prove equally ineffective.<sup>74</sup>

A year later, in July 1825, after a new attempt by the Holy Alliance to drum up support in Spain, James presented a final proposal to cover the issue of the 800 million reales, which would be guaranteed by the possessions of the Spanish church.<sup>75</sup> Cea Bermúdez received the proposal with enthusiasm, but came up against unexpected opposition in de Villèle, who insisted that France would not grant any official support to the issue and, furthermore, that in his opinion the situation of the French Bourse was not the most favourable for it to be making permanent issues (we are on the eve of the 1825 financial crisis). After consulting with his brothers, James opted to withdraw the offer.<sup>76</sup> The operation was no longer attractive, especially when there was a growing suspicion among bankers and the British government that the Spanish monarchy was thinking of directing a large part of the funds raised by a potential issue abroad to reclaiming its former American colonies. Any action along such lines would have put the battered

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<sup>72</sup> Fontana (1994: 59–60).

<sup>73</sup> Artola (1986: 148).

<sup>74</sup> Broder (1981: 452–454). There were as many as 14 other proposals by other banking houses during 1824, none of which would come to fruition. Fontana (1973a: 230).

<sup>75</sup> Gille (1965: 132) and Broder (1981: 430). We should recall that half a year earlier Spain had just lost all its continental territories in America.

<sup>76</sup> Broder (1981: 429–431).

Spanish economy in an even tighter situation and any participation would in all likelihood have led to confrontation between the Rothschilds and the British government and other prestigious British banking houses, which at the time were involved in a huge programme of public debt issues for the new American states.<sup>77</sup>

Against this backdrop and in the face of the rejection of almost all the large European banks, only one banker responded decisively to Spain's call – an ambitious, unscrupulous individual in Paris, the Sevillian Alejandro Aguado.

Aguado, who in March 1824 had signed a contract with Ballesteros transferring to him the unsold balance on Guebhard's failed sovereign bond issue,<sup>78</sup> represented the opposite extreme to the traditional banking houses; however, it was a case of Hobson's choice. So, after the fiascos of Burgos, on 11 January 1826 he signed his first firm agreement with the Spanish government, under which he would sell a conversion of a part of the interests on the *Empréstito Real*, which was without funds. The banker had to launch the issue single-handedly on the Paris Stock Exchange, but he managed it through somewhat unorthodox methods (use and abuse of rumours, purchases through third parties to up the rates, placement of unrelated issues, non-observance of the maxima announced for the issue, etc.). López Ballesteros and Ferdinand VII were kept informed of these operations and went along with Aguado's manoeuvrings, which, after all, were temporally getting them out of a tight spot. In fact, from then until 1831 they put their names to five more contracts with him, including a concealed conversion, in 1831, of a part of the government's debt,<sup>79</sup> which amounted to establishing a quasi-monopoly on Spain's foreign debt for a period of five years.

Aguado's issues between 1824 and 1833 raised 1,773.3 million reales in cash, enabling the government to pay off 714.6 million of its debt up to 1823, including a proportion of the debt of the Cortes,<sup>80</sup> so it is possible to see the financial management of López Ballesteros in a somewhat more positive light. However, Artola, Fontana and del Moral<sup>81</sup> have gone to some lengths to show the ideological and instrumental chasm between these bond issues and those of the *Trienio*. The former were purely circumstantial, in line with the needs of the State's expenses as they arose, and with no thought for the long term. The latter were much more theoretically and rationally endowed and, in spite of their flaws, were clearly aimed at offloading a great part of the tax burden from the country's debilitated financial structure and at gaining the State accounts some breathing space. It must not be forgotten that the cost of the sovereign bond issues of the "Ominous Decade" were much higher than previous ones, given that they always presented losses of over 45 per cent of the nominal price of the bonds issued, apart from commissions and interests, which generated real mean interests of over 20 per cent. This widespread

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<sup>77</sup> Ferguson (1998: 141) and Marichal (1992: 22–25).

<sup>78</sup> Fontana (1973a: 233) and Artola (1986: 149).

<sup>79</sup> Fontana (1973a: Ch. 7), Artola (1986: 150–158) and Broder (1981: 445).

<sup>80</sup> Fontana (1973a: 272).

<sup>81</sup> Artola (1986), Fontana (1973a) and del Moral (1975).

lunacy on the part of the Spanish authorities could lead only to a progressive and disproportional increase of annual costs for servicing the foreign debt which since 1829 had greatly surpassed the resources of the Caja de Amortización. It was soon to take Spanish public finances up a dangerous blind alley.<sup>82</sup>

Despite the supposed size of the Spanish bond operations, the Rothschilds continued to be wary about directly collaborating in the issuing of Spanish bonds, which were sold on the Parisian market until 1830, and preferred to keep a prudent distance. Yet the family continued to retain an interest in the Spanish economy and during the 1820s the Paris House had accounts with many private Spanish investors and savers and with the Real Giro bank<sup>83</sup> itself, although the volume of the operations was always moderate, especially in comparison to the amounts that would be handled later on.

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<sup>82</sup> Artola (1986: 158) and Fontana (1994: 58). Another matter was the government's position on domestic debt, "An out-and-out looting ..." according to Artola (1986: 146), since besides not receiving most of the interests, the amount was reduced by no less than 7,000 million reales through a series of one-sided conversions by the government, Fontana (1973a: 215–228).

<sup>83</sup> ARP, 132AQ 40. Martín (1980: 167) records a claim from the Real Giro for a fraud of 180,000 francs, about which we have no other news.

## Chapter 2

# Liberalism, Corruption and War Finances, 1833–1840

### **Economic Expectations in the Face of Political Change**

It is difficult to specify a single factor behind the setback to Spain during the third period of the reign of Ferdinand VII. What is clear is that the cost of maintaining an archaic political and economic system – in terms of lost opportunities – was very high. This stagnation was all the greater for its coinciding with the huge changes going on in the countries of Northern Europe, where industrial development was taking shape. The reports available even suggest a parallel decline in production in Spain, with no compensating growth in farming and services. This effectively meant a drop in the relative levels of income in Spain compared to the rest of Western Europe, and recovery would be long in coming.<sup>1</sup>

Although the overview is one of a stagnating economy, reference must be made to some of the significant advances that were made during the dark years of the “ominous decade”, especially in its final stage. These include the promulgation of the first commercial code (1829), the re-establishment of the Banco de San Carlos as the Banco de San Fernando (1829) and the creation of the Madrid stock exchange (1831), although we should not forget that the last two were spurred on by López Ballesteros as he sought to engage with Spain’s sovereign debt issues and to implement his financial policy.<sup>2</sup> There is little doubt, though, that all the above were to provide a crucial institutional foundation over the coming years. The same can be said of the apparent normalization of economic activities, especially from the Cea Bermúdez government onwards, which brought with it the first modern stirrings of industrialization in Catalonia, the Basque Country and the south-east of Spain. These, while important, were too insubstantial to guarantee any real recovery in the flow of foreign trade.<sup>3</sup>

The shifts in policies during the early 1830s were due not so much to rising production as to internal changes within the regime. The monarchy, which had depended so heavily on the more conservative social groups to strengthen its power, had with the passing years distanced itself from the more radical groups on account of growing disagreements over the administrative reforms and the limits of the influence of the Church and the army. Political tensions grew more

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<sup>1</sup> Prados (1988: 166 and ch. 1).

<sup>2</sup> Tedde (1999a) and Torrente (1974).

<sup>3</sup> Carreras (1990), Nadal (1972, 1975 and 1992) and Prados (1986).

intense with the Conservative revolt in Catalonia and the excesses of the Royalist Volunteers. But things really came to a head when the king started to defend the rights of succession of his daughter Isabel against those of the Infante, Carlos. The clash ended with the expulsion of the most extreme elements from the highest State institutions, though the problems of the succession and Spain's generally spineless political setup remained.

While not bowing to the pressures of the more progressive factions, the ensuing Cea Bermúdez cabinet (1 October 1832 to 15 January 1834) did open up to some extent through the reform of the civil and military administration, the liberalization of trade, the reopening of the universities and the amnesty granted to political exiles, and so achieved some sort of transition towards a moderate liberalism. The expatriate liberals who had set up in colonies in London and Paris began to return and quickly blended in with the elite of the more moderate aristocrats and army commanders, so generating an atmosphere conducive to events that would radically change the situation in Spain.

The winds of change were also blowing abroad. Louis-Philippe came to power in France and the liberal king Pedro was on the throne in Portugal. With the support of the ubiquitous Mendizábal and the Rothschilds,<sup>4</sup> Pedro promoted a new diplomatic framework in which the influence of Austria and other conservative monarchies was substantially diminished.

All these changes were received positively by the governments of Europe and the time seemed ripe for the Rothschilds to resume activities with the Spanish economy.<sup>5</sup> Indeed, they began to make approaches even before the political change was firmly established, as early as December 1830 when, unknown to the public, two things occurred which were to be clear indicators of the family's intentions towards Spain and which would condition future events.

The first was again related to the mercury deposits of Almaden, 10 years after James Rothschild's offer to take over the trade of the mineral, though now the conditions for both parties were substantially changed. The Spanish Inland Revenue had been having a rough time since 1821 sustaining its mercury trade, in

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<sup>4</sup> Born in Cadiz, Juan Álvarez Mendizábal ran his own London trading house and bank, and was able to issue a sovereign debt of 4 million pounds for the new Portuguese monarchy thanks to an explicit agreement with Nathan Rothschild (contract of 23 April 1834), in which the latter personally took 800,000 pounds, his brother, James, 250,000 and Solomon, despite his affirmed reticence towards the liberal regimes, sold another 100,000 among his clients, Janke (1974: 58–59 and 114–116) and ARL, XI/4/99.

<sup>5</sup> According to Ferguson (1998: 380 and 384–386), the Rothschilds were once again in disagreement as to when and how to do this: Nathan was in favour of pre-empting the political change and of being more directly active in Spain, without the awkwardness of using intermediaries; James, while never ceasing to support him, doubted the wisdom of acting in such a politically unstable atmosphere, while Solomon in Vienna, fearing Austrian reprisals, continued to oppose any intervention. However, the events we describe here show a rather more decided attitude than Ferguson implies.

spite of the metal's wide uses. Sales in Seville had all but disappeared even though the price had dropped from 50 to 40 pesos per quintal of Castile and despite the facilities offered by the Mexican government for the Spanish reserves.<sup>6</sup> If we believe Weisweiller, the Rothschilds' agent in Madrid a few years later, the open sale system in Seville produced too many sporadic transactions that barely covered the stock and did not, at around 34 pesos (680 reales) per quintal, even reach the official prices.<sup>7</sup> Given the state of things, the Treasury was not only unable to promote a return to the product's earlier levels of profitability (which in its heyday had sold at 1,654 reales per quintal,<sup>8</sup> but could not even cover the costs of running the mine. Aguado was aware of the problem and had tried to win the income from the mines in 1824, but, just as it had done with the Rothschilds years before, the government resisted, waiting perhaps for a normalization of trade flows with America, which, however, was not forthcoming. Four years later the situation had become so desperate that the government threw in the towel and, after consultations with its experts,<sup>9</sup> opted to rent out the commercialization of the mercury to the highest bidder.

Whether coincidentally or through premeditation, the Rothschilds had an extra incentive to win the tender since Solomon, at some time before 1830, had gained control of the Idria mines. These deposits in Austrian territory (present-day Slovenia) were an ideal complement to those of Almaden. In fact, Idria provided the only alternative source for mercury in Europe and had for centuries been the only competitor of sufficient strength to contain the prices of mercury on the international market, even though it accounted for a mere quarter of the Almaden production.<sup>10</sup> Having secured the concession, the moment seemed right to stake firmly in favour of a combination of both productions and test the rigidity of the demand for mercury on the consumer markets, especially in Mexico.

Yet the Rothschilds, either on account of scruples they might have had about the government of Ferdinand VII or because they did not wish to be publicly involved with the Spanish monarchy, did not attend the bid for the Spanish mercury, although many bids were made at the poor price of around 31 pesos (620 reales) per quintal. Finally, on 23 March 1830 the offer made by *Íñigo Ezpeleta*, a Spanish trader based in Bordeaux, was accepted.

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<sup>6</sup> Martín (1980: 188). In 1824, the Mexican government expressly prohibited entry to any product from Spain, with the exception of mercury. Randall (1977: 186).

<sup>7</sup> Report from Daniel Weisweiller to the Minister of the Treasury of 17 August 1837, ARP, 132AQ 40; this is possibly the same document which he printed and distributed at the same time and which is cited by Fontana (1977: 77–79).

<sup>8</sup> This price was maintained for many decades in the mid eighteenth century. Dobado (1997: 465).

<sup>9</sup> Royal Order of 7 September 1828.

<sup>10</sup> Gille (1965: 414) and Sánchez Molero (1859: 29–30).



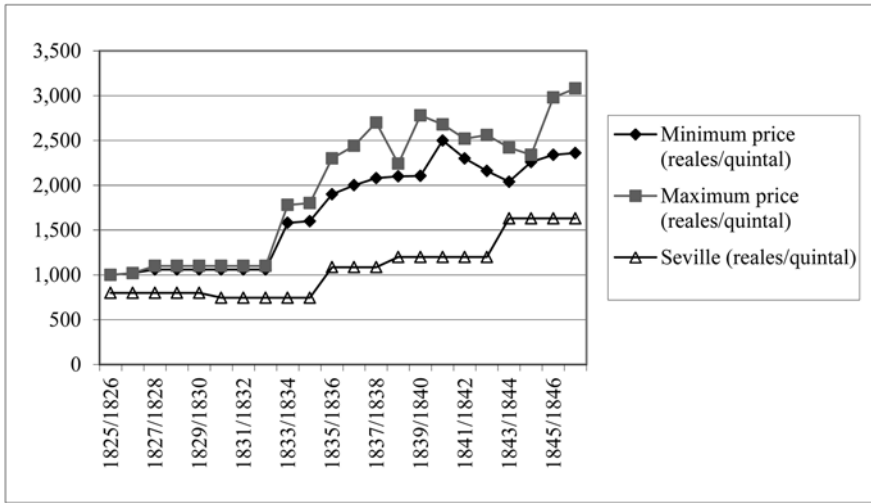


Figure 2.1 Mercury prices in Seville (official prices) and Mexico (maximum and minimum prices), 1825–1846, in reales/Castilian quintals

Espeleta signed an exclusivity agreement on 5 May, under which he was obliged to purchase from the Spanish government an average of 20,000 quintals of mercury a year, delivered in Seville at 37.25 pesos per quintal (745 reales/quintal). The trader also made a commitment to advance 400,000 reales a month to cover the running costs of the mine for the ten-year duration of the contract, unless the State opted to end the contract after the first five years.<sup>11</sup>

With no other information available, it is impossible to ascertain whether Espeleta was acting at the auction on behalf of the Rothschilds or not, although this would be not unlikely. What is known is that by December an agreement had been signed with the family to sell a part of the mercury, for which they were to receive a commission of 2.5 per cent on the sales.<sup>12</sup>

Neither do we know the other conditions of the agreement, nor how it would develop over the first two years, but we do know that, by at least 1832, Domingo Pérez Ansoategui, a Cadiz-based merchant, and, for good measure, Espeleta's brother-in-law, entrusted the whole of the Almaden production to the banking family.<sup>13</sup> If we track the evolution of prices shown in Figure 2.1, we can conjecture that for some time the Rothschilds had ceased to be mere agents on commission and had been managing all of Espeleta's stock while pushing up prices on the London market. Prices rose noticeably as of this date and in just one year had

<sup>11</sup> Martín (1980: 187–190).

<sup>12</sup> Ferguson (1998: 379).

<sup>13</sup> After the Rothschilds officially took over the contracts, Ansoategui acted as direct sales agent in Cadiz and later on in Seville until at least 1851. ARL, XI/38/3-5.

increased by nearly 60 per cent on the Mexican market. The famous Rothschild mercury business had, therefore, come into operation at least three years earlier than either their contemporaries or later academics believed.

In line with these operations, in December 1830 James Rothschild had signed an agreement in Paris with Alejandro Aguado (and other associated bankers) to get involved with Spanish debt. The purpose of the agreement is not all that clear but in essence it was a pact to keep the debt at around 30 per cent on the Paris Bourse.<sup>14</sup> Whether the idea was to keep the prices high and so manage to place some of the old bonds, or to carry out some run-of-the-mill speculation based on a probable fall in the price, it was a total failure. The price of the bonds had already returned to its habitual 15 per cent and would barely move over the following weeks,<sup>15</sup> so it seems that Aguado was really doing a bit of spadework in preparation for a much further reaching operation.

Let us go back to the months prior to the agreement. We will observe that following the July Revolution there was a substantial change in Paris in the market of the various Spanish stocks with prices inverting their normal trend: the old Cortes bonds, in which nobody had been dealing for years, almost doubled in value, while those issued by Aguado had fallen by over 40 per cent.<sup>16</sup> This was merely circumstantial for the Trienio bonds, but was a serious blow indeed for those of the absolute monarchy, which would not recover their near nominal values for two years. The real issue, though, was that the market had given a clear warning to Spanish public finances. Aguado was aware that the French stock market was overloaded with Spanish bonds and that public opinion, politicians and Paris bankers would brook no further dealings with the Spanish monarchy until the outstanding debts of the old liberal regime had been settled. So it seems that the manoeuvre described above was simply a way of allowing Aguado to hang on to the initiative and maintain the tension surrounding Spanish debt, in the expectation of a possible conversion of the bonds that might give yet another large commission, even if that meant artificially holding up the value of bonds that nobody wanted.

This seems to be the only reasonable explanation of the banker's behaviour. A month later he turned up in Madrid trying to convince Ferdinand VII of the advantages of a new debt in which the exchange of a part of the Trienio bonds would be accepted in order to assure a much larger issue. López Ballesteros wanted nothing to do with the operation, which he knew would set all the ultra-conservative opposition against him, even though the acceptance of the debt of the Cortes might be camouflaged as an exclusive recognition of the bonds set up during the Trienio to pay off the old Dutch debt. However, the king accepted, and so the loan went through as it stood.<sup>17</sup>

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<sup>14</sup> Ferguson (1998: 379).

<sup>15</sup> Artola (1986: 153–157).

<sup>16</sup> *Ibid.*

<sup>17</sup> Fontana (1973a: 260–269) and Fernández Acha (1976: 26–27).

It is highly unlikely that the Rothschilds were *au fait* with this second deal, the last issue to be made during the reign of Fernando VII, or that they might have collaborated. At most, they may have given some type of consent. What is significant is that the family was showing a certain willingness to become involved in the imminent changes taking place in Spanish politics and on the debt operations that these entailed. In any case, shortly after the death of Ferdinand VII, on 29 September 1833, the banker Campbell wrote from London to the Banco de San Fernando about the difficulties he was having in purchasing on its behalf, since Nathan was buying up Spanish debt bonds.<sup>18</sup>

It seems clear then that the Rothschilds were adopting a position that backed political transition in Spain. It appeared to be the best way by far to bring Spain into line with the general system of financing in the European states, especially now that the Spanish government had taken the first steps towards explicitly recognizing the debt of the liberal Cortes. It also seemed to be an opportune moment for the family to assume official control of the sales of the Almaden mercury, which were giving huge dividends, even though this meant involving themselves in potentially unsafe credit operations.

### **The Key Years: 1834–1835**

Political events unfolded at helter-skelter rate over the following months in Spain. The young widowed queen, María Cristina of Naples, failed abysmally in her attempts to reconcile liberal and absolutist interests, mainly because of the intransigence of the supporters of the Infante, Carlos who refused to accept the succession through the daughter, while the main Carlist parties, who had been at work since the monarch's death, were building up more pressure in the north and in neighbouring Portugal. The threat of civil war was evident and the need to drum up political support, along with the pressures exerted by cliques and the military, would end up in the political defenestration of Cea Bermúdez and the rise of Martínez de la Rosa as leader of the first truly liberal government (January 1834), despite his rather limited flair for the post.

In strictly financial terms, the situation the government inherited was pretty bad. Cea had acted rather parsimoniously during the autumn of 1833 and had taken no firm measures to counteract the foreseeable increase in the costs of his War Ministry. Elsewhere, he had refused to accept Aguado's latest proposal, as well as several others he received from the Rothschilds via the Duke of Broglie, the French Minister of State, that linked a loan to a rapid recognition of all or part of the debts of the Cortes.<sup>19</sup> The outcome was that the Treasury was again left empty by the end of the year and had a deficit calculated at 200 million reales

<sup>18</sup> Letter from Campbell to Banco de San Fernando dated 20 Nov 1833, ABE, Secretary's Office, file 1196.

<sup>19</sup> Fontana (1973a: 268–269), Gille (1965: 245–247) and Fontana (1977: 60–61).

plus short-term expenses in the region of 400 million reales.<sup>20</sup> Such a figure could not be covered by the Banco de San Fernando, which had for many months been stretched to its stipulated limit of 15 million reales in advances to the Treasury.<sup>21</sup>

Before the situation worsened yet more, the new government decided to send the Marqués de Miraflores, a moderate liberal who was close to the regent, to London on a mission to negotiate political support directly with the British government and to raise funds for the Treasury among the London bankers, with special emphasis on the foreign interest payment which fell due on 1 July, and without which there could be no possibility whatsoever of gaining the trust of investors for any large-scale issue or of reopening the London Stock Market to Spanish values.<sup>22</sup>

Before going to London, Miraflores visited Paris, where he tried to get James to confirm his promises to the previous government and to ask for his help in meeting the present one's most pressing needs. It appears that James' hands must have been tied by the agreement with Aguado and Laffitte for he refused to be drawn into any commitment. However, he did agree to negotiate when Miraflores offered to appoint him Spain's official overseas banker,<sup>23</sup> and contacted his brother Nathan to finalize the agreement. In London, Miraflores continued the negotiations with Nathan, and a pre-agreement was signed on 18 April under which the banker agreed to advance 500,000 pounds there and then if Spain publicly announced its intentions to discuss recognition of the Trienio debt at its next session, as a prior step to issuing a loan.<sup>24</sup>

Less than one week later, the clever diplomat had completed his mission. He had persuaded the French, British and Portuguese to solemnly agree with Spain to form a "Quadruple Alliance". This agreement, sealed on 22 April by Palmerston, Talleyrand, a representative of the Duke of Braganza, and Miraflores, established that Carlos would be expelled from his refuge in Portugal and that England would provide military cover for the operations in Portuguese lands.

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<sup>20</sup> In reality, there were some paltry reserves of 37,000 reales in the Treasury, according to a count made at the end of 1833. Fontana (1977: 43–44).

<sup>21</sup> By the death of Ferdinand VII, the Treasury had accumulated a debt of 33 million reales with the bank. Gaspar de Remisa, as Director General of the Treasury, began to need further advances, which the bank granted, although not in full and as slowly as possible. Tedde (1999: 47–48).

<sup>22</sup> Miraflores (1964, reed.: 36 and 63).

<sup>23</sup> Miraflores (1964, reed.: 39, 63–64). James immediately wrote to the government for confirmation of this and received an affirmative reply at the end of March. Martín (1980: 165–166).

<sup>24</sup> Miraflores (1964, reed.: 65). Nathan put up 2 million reales as an advance, although Miraflores had no qualms about recognizing that this advance arose from a discussion with Nathan when the Rothschild attempted to bribe him to make changes to the previous agreement. The diplomat's reply was to threaten to publish the document. It seems that James had also tried to bribe him the month before in Paris.

The remaining clauses are somewhat vague and imprecise but imply that Great Britain and France had agreed to play the role of protectors of the new Iberian liberal monarchies against the legitimist pretensions of Miguel and Carlos. Despite being criticized as an assault on the political independence of the Spanish monarchy, the agreement was decisive and effective. With its backing, Spanish troops were able to force the pretender to flee to England, where he was temporally confined, and, more importantly, it provided an opportunity to save the image of a weak liberal revolution in Spain and to belittle the successes of the Carlist army that, under the leadership of Tomás de Zumalacárregui, was beginning to cause the troops of Cristina serious trouble in Navarre and the Basque Country.

As for the matter of the debt and the budget, the government had, at the end of April, decided to take out an urgent loan for 200 million reales, either in Spain or abroad, but this was dropped when it learned of the offer made by the Rothschilds.<sup>25</sup> The contact mentioned was duly, and apparently without any hitches, signed on 7 June and was witnessed by the ambassador in Paris, the Duke of Frías, and an authorized representative of the Crown.<sup>26</sup> It was a clear declaration of purposes from both parties. In the first place, in return for an advance payment (ultimately 15 million francs to be repaid over three months at 5 per cent interest and with a 2 per cent commission<sup>27</sup>) the Spanish government was bound to present “for approval by the Cortes, when it next sat, an act that recognized the loans made in 1820, 1821 and 1822, known as the *Empréstitos de Cortes*, and which set out the conditions under which the obligations of the said loans would be admitted, either in bonds alone, or by any other more convenient means and according to the most equal and favourable terms possible” (Art. 4). Elsewhere, the agreement included a clause for banking exclusivity (Art. 6) under which the government was bound to give preference to the Rothschild brothers, under equal process and conditions, when negotiating the first issue of debt, and likewise in any other negotiations regarding public effects or any other loan or advance of funds that it might require, it was similarly debarred from negotiating any such loan or other operations with third parties without the knowledge of the Rothschild brothers, nor could it finalize or accept any offers other than those of the Rothschilds without offering these the opportunity to negotiate the same under the same prices and conditions. Finally, the government undertook not to negotiate any “loan ... or negotiation of public effects, or receive any type of loan or advance ... until the Rothschild brothers have been repaid the total of all sums advanced” (Art. 8).<sup>28</sup>

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<sup>25</sup> Fontana (1977: 62–63).

<sup>26</sup> Manuel González Allende, Secretary of the Banco de San Fernando, Martín (1980: 160–161) and Tedde (1999a: 49–50).

<sup>27</sup> The government would have preferred double this amount (120 million reales). Martín (1980: 161).

<sup>28</sup> Miraflores (reed. 1964: 223–225). Also reproduced in Martín (1980: app. 3).

Contrary to the wishes of the bankers, it proved impossible at the time to include any assurance regarding the Almaden mine.<sup>29</sup> However, it took only 11 days for the first undertaking to be fulfilled and the Rothschilds became the official overseas bankers for Spain. From then on they were exclusively responsible for payment of interests on foreign debt and for all amortizations, receiving 1 per cent on the amount paid and amortized.<sup>30</sup> In short, after more than a decade of fruitless attempts, the House of Rothschild had finally assumed effective financial control of Spain, in the expectation of increasing their interests in the future, while the Spanish public accounts gained a temporary respite from their tribulations.

However, when news of the agreement and the conditions reached Madrid, it was greeted with a violent reaction. Imaz, the Minister of the Treasury at the time, resigned since he had publicly expressed his opposition to closing any loan or arrangement in such a peremptory fashion.<sup>31</sup> Miraflores himself accused James Rothschild of having manipulated the conditions of the initial agreement, since his agreement with Nathan had said nothing about exclusivity or the obligation on the part of the government to propose any act which recognized the debt, but only a commitment to discuss the issue.<sup>32</sup> Imaz's successor, the Asturian José María Queipo de Llano, Count of Toreno (minister from 18 June 1834) was of the same mind and refused outright to accept the agreement: he suspended all operations with the Rothschilds and on 8 July proceeded to sign a new agreement with the French banker Ardoin.<sup>33</sup>

Various explanations have been put forward for this rupture. Some relate to the contents of the contract itself or to secret agreements between Toreno and Ardoin, or even to internal disputes within the Spanish Cabinet,<sup>34</sup> but the causes are more complicated still. In fact, it had little to do with any small print in the contract itself. Toreno was working on a much more ambitious financial reform project for the State that went beyond a simple loan and involved finding a solution

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<sup>29</sup> This point had not been accepted by Miraflores and, therefore, does not appear in any of the contracts of June 1834. Ferguson (1998: 383, n. 50) and Martín (1980: 163).

<sup>30</sup> The agreement of 16 June involved the same interlocutors as before. Martín (1980). Aguado and Ferrere Lafitte protested about these contracts and obliged James to sign an agreement under which he undertook to share any sovereign bond issue with them. Ferguson (1998: 381).

<sup>31</sup> Fontana (1977: 41).

<sup>32</sup> Miraflores (Reed 1964: 69–70) accused James of acting in bad faith for not waiting for him when signing the agreement, as had been planned, and of taking advantage of his absence to impose changes in the contract on the special emissary.

<sup>33</sup> Toreno defended his actions using reports from the Caja de Amortización and the Real Giro, arguing that the conditions of the agreement were “intolerably harsh and degrading”. Martín (1980: 167–169) and Fontana (1977: 64).

<sup>34</sup> Fundamentally, these were disputes between Martínez de la Rosa and Toreno, which Fontana (1977: 64, n. 10) notes from a testimony of the French ambassador (collected by Jean Sarrailhin *Un homme d'état espagnol: Martínez de la Rosa*, 1930: 205–206).

to both domestic and foreign debt through tax reform and a devaluation of the real,<sup>35</sup> a matter which we will address later. The minister presented this to the Cortes in August. The Rothschilds were superfluous in this matter, as they were not committed to anything other than their own loan. Likewise superfluous were the restrictive clauses of the contract, which made any negotiations of issues of interest impossible. In contrast, Ardoin showed himself willing to issue any kind of debt and he expressly committed himself to freeing the Spanish Crown from the contract with the Rothschilds, undertaking himself to repay the June advance. He did have the advantage of an old mutual commitment with the leaders of the government since Ardoin had been a clear benefactor of the liberals in exile and had allied himself with Mendizábal in financing many of the operations undertaken in their favour, including Vera's failed expedition of 1830. It was a question of settling a moral debt, but also an economic one, since Ardoin still had 140 million nominal reales in "inscriptions" from the Trienio debt, which had remained in his hands with the fall of the regime.<sup>36</sup>

In any case, the Rothschilds wanted to see their money paid back and they quickly went about recovering it. E. Costil, one of their employees, failed to achieve this in July, so Nathan sent his eldest son, Lionel, who had been with his uncle during the Paris negotiations,<sup>37</sup> to deal directly with the Spanish government over the payment of the loan and probably also charged him to prevent Toreno including the Almaden mercury in any debt combination.

The young Rothschild arrived in Madrid at the end of August and quickly made contact with Villiers and Rayneval, the English and French ambassadors, who were to apprise him of the political situation. The city was in the aftermath of a terrible month during which an outbreak of cholera had led to attacks on monastic houses and the murder of many of their religious inhabitants. If that were not enough, following the return of the Infante Carlos to Spanish territory, fierce war had broken out again. In short, just as the Cortes was about to resume, Madrid was in mayhem. This was the backdrop to the tough negotiations between the banker and the liberal minister, in which somehow the Rothschilds' interests had to be married to those of Ardoin in as short a period as possible, if all concerned were not to lose out. The complicated "chess match"<sup>38</sup> between Lionel and the minister was played out on fairly equal terms. Toreno and Ardoin knew that a lack of agreement with Lionel could stop the conversion of the debt, so they were keen to get the family involved in the operation. Nathan and James, however,

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<sup>35</sup> Sardá (1970: 77–79) and Fontana (1977: 44–58 and 64–70). Fontana questions whether Toreno's measures had any real capacity to effect any deep reforms in the financial structure of the State.

<sup>36</sup> Janke (1974) and Artola (1986: 165, n. 4).

<sup>37</sup> Lionel was under taking an apprenticeship of several years' length in the offices of his uncle in Paris. Ferguson (1998: 297–298, 383 and n. 46).

<sup>38</sup> An expression used by the British ambassador, Villiers, according to Janke (1974: 119).

had made it clear that the Rothschilds would accept no debt issue. Other common ground had to be found and Almadén – along with some tobacco contracts that were eventually discarded – were considered as possible compensation to the House for its losses, and also as a guarantee that the current operations would not be frustrated. The talks must have degenerated quickly from the defence of public interests into purely personal business. Lionel would soon have discovered that, under the veneer of being a man of political ambitions and high ideals, Toreno, a veteran of the liberal cause who had shone in the Cadiz Cortes as one of the most progressive of politicians, also had his price,<sup>39</sup> just like a large part of the Spanish political class of the time. It was, therefore, not long before the question of purely personal compensations reared its head.

An initial agreement was reached on 7 October, under which the Rothschilds accepted payment for the advance in bonds from the Ardoin issue,<sup>40</sup> which meant that the Rothschilds would have some interest in increasing their value and, hence, in ensuring their support for a complete conversion. With respect to the Almadén mercury, any resistance on the part of the minister disappeared with a well-documented bribe to the tune of 1.3 million francs (4,962,100 reales)<sup>41</sup> and a donation to the Queen's civil list of between 2 and 6 million reales. In short, apart from these "necessary expenses", the family had to take on board losses of some 1.6 million francs on their advance,<sup>42</sup> which they must have thought acceptable if it meant a guarantee of Toreno's support in the mercury operation. A series of scandalous transactions ensued in which everything appeared to be neatly tied up.

In November the government had informed Ezpeleta that his contract would not be renewed, and the end of December saw the announcement of the public auction of the rights to the mercury production over the next five years. This spelled the departure of the trader from the scene of operations after agreeing to a share of three-eighths of the business.<sup>43</sup>

In the event there were seven bids for the trading rights of the mercury at the auction held on 15 February; three of the bidders were resident in Spain, and their

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<sup>39</sup> Letters from James to Lionel of 22 October 1834, and from Lionel of 30 September 1834, 1 and 2 October 1834 and 12 December 1834, ARL XI/109/32/1 and 2. In 1838 Weisweiler came up with an eloquent comment about Toreno: "... and as you already know from your own experience, what a fine, barefaced cad this fellow is, you will appreciate just how little he is to be trusted ...". Cited by Otazu (1988: 68) from a letter of 22 January 1838.

<sup>40</sup> This agreement is covered under article 8 of the contract of 6 December 1834 with Ardoin for the issue of the sovereign loan of 400 million, which appears in full in Miraflores (reed. 1964: 226).

<sup>41</sup> Corti (1928a: 127) says that 1.3 million were handed over directly to Toreno and 300,000 to unspecified third parties.

<sup>42</sup> Gille (1965: 251), Fontana (1977: 80) and Ferguson (1998: 383).

<sup>43</sup> This figure can be deduced from the amounts received by Ezpeleta just prior to the 1838 auction, as recorded in a summary of the accounts of 31 October 1838 in ARP, 132AQ.40. The opinion is shared by Otazu (1987: 39 and 45), who uses the same document.



offers were all below 46 pesos fuertes,<sup>44</sup> while the four foreign bidders, who must have been well informed regarding the margins within which the Rothschilds worked, put in bids at over 50 pesos. The highest came from Pedro Juan Zulueta, a banker-trader of Basque origins who worked out of London, with 54 pesos (1.80 reales). The auction, however, was won by Lionel, who had offered just 50 pesos, but whose proposal had included the tag that he would top any offer not exceeding 54 pesos<sup>45</sup> by 5 reales.

The similarity between the two bids is suspicious to say the least and it would be rather naive to believe that Lionel was not totally aware of the positions of his rivals before the auction, a belief substantiated by the protests and accusations of a fix-up made by Zulueta.<sup>46</sup> In any case, the price achieved at the auction meant an impressive gross margin of up to 1,215 reales per quintal (112 per cent) above the highest price for that year in Mexico. It was quite a success for the Rothschilds, who prior to their negotiations with Toreno were willing to pay 5 per cent more than any competitor.<sup>47</sup>

The final agreement was signed on 21 February 1835 and established that the Rothschilds would hold all the production from the Almaden mine for the following five years, or three in the case of either party wishing to terminate the agreement. The sales would be paid in the Seville shipyards and in cash through the Caja de Amortización de Madrid at the price agreed. The contract was to come into full effect as of 7 May, following the deposit of a guarantee to the value of 1,500 quintals (1,627,500 reales). However, Lionel was not content with what he had obtained, and decided to squeeze more out of the situation. Just 20 days later he sought no fewer than five important modifications to the Almaden contract. Toreno agreed to them immediately and had no hesitation in standing up to the director of the Caja de Amortización in order to impose the changes.<sup>48</sup> However, there was a price to pay, as we shall see later.

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<sup>44</sup> Tomás Torres, from Almagro, offered 46 pesos, Celestino López, from Cadiz, 44 pesos, and Josef Casals Remisa, of unknown origin, just 38. Otazu (1987: 37).

<sup>45</sup> *Ibid.* The remaining proposals were those of Aguirrebengoa Hijo and Iribarren, of Paris, who put in two bids of 51 pesos and that of Peter Harmony, from Cadiz, who offered 52 on behalf of a New York house.

<sup>46</sup> Martín (1980: 203).

<sup>47</sup> Ferguson (1998: 383). This would have meant an offer of 2.25 pesos (45 reales) higher than the one they finally made. In view of the three-year production total (worth 59,970.86 quintals of Castile), the total losses for the administration would have reached 2,698,688.7 reales under this item.

<sup>48</sup> Fontana (1977: 77–79) and Martín (1980: 195–198). The changes to the contract obliged the State to keep to a production of between 20,000 and 23,000 quintals a year; to make the deliveries to Cadiz rather than Seville (with an insufficient compensation of 2.5 reales per quintal); to allow the mercury to be paid for in bills at one month on Paris and London or in gold or silver bullion; to suppress the deposit and, lastly, to waive its right to terminate the contract after three years.

In the meantime, the minister had put the finishing touches to his combined plan to sort out both the national debt and the foreign loan, which he pushed through in much the same way as he had the mercury business just described.

Once the Rothschild hurdle had been overcome, Toreno presented the draft of his project to the Cortes, where it was passed as an act of 16 November 1834. This included explicit recognition of responsibility for all the debts contracted by the State, including those of the Trienio, without restriction, and authorized the Minister of the Exchequer to negotiate a loan of 400 million to gain time in which to draw up the specific conditions for the conversion or recognition of the old bonds. The formula finally selected took in all the debt in circulation with the exception of some bonds held by the French, British and American governments during the 1820s and it sought to strike a balance between recognizing the rights of the debt holders and enabling Spain to honour future obligations. The aim was to design a plan that left a similar volume of debt to the total outstanding plus the recognized bonds – 5,527,668,506 reales nominal debt in total – but without recognition of all the accrued interests on the foreign debt, which at 242 million reales per annum were impossible to satisfy. The formula adopted was to reduce the nominal on the debt by 60 per cent and to suspend temporarily the payment on a third of the bonds, and so include recognition of accrued interests. New interests were to be incorporated progressively into the budgets as feasible. A new asset debt at 5 per cent thus replaced the old bonds. It recognized the rights to two-thirds of the old debt in cash, with one-third deferred, to include unpaid interests, which would be converted into assets over the following 12 years, as well as liabilities for a third of the nominal of the old debts, which included the same 60 per cent of the value but suspended payment on interests pending a future decision.<sup>49</sup>

Shortly afterwards, the tender for the loan was announced and 14 bids were received. The only ones admitted were those of Ardoín, who offered to issue at 57 per cent of the nominal and of Vicente Bertrán de Lis, whose offer reached 62 per cent. The committee in charge of evaluating and deciding which offer was the most appropriate surprisingly came down in favour of Ardoín, notwithstanding the difference in rates, and explained that one of the reasons behind the decision were the guarantees that the previous agreements signed with the French banker offered. Yet there was no need to get into any arguments with Bertrán de Lis since he withdrew his offer.<sup>50</sup> Again, it does not seem to be far off the mark to think that Lionel could have had something to do with this turn of events since the matter involved his former partner in tendering for loans.

The final terms of the loan agreed with Ardoín on 6 December 1834 established that the nominal issue would be 701,754,386 reales as consolidated debt at 5 per cent, at 60 per cent of the nominal, which, after discounting the 3 per cent

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<sup>49</sup> Fontana (1977: 67), Artola (1986: 165–169) and Broder (1981: 473). These measures did not prevent the total interests payable from reaching 198 million reales a year.

<sup>50</sup> Martín (1980: 170), Fontana (1977: 70–71) and Rull (1988: 20).

commission of the contractor, would cover the 400 million agreed upon,<sup>51</sup> a figure that included the return of the Rothschilds' money and the advance made in June by Ardoin.<sup>52</sup>

Yet the result was a disappointment and a widespread rumour arose in political and financial circles to the effect that the Rothschilds had provoked a slump in the value of the Spanish debt in Paris and London as revenge for Toreno's "betrayal" of the previous summer.<sup>53</sup> The results of the supposed conspiracy, which the Rothschilds themselves added weight to in their communications with Metternich,<sup>54</sup> would have had serious consequences for Spain, which would have lost a unique opportunity to regain the confidence of European investors and would have been drawn into dangerous conversions and further issues.

The argument put forward by Gille (and supported by Fontana<sup>55</sup>) goes much further, as he states that the Rothschilds may not have acted solely out of revenge but that it was a deliberate attempt to weaken the government so that they could put more pressure on it in the matter of the Almaden contract and would not lose the opportunity of starting a series of advances guaranteed by the mercury, as well as making some rich pickings from their underhand methods. All this was done while giving the idea that the way was being paved towards the short-term loan policy that would be a hallmark of the Rothschilds' relations with the Spanish Treasury over the coming years.

However, the whole issue was rather more mixed and confused than such arguments would suggest. That prices slumped is indisputable, as are the sales made by the Rothschilds, but accounts and interpretations of what happened next are not as clear as has generally been claimed.

If we look again at how events unfolded, we can observe several important elements. First, there were *two* market slumps, not one, although they were both bought about by the same events. The first occurred in October and November 1834, when the London Stock Market reacted negatively to the announcement of the conditions being discussed for the conversion of the *Estamento de Procuradores*.<sup>56</sup> December and January were months of relative calm and values slowly recovered, thanks to the understanding between Ardoin and the Rothschilds. February saw values hold and strengthen for a while due in part to the explicit agreement between the Rothschilds and Mendizábal to uphold the Spanish debt for eight days "against the public interest" – and their own – at a time when Mendizábal and other

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<sup>51</sup> Ibid.

<sup>52</sup> Fontana (1977: 75, n. 29). For the full contract, see Miraflores (reed. 1964: 225).

<sup>53</sup> Miraflores (reed. 1964: 71).

<sup>54</sup> Solomon Rothschild wrote a series of letters to Metternich, leading him to understand that his family had organized an operation to sink the credit of Spanish debt, as revenge on Toreno and as proof of its lack of support for the Spanish liberal revolutionaries.

<sup>55</sup> Gille (1965), pp. 251–253 and Fontana (1977: 81–82).

<sup>56</sup> Labrador (cited by Martín (1980: 177)) and Fontana (1977: 73). Let us recall that the discussions were to recognize but two-thirds of the debt.

Spanish government intermediaries such as Zulueta or Ricardo were speculating on a rise in prices to float the Ardoin bonds under the best possible conditions. However, by mid-May values started to plummet from 71 points to 26 before levelling out at around 40–45 per cent of the nominal. That the Rothschilds made sales over these days is incontrovertible. The Spanish ambassador to London at the time would assert that the Rothschilds were “the most active sellers”, apart from others like Ricardo, who was supposedly a government intermediary in the issue. If they were really betting on a fall with those 1.8 million pounds (approximately 180 million reales) in Spanish debt, as claimed, then they could indeed have made a huge profit.<sup>57</sup> However, the Rothschilds’ action cannot be explained as an attempt to put pressure on the Spanish government over the Almaden contract, which had been signed over three months earlier. The “revenge” theory, then, does not seem so misplaced, but it is a big leap from there to believing that the Rothschilds had prepared the manoeuvre to keep Spanish public finances weak and under their control for the next three decades.

In my own view there is nothing, other than the letters of Solomon, to indicate that the Rothschilds were disposed to do anything other than cash in part of their bond portfolio, which would quickly lose value. This is quite logical given how difficult it would be to maintain the level of the prices for any length of time in a climate of mistrust, not to mention the development of the war in Spain, where the news that the Valdés government troops had suffered a humiliating defeat in Atarza on 22 April was hardly favourable, to put it mildly. Furthermore, an astute observer would have noted other even more important factors that argued for a withdrawal. There was a lack of capacity on the part of the successive liberal governments to give even a semblance of order to their accounts in the face of the war, or to meet their obligations and pave the way for any confidence in the political and economic future of Spain. Lionel must surely have been keenly aware of all this.

So the Spanish bonds had slumped not only because of the speculators but also because the situation was quite simply against their being stable. The 40 per cent price of the second half of 1835 would look good in the following years, when the bonds were devalued by 90 per cent. It seems clear that, just as he had done during the Trienio, Solomon, through Metternich, had taken advantage of an inevitable and expected fall in the value of the Spanish debt to notch up a victory, so showing a supposed militancy on the part of the Rothschilds in favour of the royalist cause. His letters would have been as sincere as those we referred to earlier in October 1822.<sup>58</sup>

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<sup>57</sup> Broder (1981: 486), Miraflores (reed. 1964: 71), Artola (1986: 157) and Corti (1928a: 127).

<sup>58</sup> This view is shared by Broder (1981: 535, n. 58) and Ferguson (1998: 384–385).

Whatever the reason, Lionel had accomplished his mission by June and had started to prepare to leave Spain.<sup>59</sup> He left Ansoategui (who had some years' experience in the matter) in charge of the shipments of mercury from Cadiz to London. In Madrid he delegated the rest of the business to Daniel Weisweiller, an employee who had accompanied him over the previous months, giving him general powers to act on behalf of the House of Rothschild<sup>60</sup> in all matters. Lionel rounded off his Spanish work by taking on the correspondent's office in London of the Banco de San Fernando (later the Bank of Spain), which Nathan, on the recommendations of his son, offered to the directors of the bank in September 1835. The conditions were to be the usual ones: both institutions were to exchange business deals at a commission rate of 0.5 per cent, plus the brokerage and the usual mail charges with 4 per cent being paid mutually on the accounts opened. The deal was sealed there and then with the acceptance of an initial remittance of bills from the bank to the value of 32,230 pounds.<sup>61</sup> The Paris House would later enter into an identical arrangement.<sup>62</sup>

Lionel had, unwittingly, set up the two pillars that would uphold the relations of the family with the world of Spanish public finance for the immediate future. The expectations that the very young Weisweiller (he would have been 20 or 21 at the time) could generate must have been small, but he was soon to become the most efficient of the Rothschilds' agents abroad.<sup>63</sup> Thus it was that Weisweiller's appointment, the setting up of a stable agency in Madrid which would be fully operational for the next 96 years, and the taking over of the correspondent's office of the Banco de San Fernando, were to be (together with the contracts referred to above) the most outstanding achievements of the Rothschilds during this period.

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<sup>59</sup> Lionel returned from Madrid with an undisguised passion for Murillo, as we may judge from the offers made by Weisweiller and Bauer over the next decades to purchase original works by the artist and from the comments made by Ferguson (1998: 360–361).

<sup>60</sup> The power was signed 13 June 1835, ARP, 132AQ 40.

<sup>61</sup> Letter dated 19 Sept 1835, ABE, Secretary's Office, file 1.196. There were some previous fruitless contacts with the bank. Tedde (1999a: 50) observes that Nathan proposed to act as intermediary for the Banco de San Fernando and sell some of its shares in February 1835, but no firm agreement was reached.

<sup>62</sup> Letter dated 22 Mar 1836, ABE, Secretary's Office, file 1.259. On 25 December of the same year we see the first important discounts made by the bank – 250,000 francs. Tedde (1999a: 74).

<sup>63</sup> As Ferguson opines (1998: 301).

## **Methods of Negotiation during the First Regency: The Early Years of the Agency**

It was not easy to consolidate a new political regime in Spain when the leaders were still proving so inept in tackling the key issues. The war, which would otherwise have favoured the Isabel party, was a major victim of the government's inactivity during the early months of the conflict and it dragged on inexplicably due both to military ineptness and the measures of Imaz and Toreno, who presented budgets that had little to do with a war economy.<sup>64</sup> The poor image of the government and the slowness of the reforms again sowed discontent among the population, who took to the streets again in August 1835 so as to set up provincial juntas in favour of the 1812 Constitution. This led to a dangerous institutional vacuum which only made prospects for Spain receiving more financial aid from Europe more unlikely. It was in the midst of this scenario that Mendizábal took power.

But more than the arrival of their old ally, what the Rothschilds were waiting for before they took action in Spain was a new French military offensive, which Louis-Philippe had always rejected, despite the pleas of Martínez de la Rosa and Toreno. England, for its part, while supporting the liberal government with important supplies of war material, was not in favour of armed conflict, nor was it prepared to guarantee any special loan under such circumstances, unless some favourable commercial treaty were signed, but María Cristina had flatly refused to do this.<sup>65</sup>

To make matters worse, on 28 July 1836 Nathan Rothschild suddenly died. The passing of the only family member in favour of strengthening relations with Spain was a blow to the development of the Rothschilds' business interests in a country that was generally considered too conflictive and risky. Lionel quickly cashed in all the Spanish shares, with the idea of holding on exclusively to the Almaden business. In doing so, it appeared that the Rothschilds were closing their doors on any other business activity in the Iberian Peninsula. The position would change little the following year, even when Thiers proposed resurrecting the interventionist option in Spain. The feint by the French Prime Minister was in stark opposition to James Rothschild, who advocated a more contained budgetary policy on the part of the French government, and it was to have its riposte on the financial markets, which allowed a momentary slump in the values of French public debt.<sup>66</sup>

In the face of such inactivity from the Rothschilds, the key protagonist was to be Daniel Weisweiler. The young German would show an exceptional ability as he manoeuvred his way around the corruption of the regime and would, under

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<sup>64</sup> Santillán (reed, 1960: vol. 1, 149) and Artola (1986: 163 and 167).

<sup>65</sup> Janke (1974: 261–264), Ferguson (1998: 386–387), Miraflores (reed. 1964: 85–89), Fontana (1977: 111 and 120 and Marichal (1980: 102).

<sup>66</sup> Thiers had previously opposed intervention. Marichal (1980: 105) and Ferguson (1998: 386 and 413–414).

his own initiative, carry out an intensive political and financial programme that always went beyond the projects of his employers, whom he nonetheless dragged into most of his operations. However, this was not to occur until the Mendizábal's second term.

### *The Initial Rejection of Mendizábal's Plans*

Historically, the appointment of Mendizábal had been made on the advice given to the Regent by the British ambassador, Georges Villiers, who considered him to be "the only person in this country who enjoys the complete confidence of the foreign financial markets, something which is absolutely indispensable in tackling the present financial crisis in Spain".<sup>67</sup> Foreign money was not what would actually solve the problem of the civil war in the long run, but Mendizábal, in the 23 months that he was in charge of Spanish public finances,<sup>68</sup> was indeed the only one who had any clear ideas as to how pull the country out of its institutional crisis and bring the conflict to a close.

The specific measures adopted under Mendizábal's programme stemmed from the promulgation of a general levy, whose goal was to increase the number of troops on the northern front by 100,000,<sup>69</sup> and included a series of specific steps to finance this effort and to maintain a minimum political and administrative structure in the country. Mendizábal asked the *Estamento de los Procuradores* for a vote of confidence allowing him to act with all freedom in matters of finance, without having to constantly seek parliamentary approval.<sup>70</sup> Having achieved this, and convinced that it was impossible to bring in any tax reform at that time, he sketched out his ideas for raising funds without harming the interests of the masses, who might thereby be brought to support the government.

In short, the main steps taken were a combination of measures to expand credit together with others aimed at freeing the State of certain charges and so direct the largest amounts possible to the front. In the first place, money was to be raised through the levy itself, since exemption from the call-up was allowed in exchange for a cash payment of 4,000 reales – which amounted to some 46 million reales during his term in office. Mendizábal also raised money in another, not very orthodox, way through a camouflaged debt exchange operation involving assets for liabilities or deferred foreign debt, with the agreement of Ardoin and Ricardo,

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<sup>67</sup> Marichal (1980: 104).

<sup>68</sup> Mendizábal controlled the Exchequer from 13 June 1835, although he only officially joined it on 14 September; he would remain until 18 August 1837, apart from the interlude of the Istúriz government in the summer of 1836.

<sup>69</sup> The decree affected all unmarried adults and childless widowers. Fontana (1977: 135–136).

<sup>70</sup> As soon as he had won his vote of confidence, Mendizábal dissolved the Cortes and called elections for February 1836, in which he received massive support from the electorate. Marichal (1980: 102–103).

so taking advantage of the enormous difference in the value of the bonds in Paris and London.<sup>71</sup> At the same time, Mendizábal drew up other measures to reduce the financial load, at the heart of which was his famous programme of ecclesiastical confiscations. The minister prepared a general liquidation of the domestic debt, which Toreno had left unfinished, and stipulated that all items, once converted at a discount into consolidated debt, could be used to acquire expropriated estates. These titles would then immediately be withdrawn from circulation and the remaining cash income would be used to pay off debt.<sup>72</sup> In this way, funds would be raised through a reduction in the interest charges to the budget and not through direct income. The project concluded with a new loan in Great Britain for 2 million pounds (approximately 200 million reales), but Mendizábal would have to set this aside following the refusal of the Regent to guarantee this with profits from tariffs. The minister always believed he would be able to recover the money though, since he was convinced that his call-up would be sufficient to finish the war in a fairly short time.<sup>73</sup>

Mendizábal relied on the Rothschilds to carry out a large part of his plans, especially those involving the London loan, imagining that he could repeat the experience of some months previously when they had very successfully issued a loan for Portugal under similar circumstances. Nathan Rothschild, however, doubted whether the minister's actions amounted to an effective solution to the financial problems of the Spanish Crown and was especially mistrustful of the potential offered by any short-term seizures.<sup>74</sup> No concrete agreement was therefore possible, although it seems that the family planned to discuss a possible loan to Spain at a meeting organized to celebrate the marriage of Lionel, which took place at around the same time that Nathan died.<sup>75</sup> In the midst of all this family drama, all that Mendizábal obtained from the Rothschilds was an advance of 100,000 pounds (some 10 million reales) against the mercury income for that year.<sup>76</sup>

Nathan had been partly right in his suspicions, for the Treasury would take months to gain from the sale of the Church goods, by which time Mendizábal was no longer in the government.<sup>77</sup> The minister also erred in his calculations of

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<sup>71</sup> It was a question of leaving the amount in circulation unchanged. In essence, these measures were much the same as those of Aguado. Nineteen million reales were raised in this manner. Artola (1986: 171) and Fontana (1977: 135–136 and 143 and 145).

<sup>72</sup> Artola (1986: 170–184).

<sup>73</sup> Fontana (1977: 144).

<sup>74</sup> Nathan is reported as having commented, somewhat prosaically, that the confiscation programme was “like telling me at seven in the evening when I wish to dine that there is a cow grazing in a field one mile away”. Ferguson (1998: 386).

<sup>75</sup> Otazu (1987: 51) and Ferguson (1998: 313).

<sup>76</sup> Contract of 6 Nov 1836, ARP, 132AQ 40.

<sup>77</sup> In 1836 only 18 million reales of debt was collected, compared to the 80 million of 1837 and the 108 million in 1838, with more than 3,000 million on offer. The rest of the figures, until 1842, can be found in Artola (1986: 181). Mendizábal was forced to make an



expenses. The army in the north quickly absorbed the money sent during the first months of his government and Mendizábal had to resort progressively to short-term advances from the Banco de San Fernando,<sup>78</sup> and then in subsequent months to Madrid-based bankers and dealers, especially army suppliers like Safont, J.M. Tapís, Mariano Alcober and Francisco Alabau,<sup>79</sup> along with their foreign counterparts such as Ricardo, who would together provide an indeterminable amount of money to the Treasury.

With no other resources, these advances had to be met by bills on the taxes drawn from the provinces or on outstanding income from the overseas colonies, in the main Cuba, through the so-called “orders of payment” (on the Cajas de la Habana in this case), which took the form of a type of certificate of payment or bills drawn on the Intendancy. Mendizábal had been alerted to the possibilities offered by the savings banks during his negotiations with them in 1823, when the Cortes was hurriedly retreating to Cadiz.<sup>80</sup> He also knew the main problem that these payments would entail, given that they would be made with no real coordination between the Treasury of the island and that of the Peninsula: there would be considerable delays in payment and there would be a real danger that the payee would see them protested after a wait of 8 or 12 months. Such a risk and the possible delays had to be compensated for by a sizeable 18 per cent discount on the sum advanced when drawn on Havana, 22 per cent on Puerto Rico and as much as 33 per cent on Manila. This – and the fact that some of the advances could be made with unpaid State certificates (in some cases protested Treasury bills or other drafts) – meant that the real amount advanced was sometimes very small. If the contractor was clever, he could make a tidy sum by collecting devalued shares on the market and presenting them at their full nominal value. Under such conditions, the losses for the Treasury could run to 40, 50 or even 60 per cent. Even so, sending orders of payment on Cuba would be an important strategy from 1836 and even more so as of 1838, following the increase in taxes decreed for the island by Pita Pizarro, who increased revenue significantly, although not as much as the amount of the remittances, which grew from a tiny 2 per cent to reach a third of the colony’s inland revenue.<sup>81</sup>

While these contributions were very important, they were nowhere near sufficient to cover the needs of the metropolitan Treasury, so new means had to be found. These included an obligatory loan of 200 million reales from the largest taxpayers and new advances from individuals, which would finally become

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unofficial issue of 118,092,234 reales, through Ricardo, in order to pay the interest coupon on the foreign debt. Fontana (1977: 172).

<sup>78</sup> The bank advanced 29 million reales between September 1835 and April 1836. Tedde (1999a: 62).

<sup>79</sup> Artola (1986: 185–187) and Janke (1974: 261).

<sup>80</sup> Artola (1986: 110).

<sup>81</sup> Sáiz (1991: 256–257 and 357), Fontana (1977: 234), Otazu (1987: 48–50) and Santillán (reed. 1960: vol. 1, 219).

institutionalized through the Treasury banknotes – certificates of payment without interest that were given to the contractor with a discount and with a maximum deliberative capacity.<sup>82</sup> This new figure, instigated during the short term of office of Istúriz, constituted (along with the contracts for advances on orders of payment) a corpus of State bonds at short term which began to be known as “Floating State Debt”, which must have worked independently of the remaining liabilities of the Treasury. This all became impossible in the long run, since the floating debt was closely linked from its inception to specific taxes<sup>83</sup> and even to the classic role of consolidated debt, from the moment the Treasury issued bonds to guarantee the contracts. Such guarantees did not figure in the budget accounts and threatened to scupper the stocks even further if they were cashed in.<sup>84</sup>

By the end of 1836 Mendizábal’s political and financial project was in tatters. The Treasury was once again overwhelmed and without resources. To a large extent this was due to the slowness of General Fernández de Córdoba in making use of the funds he received from the government in Madrid and which he wasted in an unending, costly and barely effective siege. This led to the drastic decision not to pay the interests on the foreign debt corresponding to the second six months of the year which fell due in November.<sup>85</sup> There was already a de facto suspension of payments, but Mendizábal needed to pull out if he wanted to avoid things getting even worse.

In December he again approached the Rothschilds, who on this occasion agreed to purchase between half a million and 1 million pounds of deferred debt under his own name,<sup>86</sup> using a similar contract to the one Ricardo and Ardoin had signed earlier. It was at the moment that the Esparterista troops achieved their victory in Luchana, which led to a significant rise in the values of the deferred debt in Paris. Mendizábal immediately changed his ideas and sent a second missive on 18 January to the Rothschilds, ordering them to suspend purchases and offering them a new agreement in a last-ditch attempt to save his credit. The proposal was to withdraw the foreign debt interest payments from the market that had expired in November and which the Rothschilds had to purchase in six instalments from the

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<sup>82</sup> Artola (1986: 186).

<sup>83</sup> The possibility of assigning specific taxes for the return of the Treasury advances and notes was brought in by Istúriz, at the suggestion of Manuel Gaviria. Mendizábal, however, used them extensively during his second ministerial term. Artola (1986: 185) and Fontana (1977: 235).

<sup>84</sup> This is why Santillán decided in 1840 that the guarantees on all the contracts should compulsorily be deposited at the Banco de San Fernando. Santillán (reed. 1960: vol. 1, 251).

<sup>85</sup> Artola (1986: 218–219) and Tedde (1999a: 66–67). As a comparison, during the first half of 1836 there had been a payment of 71,825,623.22 reales. Fontana (1977: 172, n. 13).

<sup>86</sup> Janke (1974: 269) notes an error in the newspaper *El Castellano*, where it was stated that the Rothschilds had not accepted this offer and that it had been transferred to the houses of Foulds and Oppenheim. The operation is confirmed in the letter of 18 January 1837 referenced below.

end of that month through to the beginning of March at successively increasing rates from 52.5 to 75 per cent, with the minister undertaking to pay their full value against the outstanding mercury accounts. The agreement meant that the Rothschilds would have to pay out 30 million reales but would be able to make 47,711,962 reales from the following mercury consignments; meanwhile it also gave Mendizábal a chance to regain public confidence and to avoid speculations on a fall in price, along with the hope of being able to meet the May interest payments.<sup>87</sup>

But Mendizábal did not have time to achieve any real improvements over the following months. The forward payment of the 200 million was considerably delayed during the first term, which meant that he had to make a string of agreements with private lenders in order to keep supplying the army at the front<sup>88</sup> as well as to prepare a more realistic set of accounts to meet the deterioration of the financial situation. The budget he presented to the Cortes in June estimated expenses at 1,930 million reales for the current year, with a staggering recognized total debt of 1,099 million. At the same time he demanded an extraordinary tax payment for the war and yet another for Worship and Clergy (the “Culto y clero” tax). However, it would not fall to Mendizábal to see the budget through. The deterioration of the political situation and the ceaseless pressure from the opposition, the military and even his fellow party members had taken their toll on the minister, and he resigned on 18 August 1837.

### *Weisweiller Takes the Stage*

In the meantime, Daniel Weisweiller had been using his time to get used to the language, the customs and the ins and outs of Madrid politics.

The Rothschild agent opened his first office in the Red San Luis (today known as calle Montera) in the busiest business area of Madrid at the time. From this strategic vantage point – the same setting as the Head Office of the Banco de San Fernando – Weisweiller undertook his first deals in discounts and remittances in the few operations that he could get from the customers in Madrid and the Almaden contract. At the same time he kept the Rothschilds fully informed as to the political situation. He was helped at the outset by Barcaiztegui, a partner in the Ezpeleta House of Bordeaux and by the young Estanislao Urquijo, who together made up the staff of the agency.<sup>89</sup>

We do not know when in 1835 or 1836 that Weisweiller first made contact with Manuel Gaviria, the Intendant of the Royal House, who would be a key figure for the Rothschilds over the following years. Gaviria was rising rapidly in the political and financial worlds of the capital. He had good connections with the

<sup>87</sup> Letter from Mendizábal to the Paris and London houses of Rothschilds dated 18 January 1837, ARP, 132AQ 40.

<sup>88</sup> Artola (1986: 186), Broder (1981: 496–497) and Tedde (1999a: 66–67).

<sup>89</sup> Otazu (1987: 67 and 449 and appendices).

political and business classes and had been a personal friend of Ferdinand VII, and also of his widow, who, in September 1833, had placed him in charge of the Royal Family's treasury.<sup>90</sup> As a banker he was ambitious, had a good eye for business opportunities and, among his other skills, an aptitude for being able to mix his responsibilities towards the Crown accounts with his own interests.

In his private dealings, in July 1836 Gaviria had failed to complete an issue that he had himself proposed for 120 million reales of Treasury bills, of which he succeeded in placing only a quarter.<sup>91</sup> Both the Intendant and the agent quickly saw the advantages in reaching an understanding regarding their mutual interests – Gaviria would have offered Weisweiller the possibility of gleaning advantages from the contracts he managed on behalf of the Royal Family, and of using his contacts to negotiate further contracts with the Treasury in exchange for the ready money that Weisweiller could provide through his new bosses. The agreement with Gaviria put Weisweiller in contact with the tightly knit network of the few bankers in the capital, some of whom were very close to the Queen's Intendant, such as his partner Antonio Guillermo Moreno; his son-in-law Manuel Salvador López; the trading bankers Ceriola, Casals, O'Shea, Calderón and even the Malaga-born Agustín Heredia (who years later would put him in contact with José Salamanca); the bankers Bushenthal, Carriquiri and the influential Gaspar de Remisa, the former director of the Treasury, who had been an erstwhile competitor of the Rothschilds for the Almaden contract. But, above all else, Gaviria was a direct line to the Regent María Cristina and hermorganatic husband, Agustín Fernando Muñoz, later Duke of Riansares.

The Regent was not a woman of high principles but she made up for this with great ambition, although she was never really up to her task. Her main aim, rather than concerning herself with matters of State, was to protect her off springs' rights, though not so much those of her official daughters, Isabel and Luisa Fernanda, as those of her five natural offspring from her secret marriage to the member of the royal guard corps, Agustín Muñoz. It is otherwise impossible to understand the attitude of the Regent and her companion, who over the following years would have no qualms about taking advantage of his closeness to Isabel II and to the political class to make a quick fortune, thus becoming the chief exponent of the rampant corruption that characterized this period in the history of Spain.<sup>92</sup>

If the figures are correct, María Cristina and her eldest daughter received 40 million reales under the State budget, of which 12 million went to the Regent and 28 million to the child Queen. Apart from this, they had at their disposal

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<sup>90</sup> On Weisweiller's relations with Gaviria and the Agency's business between 1835 and 1850 in general, see Otazu (1987).

<sup>91</sup> Artola (1986: 186).

<sup>92</sup> Many references to the activities of María Cristina can be found in Fontana (1977), Otazu (1987), Marichal (1980), Torrente (1974) and Comellas (1999), as well as many others. According to Otazu (1987: 223–235), Agustín Muñoz's brothers also benefited from the situation.

the royal properties, which were assigned a further 12 million reales.<sup>93</sup> Since the government frequently did not have such a sum readily available, a series of secure funds was established to ensure payment. Specifically, part of the amount was covered by 21 million reales from the Havana Treasury<sup>94</sup> and, possibly, smaller amounts came from little-known funds in Manila or Puerto Rico. María Cristina would have been keen to receive these as soon as possible given the political instability of the time and the growing costs of supporting her second family.

On 27 January 1837 Weisweiller, on behalf of the Rothschilds, and Gaviria undersigned, and presumably on an equal share basis, their first contract to advance 3 million reales to the General Treasury of the Royal Household, which would be collected against the orders of payment from the Philippines, Havana and Puerto Rico, and delivered with the usual discounts for this type of operation of between 15 and 20 per cent. However, little else is known of this agreement.<sup>95</sup> Two months later, Weisweiller was again in contact with Gaviria, but on this occasion it had nothing to do with the Intendancy of the Royal House but to see if he would take part in a deal that the House of Rothschild had undersigned with the Treasury on 25 February. It was medium-size deal for 1 million whole pesos (20 million reales) to be returned on the Havana funds, at 20 per cent discount – 14 per cent discount plus 6 per cent commission. Clearly, the Rothschilds were more than able to carry out the operation, so it would seem, as Otazu states that the family and their Madrid agent had an interest in bringing Gaviria in as his influence would speed up the return of the advance.<sup>96</sup> More likely, they were after his full support in another matter that was explicitly mentioned in the clauses of the agreement with the Treasury,<sup>97</sup> and which interested them far more – the Almaden mercury.

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<sup>93</sup> Otazu (1987: 119–120). Marichal (1980: 203) mentions only 40 million and does not take into account the royal properties.

<sup>94</sup> Sáiz (1991: 350). The reference to this assignation dates from 1840, so we have supposed that it already existed three years earlier. Marrero (1978: vol. 12, 364) comments that María Cristina had been assigned another fixed remittance of 175,000 pesos as widow of Ferdinand VII, which would later be transferred to Isabel II.

<sup>95</sup> Otazu (1987: 52) and Gille (1965: 254).

<sup>96</sup> ARP, 132AQ 40 and Otazu (1987: 52–54). Proof of the influence held by Gaviria and the Regent in organizing Treasury payments is the experience of the Banco de San Fernando, which in August 1836 protested that the Treasury was giving priority to the payment of Gavira's bills and orders of payment over its own, which were of an earlier date. Tedde (1999a: 67–68). Nevertheless, the Rothschilds tried to ensure for themselves the most amount of support possible for their operations, so they requested and obtained from the British ambassador in Madrid a "moral guarantee" from the British government "to uphold Rothschild interests" in Cuba, and this was forwarded personally by Palmerston to his consul in Havana. Broder (1981: 496).

<sup>97</sup> Article 3 of the agreement with Gavira of 28 March 1837, ARP, 132AQ 40.

*Threats to the Mercury Monopoly*

In early 1837 the Spanish government received the first of a number of protests from the Malaga Trade Junta about irregularities in the 1835 mercury contract and the suspicion that commission had been paid to Toreno. The protest was taken up quickly by two members of the Constituent Assembly, Ferrer and González, on behalf of their clientele in Bilbao and Cadiz, and by other members of the political class, in a controversy that would soon filter through into the public realm.<sup>98</sup> This would explain why the Rothschilds were in something of a rush to sign the advance for the end of February and include a mortgage clause on Almaden in the case of non-payment.

By spring, things had taken a further twist, with the Mexican government adding its voice to the protests. It had put up serious obstacles to raising the mercury prices in recent years when negotiating with Spain. The complaints were closely tied in with those of the silver producers whose profits had fallen continuously since 1833, so the Mexican government put pressure on the Spanish negotiators by inserting a clause into the agreement to the effect that customs duties on a long list of products from Spain should be reduced by up to 25 per cent, on the understanding that the ships that carried these goods should include in their cargo an assignment of mercury at a reasonable price.<sup>99</sup> The proposal meant the recovery in one fell swoop of a huge market which had been closed to Spanish merchandise since independence, but flew in the face of the Rothschild interest, so it is likely that some of the complaints of the coastal traders had their roots here rather than in any losses of added value in a business of a public nature, or because of any jealousy of the Rothschilds' profits.

What the Spanish traders and politicians did not realize was that the profit margins of the Rothschilds were much higher than even their most optimistic calculations.

In theory, the Rothschilds collected the mercury in Cadiz at 54.25 pesos (1,085 reales) per quintal and then resold it at 75–80 pesos (1,500–1,600 reales) in London.<sup>100</sup> This is only a minimum figure, however, since the Rothschilds with their monopoly could vary prices according to the utility their customers attributed to the product. In short, they could squeeze the each customer to the limit in their payments. This hypothesis has to be treated with caution as one cannot exclude the possibility that, in the case of excessive margins, the customer

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<sup>98</sup> Letter from the vicomte de La Tour-Maubourg to Molé dated 23 April 1837, AMAAEEF, *Correspondance commerciale*, Madrid, vol. 44. La Tour-Maubourg had replaced Rayneval as French ambassador following the latter's violent death during the La Granja disturbances the previous summer.

<sup>99</sup> Randall (1977: 184–195) and letters from La Tour-Maubourg to Molé dated 23 April 1837 and 1 May 1837, AMAAEEF, *Correspondance commerciale*, Madrid, vol. 44.

<sup>100</sup> So state Corti (1928a: 122), Martín (1980: 197), Broder (1981: 499) and the reports sent from the French Embassy in Spain which we have already cited.

would try to go behind the Rothschilds' backs,<sup>101</sup> In our opinion, therefore, the best way to track the trend in monopoly prices is through the prices paid by the biggest purchasers – the Mexican miners. These at least can be quantified,<sup>102</sup> even though they accounted for only five or six thousand of the 20,000 quintals that the mine produced on average each year.<sup>103</sup> We can calculate the possible gross profits from the sale of mercury by applying the maximum and minimum prices paid in Mexico, which can be seen in Figure 2.2, after deducting the amount corresponding to the Spanish State for each quintal delivered – that is, 745 reales for the period in which Ezpeleta had officially been in control of sales, and 1,085 reales for the three years of the Rothschild contract. The result shows a continuous growth in gross profits for the contractor over the seven years, giving a total between 111 and 150 million reales between 1830 and 1838. A net amount would suppose deducting at most 25–30 per cent, for commissions in Mexico and transport, warehousing and brokerage costs as well as loss of interest generated by the sales process,<sup>104</sup> of which only 5 per cent would be applicable to the cost of placing the merchandise in London.<sup>105</sup> In any case, the resulting figure is more than enough to explain just how keen the Rothschilds would have been to keep the contract during the years in question.

Returning to the talks, the commission entrusted with negotiating the trade agreement with Mexico tried to convince the Rothschilds to make some exception in the price of their sales to the Mexican mines in exchange for keeping the contract, but the family flatly refused, which led to those opposing the contract to take a more aggressive stance in their efforts to clarify all the irregularities of 1835 and to achieve a possible review of the contract.<sup>106</sup>

In pursuit of his strategy to drum up support and prevent the rescission, that summer Weisweiller set up two advances on the mercury for the government for 3 million reales and presented a formal protest to the minister of the Exchequer,<sup>107</sup> which was passed on to the members of parliament in the form of a pamphlet.

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<sup>101</sup> The Rothschild archives do not conserve the specific mercury accounts for these years.

<sup>102</sup> Randall (1977: 187).

<sup>103</sup> Letter from La Tour-Maubourg to Molé dated 23 April 1837, AMAAEEF, *Correspondencia Comercial*, Madrid, vol. 44.

<sup>104</sup> According to Randall (1977: 188–189), from the mid-1830s the Real del Monte mining company, like others, tried to escape the Rothschild monopoly by purchasing directly in London, but all it achieved was a reduction in the costs of the Mexican intermediaries – a 25 per cent saving.

<sup>105</sup> On the basis of the figures in the contract for 1870–1900, which we will look at in Chapter 6.

<sup>106</sup> Letter from La Tour-Maubourg to Molé dated 23 April 1837, AMAAEEF, *Correspondance commerciale*, Madrid, vol. 44.

<sup>107</sup> The same as in note 7 above. This document landed on Mendizábal's desk the day before he was dismissed.

In his report, the agent of the Rothschilds gave a lengthy defence of the legality of the contracts and the advantages to Spain of an activity which, from his perspective, had been disastrous before the arrival of the Rothschilds. But his efforts, and those of the French ambassador, proved futile. Weisweiler then changed tactics, and when a debate on the matter in the Cortes was announced, he went so far as to threaten the government, suggesting that, if the contract were terminated, the House of Rothschild would apply for the legal confiscation of all the Almaden production abroad and would start a stock market war in response to what it considered to be a breaking of agreements and a hostile attitude on the part of the Spanish administration.<sup>108</sup>

It seems that this ultimatum was nothing other than a ploy to put off the talks in the parliamentary committee in charge of ruling on the contracts until parliament had been dissolved, in the hope that better conditions for negotiating the agreement would arrive with a new government. However, the administrative procedure went ahead without pause and on 23 October 1837 the formal protest of the of the traders of Cadiz, Malaga, Barcelona, Seville and Valencia was presented to the constituent Cortes along with the negative reports from the Exchequer and Legislation committees, which laid out the palpable irregularities in the advertising, the legality and the procedure of the modifications made under the contract. The findings of the commission, which were against the legality of the agreement, were discussed in the sessions over the following three days, with important interventions by Gómez Becerra in support of the findings and by Alejandro Mon, who defended the contract on the basis of similar arguments to those which Weisweiler had used.<sup>109</sup> The commission's report was finally voted through with an overwhelming majority of 104 to 9, although not without Seijas Lozano, minister of the Treasury at the time, alluding to the massive negative impact that the decision might have on the country's credit. However, it is important to note that the report considered the February 1835 contract to be fully in force and that it invalidated only the irregular modifications included in June of that year. The concession therefore remained completely valid, although it could now be cancelled from May 1838, after three years in force, with six months' notice of the same.<sup>110</sup>

While waiting for the decision of the new Cortes or government as to what to do with the contract, Weisweiler continued his policy of advancing funds to the government, both for reasons of image and as clear tactic to increase the

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<sup>108</sup> Letter from La Tour-Maubourg to Molé dated 20 October 1837, AMAAEEF, *Correspondance commerciale*, Madrid, vol. 44.

<sup>109</sup> We should not forget that the young Mon was a disciple of Toreno who had helped him in his initiation into politics, and on whom he was now implicitly passing judgement.

<sup>110</sup> Letter from La Tour-Maubourg to Molé of 27 October 1837, AMAAEEF, *Correspondance commerciale*, Madrid, vol. 44 and Martín (1980: 199–204). General Seoane formally accused Toreno of corruption in the Cortes; this, however, was never resolved following a non-aggression pact between the parties. Fontana (1977: 79).



dependence of the Treasury on the Rothschilds when it came to renewing or bidding for the mercury. From November 1837 through to the following April, he signed seven more contracts with the Treasury and the Banco de San Fernando, for a total of 53 million reales. These were all carried out jointly with Gaviria, indicating that the Intendant was now fully committed to the Rothschilds in the negotiations to renew the agreement.<sup>111</sup> Meanwhile, intense negotiations began with the government, and they would continue throughout the first half of 1838.

Mon, now Minister of the Treasury – a post he would hold from 19 December 1837 to 6 September 1838 – sought to take advantage of the Rothschilds' fears to force a loan on them, or at least an advance, for 50 million reales. Initially, Weisweiler and James Rothschild flatly refused because it was quite impossible to make any issue at a time when values were so bad, so instead of committing themselves to large amounts they preferred to continue to make small advances on orders of payment. Shortly afterwards, it became known that Alejandro Aguado was taking an interest in the mercury business and was prepared to pay up to 60 pesos per quintal. The minister jumped at the opportunity to make a second proposal to the Rothschilds, through Gaviria, for an advance of 120 million, but the Rothschilds rejected it. Faced with his new rebuff, Mon, who was under a lot of pressure from the floating debt and near to suspending payments, presented in April, just one month before the end of the first period of the mercury contract, a bill for a loan of 500 million in cash of which most would go to capitalizing the debt of the Treasury through a mortgage on the Almaden and Linares mines.<sup>112</sup>

It seems that the decree was the result of negotiations that Aguado had had in the last month with the government in which the banker had insisted that the only guarantee he would take was the Almaden mercury.<sup>113</sup> The Rothschilds, their agent in Spain, Weisweiler, and Gaviria received the news with surprise for, if confirmed, the decree would push them out of the Spanish public finances altogether. In response, they began by cutting off the line of credit to the government and followed this with a series of measures that would enable them to sidestep the pressure being exerted by Mon, or which would at least give them an alternative to the loan.

We know that in June 1838 Weisweiler signed twin pre-agreements with the director of the Banco de San Fernando, Joaquín Fagoaga, under which they would obtain the Almaden contract jointly. In the first, the bank offered the government a contract to take the mercury at 56 pesos (1,120 reales) per quintal for the following five years, plus the incentive of an advance of 40 million on the same products. In the second, the bank agreed to pass on to the Rothschilds, under a private agreement,

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<sup>111</sup> Muñoz's final share in the mercury contract suggests the Royal Family's involvement. Otazu (1987: 43). There also seem to have been mutual interests involved in the advances the Rothschilds made to María Cristina and her daughter Isabel in July 1837 to the tune of 17.3 million reales.

<sup>112</sup> Otazu (1987: 65–66, 78 and 88–89) and Artola (1986: 200).

<sup>113</sup> Broder (1981: 501).

seven-eighths of the contracted amount, retaining for itself the remaining eighth.<sup>114</sup> However, the bank committee whose job it was to rule on the suitability of these contracts, refused to accept them, on account of the unpopularity that a link with such an unpopular affair might bring and because of the implicit subordination to the House of Rothschild such contracts would entail.<sup>115</sup> After all, the latter had reserved the right to control, with utmost discretion, the accounts, while not specifying whether the bank, which would deal face to face with the public, would share in the net profit from the final sales.

Following this failure, other possibilities were examined to solve the complicated situation. Mon went back to his proposal to receive an advance of 100 million reales and the Rothschilds went so far as to offer an option to buy the mines for 380 million reales, but both failed. It is not known whether this was because the Treasury found it impossible to free itself of pending commitments regarding the mercury, which was the guarantee of the loan, or because of Aguado's failure to win support for the operation in Paris. Whatever the case, there was a change of government in September and the loan remained unissued, so the Rothschilds' ploy of holding out had paid off. It was then that the news came out of the non-payment of the orders of payment on the February 1837 contract. Weisweiller seized the opportunity to demand from Vigil Quiñones, the Minister of the Treasury in the Cabinet of the Duke of Frías, that the mortgage on the mine be paid or that the outstanding amounts form parts of future payments in a new contract. Given this, it seems highly likely that the new bid, set for September and about which no definite information is available to us, was merely a negotiated extension, with some modifications, of the agreement of three years earlier. The contract – signed on 20 September 1838 – cancelled the obligation of the loan, but not that of the advance of 50 million reales against future products. It likewise obliged the Rothschilds to equal the offer made by Aguado of 60 pesos (1,200 reales) per quintal in exchange for keeping the trading rights of the mercury for a further five years. Presumably, the other conditions of the February 1835 contract remained unchanged.<sup>116</sup>

The Rothschilds did not omit to pass on to Gaviria a part of the commission due to Ezpeleta,<sup>117</sup> presumably for services rendered or to ensure his loyalty over the years the contract was in force. The profit margin (again taking the

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<sup>114</sup> Provisional contract of 14 June 1838 signed by Fagoaga and Weisweiller, ARP, 132AQ 40.

<sup>115</sup> Tedde (1999a: 102).

<sup>116</sup> Otazu (1987: 92), Martín (1980: 205) and Broder (1981: 501). The contract has not been preserved in any of the archives consulted.

<sup>117</sup> Twenty-five per cent, against the 37.5 per cent that went to Ezpeleta, who kept 12.5 per cent, thus leaving the Rothschild percentage intact. *Resumen de cuentas de Ezpeleta* of 31 Oct 1838, ARP, 132AQ 40. According to Otazu (1987: 43), Gaviria transferred a part of his commission to Agustín Muñoz, who was entitled to 5 cents (of a real, it is supposed) per flask of mercury sold.

Mexico prices as our benchmark<sup>118</sup>) continued to be a very healthy, perhaps even better than before if we consider that there was a noticeable improvement in the Almaden production.

*The Final Deals of the Carlist War*

The renewed agreement between Gaviria and Weisweiller following the signing of the mercury contract led to more intense contractual relations in dealing with the Spanish State. Matters were helped by the growing use to which the successive governments between 1837 and 1840 put the floating debt. They were the same contracts for which Mendizábal had been so much criticized, which had been the norm until after the Carlist War, and which had always been tightly linked to the failure to balance the budget.

If we start from the comparison of the basic State accounts reconstructed by Artola, indicated by (a) in Table 2.1, with those made by Comín, indicated by (c), we can pinpoint some important factors for analysing and understanding the situation of the public Treasury at the time. The figures for (a) are of interest in that they refer to the approved and published budgetary accounts for each of the years of the conflict. The figures for (c), in contrast, aim to reconstruct the accounts at the end of the successive years once all the previous items and those created during the year to cover various needs had been liquidated. The only added difference in the latter as regards to the former is that they incorporate final revenue from extraordinary items in the last column – figures that refer both to war contributions, taken from 1837, and to the results from the issue of loans (in this case only that of the 400 million in 1835) – and a long list of loans from public bodies and short-term advances made through orders of payment, promissory notes, notes and bills, which made up the above-mentioned floating debt. The ensuing deficit in Comín's figures would not represent the real deficit of the accounts but the balanced figure, and this cannot measure the debt generated and its financial costs, which would have a direct knock-on effect for the following tax years.

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<sup>118</sup> The figures provided by Randall are confirmed in a report of 1839, provided by Nadal (1975: 110), which states that the Rothschilds were selling at 2,250 reales in London, 1,050 reales more than in Seville.

Table 2.1 State budgets and liquidations, 1835–1840

Year	Income	Expenses	Deficit	Extraordinary revenue*
1835	759,534,936 (a)	894,984,627 (a)	-135,449,691 (a)	–
	949,000,000 (c)	786,000,000 (c)	163,000,000 (c)	333,000,000 (c)
1836	1,056,000,000 (c)	915,000,000 (c)	141,000,000 (c)	427,000,000 (c)
1837	830,987,718 (a)	1,930,814,838 (a)	-1,099,827,120 (a)	–
	1,372,000,000 (c)	1,225,000,000 (c)	147,000,000 (c)	810,000,000 (c)
1838	801,799,691 (a)	1,528,998,661 (a)	-727,198,970 (a)	603,986,284 (a)
	1,152,000,000 (c)	1,211,000,000 (c)	-59,000,000 (c)	565,000,000 (c)
1839	715,096,838 (a)	1,650,273,151 (a)	-935,176,313 (a)	–
	2,227,000,000 (c)	2,044,000,000 (c)	183,000,000 (c)	1,360,000,000 (c)
1840	1,030,091,063 (a)	1,711,912,796 (a)	-681,821,733 (a)	180,000,000 (a)

Source: (a) Artola (1986: 199) and (c) Comín (1989: 409–410).

Note: \* To the figures given by Comín we have added the income from the debt, advances and other extraordinary indebtedments to the extraordinary war tax, which in the years 1837–1839 were broken down in the source.

Several elements draw our attention. The first is the difference between the projected accounts and those finally liquidated. This is understandable in that it is difficult to control the volume of spending in wartime. What is less understandable, and seems more significant, is the lack of capacity shown by the Treasury to increase income through the ordinary sources of revenue. The problem was that this lack of action on the part of the Exchequer revealed not only the basic shortcomings of an anachronistic, insufficiently flexible and excessively regulated tax system, but also the tremendous contradiction of the State's having a large part of its revenues mortgaged to the repayments of advances from individuals and from the Banco de San Fernando, which, in theory, were there to tide over temporary imbalances in the Treasury. The continuous use and abuse of these contracts on the part of the administration, and the non-payments that far too frequently led to renegotiations at higher interest rates, generated such a financial burden that it finally accounted for most of the deficit and, worse still, put such a straitjacket on the tax system that any reform became nigh-on impossible.

In such a state of affairs, resorting to credit was the State's only feasible option if it was to avoid the total bankruptcy of its institutions. It meant that people like Weisweiler, his partner and a small group of privileged moneylenders could continue to offer endlessly renewed and extended contracts for advances to the Treasury, and the more so as the deficit grew.

Table 2.2 attempts to offer a systematic quantitative summary of all the contracts made by the Rothschilds and their associates during the Carlist War. We would highlight from the last three years the contract advance mentioned above for 50 million reales for the mercury contract, the participation in the operation

between the Banco de San Fernando and Collado to lend 75 million reales to the Treasury in exchange for 83.3 million in notes from the Treasury, and the group of contracts with the Royal House in 1837, 1838 and 1839, which were always set against orders of payment from Cuba and the Philippines, and which supposed the assumption of all orders of payment assigned in the budgets for the institution. The remaining operations comprised the main loans to the Treasury on its overseas savings banks and advances against the sales of mercury.<sup>119</sup> Nevertheless, the total of the operations agreed on and pending payment came to such a significant amount that in March 1838 Weisweiller proposed sending the recent arrival at the Madrid agency, Karl Scharfenberg, to Havana.<sup>120</sup> His mission was to build up information about the state of collections related to the payment of the orders of payment, to put pressure on the intendant to speed up payment of outstanding operations and to forward such funds as could be obtained directly to London or New York to another Rothschild agent, Augusto Belmont.<sup>121</sup>

Table 2.2 Main operations involving advances of funds contracted in Spain with the Rothschilds, 1834–1840

<b>Date of contract</b>	<b>Lender</b>	<b>Borrower</b>	<b>Amount contracted</b>	<b>Amount received (reales)</b>
07/06/1834	Rothschild	Spanish government	15,000,000 francs	57,549,644*
06/11/1836	Rothschild (London)	Spanish Treasury	100,000 pounds	9,620,000
27/01/1837	Rothschild	Spanish Royal Household	3,000,000 reales	2,400,000
25/02/1837	Rothschild	Spanish Treasury	20,000,000 reales	17,200,000
01/06/1837	Rothschild and Mariano Bertodano	Spanish Treasury	3,000,000 reales	2,580,000
16/06/1837	Rothschild and Gaviria	Spanish Treasury	3,000,000 reales	2,700,000
01/07/1837	Rothschild (Paris)	María Cristina and Isabel II	17,333,333 reales	14,213,333
01/11/1837	Rothschild (London)	Spanish Treasury	500,000 reales	500,000
18/11/1837	Rothschild and Gaviria	Spanish Treasury	8,000,000 reales	8,000,000

<sup>119</sup> The negotiations of most of these contracts can be found in Otazu (1987: ch. 2).

<sup>120</sup> Otazu (1987: 83–84) and Calavera (1991).

<sup>121</sup> Scharfenberg acted so efficiently that the Banco de San Fernando again required his services to unfreeze its accounts in 1840. Tedde (1999a: 126–127).

04/01/1838	Rothschild (London)	Spanish Treasury	3,000,000 reales	3,000,000
06/02/1838	Rothschild (Paris) and Gaviria	Spanish Treasury	1,000,000 pesos	16,400,000
06/03/1838	Rothschild and Gaviria	Spanish Treasury	750,000 pesos	12,150,000
24/04/1838	Rothschild (Paris)	Spanish Treasury	400,000 pesos	6,560,000
24/04/1838	Rothschild (Paris)	Spanish Treasury	225,000 pesos	3,000,150
28/04/1838	Rothschild	Banco de San Fernando	650,000 pesos	11,180,000
20/09/1838	Rothschild	Spanish Treasury	50,000,000 reales	50,000,000
17/11/1838	Rothschild and Gaviria	Spanish Royal Household	1,750,000 pesos	23,334,500
15/02/1839	Rothschild and Gaviria	Spanish Treasury	700,000 pesos	10,780,000
01/04/1839	Rothschild, Gaviria and Fagoaga	Spanish Treasury	4,000,000 reales	4,000,000
29/05/1839	Rothschild and Gaviria	Spanish Treasury	250,000 pesos	5,000,000
29/05/1839	Rothschild and Gaviria	Spanish Treasury	5,000,000 reales	5,000,000
15/06/1839	Rothschild and Gaviria	Spanish Treasury	2,000,000 reales	2,000,000
15/06/1839	Rothschild and Gaviria	Spanish Treasury	300,000 pesos	4,920,000
15/06/1839	Rothschild and Gaviria	Spanish Treasury	1,500,000 reales	1,500,000
19/07/1839	Rothschild and Gaviria	Spanish Treasury	731,707 pesos	11,999,995
12/12/1839	Rothschild and Gaviria	Spanish Royal Household	10,000,000 reales	8,200,000
22/01/1840	Rothschild	Spanish Treasury	4,000,000 reales	4,000,000
27/03/1840	Collado, Rothschild and Gaviria	Spanish Treasury	75,000,000 reales	75,000,000
12/11/1840	Rothschild	Spanish Treasury	1,000,000 reales	820,000
06/12/1840	Rothschild	Spanish Treasury	6,000,000 reales	5,400,000
31/12/1840	Rothschild	Spanish Royal Household	1,000,000 reales	820,000
<b>Total over the period (reales de vellón)</b>			<b>419,637,117,00</b>	<b>379,827,622</b>

Source: ARP, 132AQ40; ABE, Secretary's Office, Files 1144, 1145 and 1150; *DSCCD* (1841: appendix to number 13, 189–196); Martin (1980); Otazu (1987); and Tedde (1999a: 121–122). Changes in Tedde (1999a: 88 and 224).

Although all the clauses of this contract were later suspended, the amount given to the Treasury was not, as contracted, paid back at three months, and so it was to all extents an advance until its repayment by Ardoin. The government, moreover, would have saved itself the interests and commission.

In general, it can be seen that in gross terms the contracts signed amounted to a very important amount. If the figures in the last column do not seem so very high, it is because they refer only to the amount theoretically handed over, after applying just the discounts where relevant. They do not take into account the total losses of the Treasury in commissions or interests or the receipt of devalued stock, which could vary from one contract to another. As indicated, the agreed amounts were not usually realized in cash in full, as the contractor was offered the possibility of making part of the payments through protested government bills and effects. Such information is not available in all the contracts. What we do have is the reference by Pita Pizarro, who assigns an average loss in the net amounts received by the Treasury in the contracts for advances that ranged from 16 per cent in 1836 up to 65.5 per cent in 1840.<sup>122</sup> This is presented in Table 2.3.

Table 2.3 Rothschild and associates' loans to the Treasury, 1836–1840

Date	Advances to the Treasury from the House of Rothschild and associates	Total advances to the Treasury	%
1836	10,244,000	67,300,000	15.2
1837	34,500,000	148,900,000	23.2
1838	98,500,000	126,600,000	77.8
1839	50,734,140	206,700,000	24.5
1840	82,000,000	479,143,060	17.1
<b>Totals</b>	<b>275,978,140</b>	<b>1,028,643,060</b>	<b>26.8</b>

Source: As in the previous Table plus data from the report by Pita Pizarro of 1840, except for 1840, given in *DSCCD* (1841: appendix to number 13, 189–196).

Taking only the gross amounts contracted for each year and comparing them with the specific volume of advances made to the Treasury during these years (also quantified by Pita Pizarro), we can confirm that these operations made up a very important part of the State's floating debt for the period. Especially significant are the figures for 1838 when, just before the renewal of the Almaden contract, the contracts in which the Rothschild family were involved accounted for 77.8 per cent of all advances made to the Treasury. We have not included the more than 142 million reales received by the Treasury from the Rothschilds for

<sup>122</sup> Figures from the report of Pita Pizarro of 1840, reported in Tedde (1999a: 71).

the sales of mercury over the same period.<sup>123</sup> This, along with the exclusively financial operations, would have alone amounted to a larger amount than if the Rothschilds had negotiated either of the two loans they were offered and were, without a shadow of doubt, far less risky, offering returns that would have been unimaginable from a simple stock exchange issue.

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<sup>123</sup> There is an amount of not less than 32.5 million reales that was discounted from the mercury sales for advances to the government.



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# Chapter 3

## The Contradictions of Peace: Financial Problems of the State and the First Moves towards Modernity, 1840–1855

The political and economic situation after the war was full of contrasts. Most striking was the huge chasm between a state and its institutions that teetered on the brink of bankruptcy and the opulence of the new elite traders and bankers that had arisen during the conflict. Some had come from the old traders in exile but most were a small group of opportunists who had seen a quick way of getting rich through contracts to supply the army and loans to the government, and for whom the only market and argument had been ready capital and proximity to power.

The end of the war also brought with it the end of the regency of María Cristina and, by extension, Gaviria's term as Intendant of the Royal Household. He was immediately replaced by Joaquín Fagoaga y Dutari. Fagoaga, who also held on to his post of director of the Banco de San Fernando, offered the board of the bank the job of negotiating the orders of payment of the Royal House,<sup>1</sup> at a stroke depriving the Rothschilds of one of their richest areas of business in Spain, as well as casting doubt on what would happen to the outstanding orders of payment.<sup>2</sup>

Weisweiler did not wish to lose his good relations with Gaviria and his former partners, but he was also careful not to jeopardize his chances with the new regency. In December 1840 he took part in the advance of 31 million reales set up by the Banco de San Fernando and Espartero – a deal which Gaviria, Moreno and all the financiers of Madrid were wise enough to get in on. One month later, and on his own, he contracted a further advance of 6 million reales with Fernández Gamboa.<sup>3</sup> Having achieved his aims regarding the political class, the Rothschild agent took a back seat and made no deals in 1841.

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<sup>1</sup> Otazu (1987: 115–118) and Tedde (1999a: 142).

<sup>2</sup> The uncertainty basically affected the collection of the Philippine orders of payment. The matter would be finally addressed by Mendizábal himself, who in September 1841 contacted the Intendant in the Philippines in order to ensure and accelerate the payment of the outstanding debts with the Rothschilds. Otazu (1987: 125).

<sup>3</sup> Otazu (1987: 122–123).

## The First Golden Age of Capitalism in Spain

Many of the abundant profits from the war were used to purchase national possessions or were invested, as of 1841, in the negotiation of public stocks on the thitherto inactive Madrid Stock Exchange, where the astute José Salamanca would not take long to make his mark. This atmosphere of excess, in terms of initiatives, ideals and personalities, so closely linked to Romanticism, has led to a clichéd image of the period as one in which anyone with a bit of capital hurled themselves into speculative deals in public debt bonds or countless shareholder businesses, some of which existed only on paper. Money exchanges were rife, and in these not only Madrid dealers and financiers took part, but also up-and-coming politicians such as Narváez or Alejandro Mon and other equally well-known public figures, in particular members of the Royal Family.

While there is no doubt that all this occurred, the extent of the speculation fever needs to be put in perspective, especially in respect to the stock market. In the first place, the commonly cited figure of 15,000 million reales exchanged on the Madrid Stock Exchange in 1844 alone,<sup>4</sup> is clearly wildly exaggerated. Recent research by Andrés Hoyo<sup>5</sup> demonstrates that the annual volume for the market during those years was barely 200 million reales. While it is certain, too, that stock exchange prices (not unlike today) were of a widely speculative nature, the small fluctuations in value cannot really be termed a ‘buying bubble’, which rather rules out any spectacular gains from bull and bear markets (see Figure 3.1).

Where large movements of capital did occur was in the area of buying up shares in companies, which was not exactly linked to the Stock Exchange, where more than 99 per cent of operations in those years took the form of public debt.<sup>6</sup> Such initiatives served to fill the enormous hole in the productive sector after decades of inactivity, and were favoured by the law<sup>7</sup> and the healthy economic situation. Martín Aceña has found more than a hundred sizable businesses registered in Madrid between 1830 and 1848, whose share capital together amounted to 6,772 million reales, of which 5,035 million corresponded to 1846.<sup>8</sup> This mounting wave of investment spelled the recovery of a whole variety of economic sectors and the appearance of important businesses, both in size and capital, such as La España Industrial, the first public limited textile business in the country, mining companies like the Compañía de Minas de Cobres y Plomos de Linares, La Peninsular Minera and scores of single-partner businesses set up in south-eastern Spain (for example the Sociedad Mercantil Española or La Universal

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<sup>4</sup> Torrente (1974: vol. 2, 155).

<sup>5</sup> Hoyo (1993 and 2001).

<sup>6</sup> Ibid.

<sup>7</sup> Public limited companies only required authorization from the business courts, while simple and jointly owned firms required merely a proof of inscription in the business registries. Tortella (1973: 40) and Bernal Llorens (2000).

<sup>8</sup> Martín Aceña (1993: Appendices).

S.A.). Public services were also represented in the form of the *Compañía Madrileña de Iluminación y Gas*, the *S.A. de Diligencias Postas* or *Diligencias Peninsulares*, as were others devoted to supplying the State monopolies, such as the *Empresa del Arrendamiento de la Renta de la Sal* y la *Empresa de Tabacos S.A.* Then there were the first railway companies, which included those running the Madrid–Aranjuez, the Barcelona–Mataró and Valencia–Madrid lines, as well as the *Ferrocarril de Langreo*. There were prolific numbers of financial businesses, with 19 set up in Madrid alone. Of these the most important in terms of size and activity were the *Banco la Unión*, the *Banco de Fomento y Ultramar*, the *Sociedad el Iris* and the *Banco de Isabel II*, as well as the *Banco de Barcelona* in the city of that name.<sup>9</sup>

It is true that some of these businesses were never intended to be long-lasting affairs and were of a clearly speculative nature. But it should also be remembered that together they made up more than 30 per cent of the capital outlay and that, in all likelihood, most of them would have continued to increase their capital had it not been for the crisis at the end of the 1840s and the various aforementioned legal measures adopted. One might wonder if these figures are excessive and whether a large-scale financial imbalance might have triggered the crisis, but one can hardly claim this for a level of investment that accounted for less than 10 per cent of the GDP,<sup>10</sup> bearing in mind that for the years in question such a figure was still below that of the gross capital of any of the leading industrialized European countries. The results of such investment, however, were of significance. Carreras<sup>11</sup> has estimated that the industrial growth rate for the 1840s was 7.61 per cent, the highest for the century, with even more spectacular increases such as those that occurred in Catalonia, where cotton production tripled between 1838 and 1848 due to new mechanical and steam technologies.<sup>12</sup>

Weisweiller opted out of most of these initiatives, following the Rothschild policy of eschewing limited companies and industrial activities,<sup>13</sup> although he did get involved in businesses that were linked to the commercial networks of the House, despite the fact that these were at the time a completely subsidiary activity for the agency. As an example, it is known that the agency took part in Moreno's limited operation in 1840 to import Kentucky tobacco for the State factories.<sup>14</sup> Three years later the Rothschilds signed a contract with the Austrian government

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<sup>9</sup> Tortella (1974: ch. 1), Tedde (1999a: 136), Otazu (1987: ch. 7), Martín Aceña (1993: Appendices), Hernández (1983: 37–46), Sánchez Picón (1983: ch. 2), Pérez de Perceval (1989: ch. 4) and Nadal (1972).

<sup>10</sup> Spanish GDP for 1846 has been assumed to be slightly below the figure provided by Prados (1995) for 1850.

<sup>11</sup> Carreras (1999: 76).

<sup>12</sup> Nadal (1975: 207).

<sup>13</sup> The sole exception was the share in the *Empresa de Tabacos S.A.* and half of the 1,000 shares in the *Banco de Isabel II* corresponding to Gaviria. Otazu (1987: 194).

<sup>14</sup> ARP 132AQ 338 and Otazu (1987: 170–177).

to supply 12 million Cuban cigars, a deal which meant sending Scharfenberg back to Cuba in 1844 and Weisweiller attempting to set up a tobacco contractor company in the same year.<sup>15</sup> Failure frustrated any continuity in the tobacco world and, as far as we know, contacts between the agency and the tobacco suppliers ceased until 1861.

Elsewhere, the correspondents of the House in Malaga, the Scholtz brothers, informed James Rothschild in 1842 about the business possibilities afforded by the mining boom in south-east Spain, following the discovery of new seams in the Almagrera mountains.<sup>16</sup> By then lead smelters had geared up their activities after a law passed in 1840 made it compulsory to smelt the argentiferous galenas *in situ* and to extract the lead into moulds and to separate out the silver content. This supposed the recovery of important amounts of silver that had previously been exported with the lead. Production soared in barely a year from 30,597 to 115,702 silver marks, and would continue to rise steadily throughout the decade.<sup>17</sup> This silver was of huge interest to the Rothschilds for their French minting houses and, since it was directly exported, it afforded a good opportunity to avoid irksome intermediaries.<sup>18</sup> After deciding against the purchase of a factory and some mines in Cartagena, Weisweiller took up the offer of A. Campos, also a correspondent of the Alicante agency, to participate in commercializing the silver produced by the new factory that was being built in Alicante, called “La Británica”, and which was well away from Heredia’s geographical area of influence, who from his foundry in San Andrés in Adra, in south Almeria, controlled almost half of the silver production in the area. Unfortunately, only one contract, from the end of 1842, survives. It was negotiated directly by Estanislao Urquijo for the delivery at six months of 200,000 ounces (25,000 marks) of silver from smelted lead, on receipt of an advance of 75,000 pounds.<sup>19</sup> From the information available it is impossible to know whether the agreement was concluded satisfactorily or if other agreements followed, although we do know that “La Británica” was shortly afterwards integrated into the British and Spanish company that would incorporate the six Alicante foundries and that, for reasons unknown, would enjoy a very short life. The agency later attempted to resume contacts but was to all extents pushed out of the market by the powerful Lemmé et Cie. and the aggressive foundries of Marseilles, led by Figueroa.<sup>20</sup>

Finally, Weisweiller had a brief venture into the railway business. We know that he was a shareholder in Ferrocarriles de María Cristina, set up by Manuel Lara to construct the Madrid–Alicante line. The project failed in 1844 and was taken

<sup>15</sup> Ferguson (1998: 388) and Otazu (1987: 178–186).

<sup>16</sup> Otazu (1987: 145–146).

<sup>17</sup> Sánchez Picón (1983: 62) and Pérez de Perceval (1989: 94).

<sup>18</sup> More on the Rothschilds’ network of mints can be found in the penultimate section of this chapter.

<sup>19</sup> Otazu (1987: 158).

<sup>20</sup> Gille (1965: 409–410) and Chastagnaret (1992: 26–30 and 372–373).

over by Salamanca. James Rothschild must have considered that the time was not ripe to invest in railways in Spain for he refrained from taking part in the company set up to build the Aranjuez stretch.<sup>21</sup>

### **The Problems for the Treasury and Its Floating Debt**

In contrast to the buoyant situation of the trading and financier bourgeoisie, the Treasury was in a lamentable state in 1840. Weighed down by debt, its coffers empty, an army to disband and too many bad habits from the past, the main aim of successive ministers of the Treasury was to consolidate the war debt.<sup>22</sup> None was able to do so completely, but there was no lack of initiatives to achieve partial solutions.

The restructuring of the public accounts became somewhat more efficient with Santillán in April 1840. He put a stop to all contracts for advances and those that were in process were scrutinized by a control committee. Treasury banknotes were centralized at the Banco de San Fernando and he asked for 500 million reales, in consolidated debt bonds at 5 per cent, to guarantee outstanding loans and so avoid having to make any tax changes.<sup>23</sup> Barely a year later, Fernández Gamboa announced the capitalization of the nearly 1,200 million reales owed by the State in interest arrears on the debt, which had not been paid since 1836. These were to be exchanged at the same rate for a new bond, at 3 per cent consolidated interest.<sup>24</sup> The aim was to regain the trust of the capital markets in Spain and so the government was quick to pay the interest it owed, for which it assigned some of its few unmortgaged items (i.e. a part of the consignations on the Havana funds, the Crusade Tax and, inevitably, the Almaden mercury<sup>25</sup>). His successor, Surrá y Rull, tried in May 1841 to extend the centralization carried out by Santillán to the remainder of the floating debt, again with the Banco de San Fernando,

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<sup>21</sup> López-Morell (2002).

<sup>22</sup> According to Camilo Labrador, the Carlist War cost 4,000 million reales of which we can account for 2,973 million as extraordinary costs, if we accept the figures in Table 1.1.

<sup>23</sup> Sánchez Ocaña (1855: 363) and Artola (1986: 202–203). Santillán immediately set about trying to convince the Banco de San Fernando and Weisweiller to support him in a proposal to renounce all the guarantees deposited at the bank – some 400 million reales in total. Both agreed, but that same week, the opposition parliamentarian Peña Aguado put forward a proposal in the Cortes to rescind all the contracts on the floating debt and convert them into new State paper money. The bank immediately withdrew from Santillán's proposal, as did all the other creditors (reed. 1960: vol. 1, 253).

<sup>24</sup> The conversion was entrusted to Salamanca and Heredia. Torrente (1969: 5) and Artola (1986: 219 and 222).

<sup>25</sup> Artola (1986: 222). In order to organize and help Murrieta in the conversion, José Borrajo, a high functionary in the ministry who was to play a leading role in Spanish foreign relations in the following decade, was sent to London. Torrente (1969: 54).

in order to free the revenues assigned to the payment of outstanding orders of payment and bills, or at least to control all the banknotes from one point and so optimize liquidations. At the time the floating debt would have stood at more than 576 million reales.<sup>26</sup>

The efficiency of these measures and those of other Progressive governments was rather limited since measures had been proposed but no special budgetary allocations had followed to put them into effect.<sup>27</sup> Shortage of funds was again the norm and payment of the supposed conversions could only be met by new agreements for short-term loans. The problem was snowballing. Parliament had to pass a new issue of 160 million reales in Treasury banknotes, but this time at 6 per cent, with the first revenues going to paying off the service of the new 3 per cent bond and to tendering the few stagnated incomes remaining to the Treasury: salt, which had garnered annual revenues of over 70 million reales during the 1820s, was won by Salamanca for 60 million; official government, stamped paper, worth some 16 million, was picked up by Safont for 15 million; and tobacco, with returns of 100–120 million, went to the Empresa de Tabacos S.A. for 110.6 million after a hard-fought auction. The situation was as incongruent as it had ever been. The various solutions did nothing to solve the problem but rather enhanced it, and after years of “patch-up jobs”, the floating debt had rocketed to 1,046.1 million by the end of 1843.<sup>28</sup> Such was the situation as the September 1843 deadline for the renewal of the mercury contracts drew nigh.

Weisweiller had already shown interest in renewing the contract in force at the end of the summer of 1842, but Minister Calatrava put him off and merely asked for an advance, albeit partially on the basis of the values of the centralization process underway. The Rothschild agent was surely unaware that the Banco de San Fernando had recently discreetly informed the government of its intention to make a bid for the contract with the cooperation of “several powerful capitalists of the Kingdom and Spaniards residing abroad”. The Treasury and the bank maintained their secret negotiations until the end of that year and a possible offer was established for 75 pesos fuertes (1,500 reales) per quintal of mercury, an advance of 40 million and a share in the profits for the Treasury.<sup>29</sup>

Despite this draft agreement, Calatrava did not rule out the possibility of a tender and was keen to use the opportunity to give a lesson in morality and transparency. The conditions were published as many as four times in the *Gaceta de Madrid* and were widely covered by the Madrid press. The proposal envisaged the usual delivery of 20,000 quintals per year into the Seville docks, with a minimum

<sup>26</sup> Tedde (1999a: 142) and *DSCD*, appendix to num. 13, 1 April 1841, 189–196 and 198–199).

<sup>27</sup> Artola (1986: 222).

<sup>28</sup> Sánchez Ocaña (1855: 366 and 370), Comín (1989: 409) and Tedde (1999a: 145–146). In 1842 Weisweiller, aware of the problems in cashing the orders of payment, renegotiated these with the Treasury. Otazu (1987: 130–131).

<sup>29</sup> Otazu (1987: 135) and Tedde (1999a: 148–149).

reserved for national consumption, but it also included other considerations of interest, such as the obligation to cede up to 1,500 quintals to Spaniards who traded with Mexico and the customary advance of 50 million reales, to be paid in cash over 9 months and to be repaid in four yearly payments corresponding to the years covered by the contract, and at 6 per cent interest.<sup>30</sup>

At the heavily attended public auction held on 29 March, Weisweiller was up against five opponents, including the Banco de San Fernando and the ubiquitous Salamanca. The sealed bid stated that the Treasury would not accept less than the 1,500 reales it had negotiated with the bank, 100 more than what Rothschilds were intending to offer. The ensuing bid was won by Salamanca at 1,630 reales per quintal, who then transferred the rights to the Rothschilds just two days later – a development that has led Otazu and Martín<sup>31</sup> to assume that there was a prior agreement between Weisweiller and Salamanca, although given the course of events there is just as much reason to think that Salamanca, ever the opportunist on the lookout for commission, acted off his own back up to the last moment.<sup>32</sup> Whatever the case, the Rothschilds kept the contract, although the price was a hefty 35.8 per cent higher than the previous one.

### Mon's Reform Project

Sweeping changes were announced in the organization of public finances following the fall of Espartero and the arrival of Narváez, after the brief transition governments of Olózaga and González Bravo. An impulsive Alejandro Mon, back in charge of the Inland Revenue in 1844, repealed some of the more controversial measures taken by his predecessors, such as the contract for the *Compañía de Tabaco* or the latest confiscations from the lay clergy, and began a plan to restructure the Treasury based on a tax reform that had been prepared over the last months by a team led by Santillán. It rested on three pillars: the conversion of the floating debt; the organization of the State accounts through the Banco de San Fernando and the settling of the State debt.

The conversion of the floating debt was to serve as a way of freeing all those taxes that were affected by it. Any tax reform would be unfeasible otherwise. Mon wanted in principle to change it into simple loans to the Treasury, but he quickly extended it to the Treasury bills, the orders of payment on the overseas

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<sup>30</sup> Martín (1980: 216–218). Meanwhile both the Treasury and the Royal Household astutely put pressure on Weisweiller and received, respectively, a new credit of 240,000 pesos drawn on Havana orders of payment and better conditions on two of the outstanding orders of payment with the Royal Intendancy, with the discount being reduced from 18 to 14 per cent just days before the auction. Otazu (1987: 188–190).

<sup>31</sup> Otazu (1987: 205) and Martín (1980: 216).

<sup>32</sup> As we will see in the next chapter, Salamanca would make liberal use of this technique in the railway concessions sold to MZA.



colonies and all the floating debt inscriptions whose payment was outstanding. The Treasury negotiated with each group of creditors separately the conditions under which they would exchange their rights to the consolidated bonds at 3 per cent, in a proportion that would compensate for their fall in value. It was finally accepted that creditors for contracts of advances would receive an average rate of 35 per cent, which would guarantee them the reception of 100 nominal reales in consolidated debt bonds for each 35 reales contracted, with the same rules to apply to bearers of Treasury notes, who obtained 32 per cent, to holders of floating debt inscriptions (40 per cent), and to those who presented overseas orders of payment (35 per cent). Under this criterion most contractors came out handsomely, since they received the whole amount for what, in most cases, had been forwarded in devalued or expired stocks, and which they could now easily convert into cash on the market. For its part, the State assumed an annual burden of 58 million reales for the interests on the nominal 1,948 million reales in notes of 3 per cent which were delivered in exchange for freeing 710 million reales in various contracts and for recovering no less than 245 million in sureties.<sup>33</sup>

Weisweiller would not have converted much for he had not undersigned any contract during the previous months, although he had indirectly been party to some operations to free the huge number of bonds at 3 per cent that remained in the hands of Salamanca and Agustín Muñoz. Both must have managed to sell a fair part of what they had received from their Madrid contracts, but they would soon have discovered that 3 per cent was beginning to be accepted in Paris and on other European markets, with favourable differences in prices, according to the exchange rates. It was also a good way of not saturating the Spanish market. Between February and March 1845 they agreed with the Rothschilds to sell in Paris 100 million nominal reales at a domestic rate of 3 per cent at a minimum of 35 per cent. This price leads one to think that Salamanca and Riansares had been able to buy below that price in the previous months or that they were cashing in their own portfolios. Figure 3.1 shows how either option would have given them a sufficient profit margin. The sales were so quick and satisfactory that on 17 June 1845 a second sale of 30 million reales was ordered, this time at 31 per cent, which was renewed in August for three months, alternating it with purchases when price fluctuations favoured Madrid, something which presupposes a certain arbitrage between the two markets. Salamanca also gave instructions in February to buy some stocks in London, through NM Rothschild & Son, but on this occasion bonds at 5 per cent abroad, of which they purchased 700,000 pounds at 30 per cent, to sell them in April at 35 per cent – a profit of some 35,000 pounds.<sup>34</sup>

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<sup>33</sup> These figures, in the report of 1850 by Camilo Labrador and collected by Martín (1980: 213), are slightly higher than those of Santillán (reed. 1960: vol. 2, 29–30).

<sup>34</sup> Otazu (1987: 207–218).

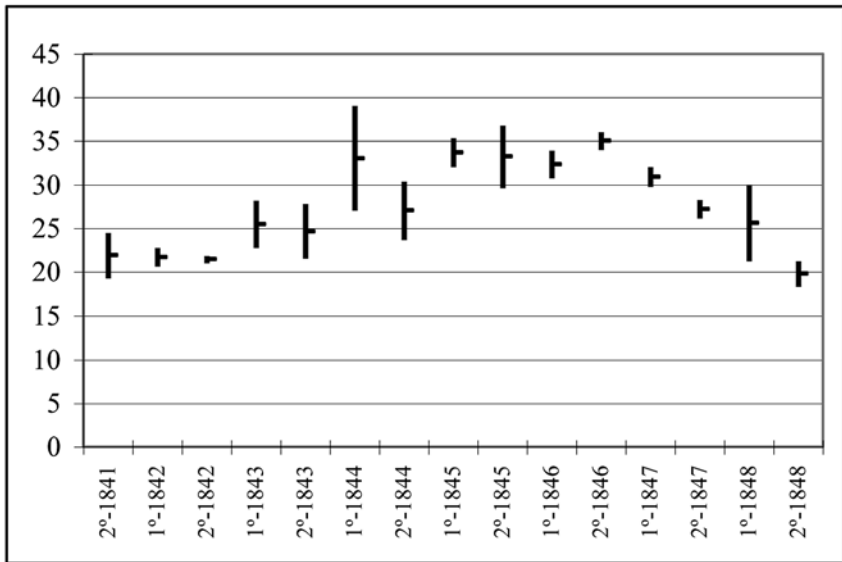


Figure 3.1 Maximum, minimum and mean prices of the 3 per cent consolidated in Madrid, as a percentage of the nominal value, by semesters, 1841–1848

Once the issue of the floating debt had been provided with a short-term solution, Mon sought in the summer of 1845 to find a way forward for the debt and also for the tax reform, as soon as the committee had finished its investigations.

For the former, the minister had to withstand fierce pressure from some parliamentarians and most financiers, who were averse to any risk to the stability of the 3 per cent prices. Nevertheless, the project, which authorized the issue of no fewer than four separate loans for the conversion, went through both Houses and was passed on 9 June 1845.<sup>35</sup> Yet it was never to be put into effect, just as had occurred in 1838. As for the tax reform, which parliament passed in the 1845 budgets, the consequences of this measure have been widely enough discussed in the literature not to warrant further consideration here;<sup>36</sup> however, it is important to note that, while it was a landmark in the history of the Spanish Inland Revenue, it was some time before it had any impact on State revenue.

In practical terms, the main benefits for the public accounts during those years were reflected in a series of agreements signed by Mon and the Banco de

<sup>35</sup> Santillán (reed. 1960: volume 2, 45).

<sup>36</sup> On the Mon–Santillán reform, see Estapé (1971), Comín (1988, 1996a), Artola (1986), Fontana (1977), Fuentes Quintana (1990), de la Torre and García-Zúñiga (eds) (1998), and Vallejo (1999, 2001).

San Fernando from June 1844 so that the bank could act as the government's treasury.<sup>37</sup> Until then the bank had been cautious when making advances to the Treasury, which had on occasions delayed its repayments. But circumstances had changed. Competition with the Banco de Isabel II to be the leading financial entity in the capital and the possibility of losing its best client justified assuming greater risks and responsibilities. Accordingly, the governing board of the Banco de San Fernando started to accede to the successive requests of the ministry to cover its running expenses and which would be repaid through various tax items. As a result, the amount of loans increased tenfold over the average for the previous decade, including the civil war period.<sup>38</sup>

This line of credit continued to be extended in 1845, and from 1846 the partial three-monthly agreements gave way to a general financial agreement under which the bank would take charge of managing the tax revenue for the whole year and would provide advances of 73 million reales a month, thus assuring three-quarters of the Stat budget.<sup>39</sup> As universal cashier to the government, the Banco de San Fernando proved a much better administrator of Treasury funds than the ministry. With no delegations to third parties, the bank increased its own network of correspondents so as to coordinate its deliveries. It was also singularly successful in involving the other Madrid bankers in joint contracts to provide the government with advances. In the negotiation of these loans as well, the bank showed more firmness and equanimity than the government itself had in the past; and that the bank's board of governors had no qualms in stopping Weisweiller in his tracks when, with his habitual self-importance, he sought to impose a greater share than stipulated in a syndicate offer to the government on the basis of the special consideration due to his House. He was excluded from the syndicate.<sup>40</sup>

Nonetheless, relations between the Banco de San Fernando and the Rothschild agency became very cordial the following year.<sup>41</sup> As a fruit of this, the Paris House undertook in 1845 to pay the interests on foreign debt for the first semester of 1846, charging a mere 0.33 per cent commission.<sup>42</sup> Much more important, though, was the collaboration between bank and agency just a month later, when the bank suffered a temporary crisis due to a hostile manoeuvre on the part of Salamanca who, in a few weeks, had made repeated demands for the return of notes and transfers on the bank to the tune of 36.4 million reales, so jeopardizing

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<sup>37</sup> In 1837 Mon had already tried to establish the Banco de San Fernando as a mainstay in sorting out the State debt. Tedde (1999a: 93).

<sup>38</sup> Tedde (1999a: 62, 79, 106, 120, 145, 148, 152, 168–170).

<sup>39</sup> As a consequence of the growth in activities, the bank's assets soared from 123 million reales in 1843 to 424.4 million in 1846 (Tedde 1999a: 179, 187–188).

<sup>40</sup> Tedde (1999a: 168–169, 172–173 and 179–182).

<sup>41</sup> This did not prevent the Rothschilds from exercising the role of correspondents for the Banco de Isabel II abroad, Otazu (1987: 383).

<sup>42</sup> Letter from Rothschild Frères to the director of the Banco de San Fernando dated 17 December 1845, ABE, Secretary's Office, file 1,262.

other operations. After the good work done by Moreno, the Rothschilds agreed to come to the bank's aid and injected the cash funds it needed to tide itself over. In barely a week, Weisweiller closed three consecutive contracts with Dámaso de Cerrajería, the acting manager, worth 39 million reales, 20 million of which were in French currency, which enabled the bank to weather the quarter with no further problems.<sup>43</sup>

Further contracts were signed during the rest of the year, to a total of 24.3 million reales.<sup>44</sup> They were always to be paid on the mercury delegation, which the Rothschilds settled directly in their sales account, or through the orders of payment from Havana. Elsewhere, there seems to have been a surprising improvement in the terms of negotiation of the bank with respect to its correspondents since, with one exception, all were paid straight down, with hardly any additional guarantees or discounts of the type previously observed in floating debt operations.

This climate of cordiality between the institutions enabled a final business deal to be made with the Royal House under which a large part of the dowry of the Infanta María Luisa was to be managed by the Rothschilds. Isabel II made two payments of 10 and 11 million reales on the eve of the wedding and signed bills of exchange for 12 million reales that Weisweiller was to draw along with the previous ones at 4 per cent interest in three instalments, from 31 January 1847, to an account held by the duc de Montpensier at the Paris House.<sup>45</sup> The amount of the contract and the profit maybe considered as small compared to other operations, but the care taken by the Rothschilds was indicative of the importance that they continued to give to the Spanish Crown and the good relations they had with María Cristina and her husband, who had put the business into the hands of Weisweiller.

### **Economic Crises and Ruptures, 1846–1855**

Between the end of 1846 and the beginning of 1848 the growth cycle came to a halt as a consequence of the political and economic crisis that was besetting Europe. Spain was probably among those countries to be worst hit, discovering within a matter of months that the wild explosive growth of the previous years ran counter to its economic structure, which was still too weak to support brusque imbalances between the country's resources and its capacities. The country was experiencing its first modern financial crisis and the key players could find no suitable ways to control it in time. Thus a mixture of fear and inexperience on the part of the Spanish authorities led to them adopting a series of measures that fostered a regressive political and economic regime. This was a new state of affairs

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<sup>43</sup> ABE, Secretary's office, files 1,148 and 1,150. Tedde (1999a: 184) and Otazu (1987: 246–247 and 262–263).

<sup>44</sup> Ibid.

<sup>45</sup> Otazu (1987: 261).

that, among its many other consequences, would distance the House of Rothschild from Spanish public finances for a time.

*Radicalization of the Monetary Problems and Financial Collapse*

The 1846–48 crisis has usually been associated to a speculation bubble around movable assets which when it burst dragged down the whole financial and industrial system of the country. However, this explains only in part a crisis which involved rather more complex variables combining both purely circumstantial problems and structural difficulties of greater reach, although it was the financial problems that would most affect the unfolding of the crisis.

The common shortage of means of exchange in Spain, caused by the imbalance of the monetary supply and an underdeveloped financial system, increased during the first half of the 1840s as a result of the massive demand for capital to invest in companies coupled with the effect of the expulsion of capital related to the successive conversions of the floating debt into debt bonds and the confiscation, which served only to keep ever larger amounts of cash out of circulation. The shortage of cash and of specific markets where it could be obtained had led the new capitalists to set up their own specialized entities with which to finance themselves. The result of this suddenly expanded financial network and, especially, of the aggressive issuing policy adopted by the Banco de Isabel II, was a significant increase in monetary mass which, although it always lagged behind the real demand for capital, did bring some respite.<sup>46</sup> To cover the outstanding shortfall, investors opted for the classic combination of trade discounts and credit, although some were not so orthodox in their methods. Some banks, in particular the Banco de Isabel II, began to lend important sums of money, taking as guarantee their own shares or the stocks under speculation, and without taking into account the risk that a sudden fall in prices or halt in the market might bring.<sup>47</sup>

The situation was maintained with relative ease until the summer of 1846 when a sudden rise in the price of silver sparked a financial crisis in England and France.<sup>48</sup> The progressive disappearance of the metal from circulation set off an unstoppable fall in prices and rapid downturn in all types of business. The situation became alarming in Spain during the autumn as financial operations became harder to realize and there was a shortage of bond buyers who might have offered guarantees. Many deals were suspended through lack of cash and there was little the government could do to soften the fall in prices.

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<sup>46</sup> The amount of paper money in circulation in Spain rose from 17 million reales in 1841 to 191.7 million in 1846. In spite of this, the fiduciary circulation per inhabitant in Spain continued to be three times lower than in France and 12 times lower than in the United Kingdom. Tedde (1999a: 138).

<sup>47</sup> Tortella (1973: 31–39).

<sup>48</sup> Sardá (1970: 96–102).

This is not the place to insist on the ever-present monetary problems of the Spanish Crown during the nineteenth century, a subject on which much has been written,<sup>49</sup> but we will take a look at some antecedents and factors that are important for a clearer understanding of the operations that occurred during those years and of the Rothschilds' participation therein.

By the mid-1840s the Paris House of Rothschild was the leader in the exchange business, as well as having extensive experience in the precious metals market. Since 1827 James Rothschild had had his own refinery at the Quai de Valmy and in 1838 he had substantially expanded his interests in this activity by striking a joint partnership with the refiner Michel Poisat. He would later acquire a few small workshops and would reach a series of agreements with the other French minting houses.<sup>50</sup> This would, in just a few years, give him the leading national role in the gold and silver market.

Meanwhile, in London, Nathan and his sons had likewise gained an important position on the gold and silver market, although their role was more an intermediary one than that of producing coins and bars.<sup>51</sup> For decades N M Rothschild & Sons had deposited almost all their cash holdings into the vaults of the Bank of England in exchange for the latter's continued support for their trade discounts and other financial dealings. Interest was mutual since there were certainly times when the Bank of England had to resort to the Rothschilds to tide over the constant financial crises of the London market, as for example occurred in 1825 when New Court supplied the bank with enough gold to weather a crisis of trust in its notes which threatened to trigger panic in the City. In any case, if at times the London House did not have sufficient cash to support the Bank of England, it had only to contact its Paris counterpart, which would immediately cover the demand.<sup>52</sup>

There was no agreed arbitrage with the monetary authorities in Spain until later, largely due to the tardiness in introducing paper money but also because of the Banco de San Fernando's lack of clout in monetary policy.

It was precisely this weakness of the monetary system since the war that had increased some of the worst vices of a nonexistent monetary policy on the part of successive governments. The widespread acceptance of French coin had grown because there was no proper parity between the real and the franc, which, with

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<sup>49</sup> Sardà (1948), Tortella (ed.) (1974b), Martín Aceña (1994) and García Ruiz (1996), among others.

<sup>50</sup> James Rothschild formed associations with the Mints at Rouen (1829), Lyon (early 1840s), Paris (1843) and Strasbourg (1861). Flandreau (1995: 200–211) and Ferguson (1998: 578–580).

<sup>51</sup> As private smelters, the Rothschilds were without rival in London. Canga Argüelles (1826: vol. 1, 10) emphasizes that between 1828 and 1829 the House minted 163.8 million out of a total of 168.6 million reales minted by private individuals; in second place was Raphael, with just 2.4 million reales.

<sup>52</sup> Ferguson (1998: 145–147 and 397).

its lower metal content, inexplicably circulated at the same level as the national currency. Then there were the high fees that minting houses continued to charge and which discouraged the entry of metal bars to the mints, thus making it easy to exchange Spanish currency for French. By 1842 half the money in circulation in Spain came from abroad. From the 1840s on, the contradictions within the system became more apparent insofar as Spain, a large silver producer, allowed the whole of its production from the south-eastern mines to be exported. These were then melted down to form napoleons (5 francs, or 19 reales at the exchange rate), with a gross profit of one and half reales for every napoleon the intermediaries managed to put in circulation.<sup>53</sup> It needs to be underlined that these cash losses had little to do with the trade deficit, which was of little significance at the time,<sup>54</sup> and a lot to do with the erroneous currency parity policy. The attempts at devaluation made by Toreno fell on barren earth and would not be repeated over the following decade. So, the practice of exporting Spanish currency and importing modern napoleons went on, nourished by the Spanish traders and bankers, who saw it as a fundamental part of their incomes.<sup>55</sup>

Weisweiler himself had informed the Rothschilds of the advantages of exporting five-franc coins and doubloons, or pieces of eight (gold coins worth 16 pesos fuertes), which were in devalued circulation in Spain. Since his arrival he had been quietly making shipments to Paris. However, the operations were few and far between and were made only if there was an excess of cash in the agency till, which was not a frequent occurrence given that the majority of the agreements between the Rothschilds, the Bank of Spain and the Treasury were paid via bills of exchange and payment orders, with no exchange of cash. In any case, we have no accounting records of these operations, only references to some shipments,<sup>56</sup> although it is clear that from 1845 the Rothschilds' involvement in metal circulation grew steadily, but in quite the opposite direction.

In August of that year, Salamanca had used the profits from his sales of debt in Paris to ask the Rothschilds for 15.8 million reales in gold bars,<sup>57</sup> although it is not known whether these were to be used for some private operation or to shore up the reserves of the Banco de Isabel II. Weisweiler had tried to extend these sales to the Banco de San Fernando, offering some deliveries in June, but the board of the bank did not deem the occasion opportune.<sup>58</sup> November was different, though, when Alejandro Mon practically forced a sale on the Rothschilds, in Paris, of 100 million nominal reales of 3 per cent bonds, whose profits were to be paid

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<sup>53</sup> Sardá (reed. 1970: 99), Nadal (1975: 15–16) and Sánchez Picón (1983: 61–92).

<sup>54</sup> Prados (1986).

<sup>55</sup> Sardá (reed. 1970: 77–79) and Facal (2001).

<sup>56</sup> For example, the transfer of 700,000 francs in five-franc pieces that Weisweiler made to France in 1846, reported by Otazu (1987: 257–258).

<sup>57</sup> Otazu (1987: 212–213).

<sup>58</sup> Tedde (1999a: 177).

in 5-franc gold coins.<sup>59</sup> This was the opening moments of the crisis, so the sole aim of the manoeuvre was to recover the largest amount of cash in circulation and so ease the shortage in means of payment. It would be naïve, though, to assume that the minister for the Exchequer was acting out of a sense of responsibility rather than because he was forced to do so by the lamentable state of the accounts themselves.<sup>60</sup>

Some months later it was the Banco de Isabel II that took the initiative and proposed advancing funds to the government to buy silver in Almagrera, with the idea of taking it to the Madrid Mint,<sup>61</sup> although, given the fall in coins struck during this period, it can only be supposed that the proposal met with little or no reply.

In conclusion, the attitude of the Spanish monetary authorities was inadequate and even rather negligent during the worst moments of the crisis. Against all economic logic, the number of coins struck fell considerably, meaning that the amount of money in circulation remained practically unchanged, apart from the exceptions mentioned. The total amount of money grew by 19.3 per cent from 1840 to 1847, but not through the mining of coinage, but thanks to the growth in fiduciary circulation and the increase in the deposits in accounts, although it was nowhere near sufficient to cover even a small part of the capital needs required for the new investments and economic growth.<sup>62</sup>

At the beginning of 1847 the situation was no longer sustainable for most businesses. The first bankruptcies triggered concerns among the business class and mistrust cascaded down to the general public, who began to make massive withdrawals of savings from the Stock Exchange and banks. This was the straw that broke the back of the miniscule Madrid financial market.

A large part of the public blamed the crisis on public limited companies and the speculation that the proliferation of fixed-term operations had caused. The conservative Cabinet took note and shared this judgement. It began to put into effect a series of measures to put an end to the situation, but these proved to be totally counterproductive. The first measure was to pass an act that drastically reduced the number of exchange and stock exchange agents and expressly prohibited fixed-term operations and the creation of new shareholder companies. This was followed by preparations for a new law that would place restrictions on public

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<sup>59</sup> The operation was carried out through the Banco de San Fernando. It was agreed to sell bonds at 30 per cent of the nominal value, with a commission of 0.5 per cent and 6 per cent mutual interest. Agreement of 11 November 1846, ABE, Secretary's Office, file 733 and Otazu (1987: 269–270).

<sup>60</sup> Over the following years there are likely to have been many more cash deliveries, although the value of these remains unknown, with the exception of one operation in 1848, reported by Otazu (1987: 443–444).

<sup>61</sup> Tedde (1999a: 197–198).

<sup>62</sup> Some hypotheses on the monetary and banking system in the 1840s can be found in López-Morell (2002).



limited companies.<sup>63</sup> Yet the alleged money dealers were not held accountable nor were rescue measures put in place, such as a temporary halt to operations or any move to foster credit or increase the amount of money mass, as was happening in France and Great Britain. The most that was done was to force a merger of the San Fernando and Isabel II banks, which was ordered by Santillán, who claimed that he had taken this measure to avoid the Banco de Isabel II suspending payments, which could have caused widespread panic among the general public. Yet the Banco de Isabel II had sufficient liquid assets to automatically cover half its liabilities, banknotes included. In any case, bad management also affected the Banco de San Fernando, as was inferred from the investigations following the discovery that its director, Joaquín Fagoaga, had been embezzling funds.<sup>64</sup>

*The Rothschilds' Response to the Crisis:  
An End to Operations and the Withdrawal from Almaden*

According to Otazu,<sup>65</sup> Weisweiller steered clear of the speculation, at least towards the end, and was able to prepare for the consequences of the crisis thanks to his better position and the amount of privileged information he had access to, compared to his Spanish interlocutors. What is clear is that he acted very quickly to avoid being caught by the crisis or by any badly timed contract with the Spanish State, which was in a tight corner because of the difficulties faced by the Banco de San Fernando in assuming the liabilities of the Banco de Isabel II and its own cash shortfalls. The accounts with the Banco de San Fernando were saved for the time being thanks to a 10,000-franc bribe offered to the cashier, while operations for the remainder of 1847 were quickly put on ice.<sup>66</sup> However, the most significant and surprising decision taken by the Rothschilds was to let the Almaden contract go.

This last event was marked by a clear difference between the market situation, the interests of the Rothschilds and the expectations of the Spanish government regarding the extension of the mercury contracts in force. The outcome was a breakdown in relations followed by a violent confrontation. During recent years the Rothschilds had seen the demand for mercury drop internationally on account of certain political problems in Mexico which had stopped a part of the silver production. On top of this there was the appearance of new methods for gilding and extracting silver as well as the recent news of the discovery of the New Almaden mines in California, in 1846. It would be some time before the markets took note of this, though, because the production from the new seams would not begin to be

<sup>63</sup> Torrente (1974: vol. 2) and Bernal (2000: pp. 8–9).

<sup>64</sup> Tedde (1999a: 200 and 225).

<sup>65</sup> Otazu (1987: 441–442).

<sup>66</sup> With the exception of some very specific operations, such as those organized by Weisweiller for Narváez, which was probably designed to keep his support (Otazu 1987: 291–292 and 297), and a one-off loan to the Banco de San Fernando in December (Secretary's Office, file 733).

exported until the end of 1849. The main problem lay, therefore, in the saturation of the London market, where even the Rothschilds had been obliged to hold on to 34,915 quintals of mercury in order not to damage prices.<sup>67</sup>

Under such conditions, James refused to keep reducing his trade margins, let alone grant the advance of 60 million reales that Spain was seeking, unless there was a significant improvement in the terms of the contract.<sup>68</sup> But the government did not want to lose the chance of obtaining improvements in the new tender and called the corresponding auction for 10 June 1847. The Rothschilds immediately withdrew and Weisweiller made the token gesture of attending and presenting an invalid guarantee, thus causing him to be excluded. Five valid bids were made with only the Banco de Fomento bidding above the 1,720 reales per quintal that the government had set as a reserve. Its offer of 1,731 reales per quintal won the tender for five years.<sup>69</sup>

The Banco de Fomento operation was a foregone failure for the markets. The Rothschilds intended to cash in their mercury reserves if any new intermediary appeared, and they promptly allowed the prices to drop on the London market and to use their network of agents in various locations to keep their customers. In fact, the prices spiralled down in just six months in London, from an average 112.5 pesos (2,250 reales) throughout 1847, to 100 pesos (2,000 reales) by April 1848 and just 87.5 (1,750 reales) in June, even though they stayed at 120–140 pesos in Mexico over the same period.<sup>70</sup> During this time, the Banco de Fomento was unable to sell a single flask in London, not even after its merger with the Banco Español de Ultramar. The government revoked the contract and gave it to the Banco de San Fernando in May 1848, which was obliged to sell the 35,000 quintals it held in Seville on behalf of the Treasury. The bank pulled out its big guns for the mission, sending a special agent, Miguel Bryan, to London to work with Murrieta in selling the mercury on its natural market. Their efforts, however, were no more successful than those of their predecessor.<sup>71</sup> Sales were very sporadic and the San Fernando was only able to make one important sale, in August, of 500 quintals of the mercury they had piled up in Seville, and at 81 pesos.<sup>72</sup>

From September 1848 the situation became yet more complicated. That month saw the end of the Treasury contract with the government, and the Treasury, mired once again in its old problems, seemed to conveniently forget its agreement with the bank and began to accept advances in exchange for mercury, which the

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<sup>67</sup> Martín (1980: 223 and 244) and Sánchez Molero (1859: 18).

<sup>68</sup> Ferguson (1998: 388–389).

<sup>69</sup> Martín (1980: 228–236).

<sup>70</sup> Randall (1977: 187 and 191).

<sup>71</sup> During the time that the San Fernando was in competition with the Rothschilds for the mercury, the mutual exchange of bills came to a halt, allowing Murrieta and Goyeneche to take over the majority of the operations of the Banco de San Fernando in London. ABE, Secretary's Office, files 1,200 and 1,201.

<sup>72</sup> Tedde (1999a: 221).

Rothschild and Barings of London picked up. The funds served to pay the semester on the 3 per cent bonds abroad but made the situation for the San Fernando agents even worse, and they had great difficulties in making hardly any further sales.<sup>73</sup>

In total, between December 1848 and December 1849, between them the Rothschilds and Barings advanced up to 342,109 pounds (32,760,358 reales) spread over several contracts in exchange for 46,776 quintals of mercury,<sup>74</sup> giving a flat rate of 700 reales (35 pesos). The contracts were independent but suggested a surprising, to say the least, entente between the Rothschilds and their biggest London rival. Until then there had been a type of unwritten agreement about areas of influence between the two giants of British private banking: Barings had Latin America and a large part of Asia, while the Rothschilds focused on the European continent, including Spain. The fact is that for no special reason Barings had in 1847 sent their representative, Francis Falconet, to negotiate their options in the mercury contract, but it is not known whether this was before or after the June auction. The negotiations dragged on endlessly but, to the relief of the London Rothschilds, who were always fearful that their rivals might charge into Spain, no concrete agreement was forthcoming. Whatever the case, during the negotiations and the running of the contracts, the Barings and their Madrid-based agent, Enrique (Henry) O'Shea, made efforts to avoid any clash with the Rothschilds, which led to a certain air of cordiality and good understanding during those months,<sup>75</sup> even to the extent that when the government made its umpteenth proposal to go back to the system of auctions at the end of 1849, and the Rothschilds decided, finally, to compete,<sup>76</sup> Weisweiller made a straight proposal to Thomas Barings to tender for the contract on a fifty-fifty basis. But the price of 70 pesos (1,400 reales) per quintal the Rothschilds were offering seemed excessive to the Barings, who withdrew, and who would not get involved in the business again for many years.<sup>77</sup> Weisweiller won the contract and on 5 January 1850 took possession of the 33,585 quintals that the government still retained, on the understanding that production

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<sup>73</sup> Goyeneche notified the bank of the huge difficulty in selling his flasks of mercury compared to the Rothschilds, who systematically cut their prices and offered all types of payment terms. Letters of Mildred Goyeneche dated 26 December 1848, 19 January 1849 and 20 February 1849, ABE, Secretary's Office, file 1,200.

<sup>74</sup> Martin (1980: 238–243).

<sup>75</sup> Ziegler (1988: 139–140).

<sup>76</sup> The Treasury had tried to auction its mercury in April, October and December of 1849, but with no offer forthcoming. Martin (1980: 235–236 and 242–243). The Rothschilds are likely to have attended the auction with keen interest, following the reports from Davison, their agent in Mexico, of new silver deposits in Chile and Peru. Ferguson (1998: 497). According to Martin (1980: 226–227 and 243–244), a further point of importance was that the bankers had paid off the excess amounts on the earlier contract.

<sup>77</sup> Ziegler (1988: 169–170).

of the mine was to be limited to 12,000 quintals per year,<sup>78</sup> so returning to the Rothschilds for a further two years a business that they had never really lost.

*Radical Postures and the Triumph of the Conservative Option*

In the meantime Spanish politics continued to undergo profound changes that would have an important bearing on the future. The hard core of Madrid finance, made up by stock market traders, bankers and traders, and politically represented by the so-called “Puritano” group, had observed with alarm the government plans to suppress the legal framework governing companies, reaching the conclusion that such proposals demanded an immediate response, not only to save individual investments but to protect a whole developing financial system which they otherwise saw as being utterly condemned.<sup>79</sup>

The Puritans, headed by Salamanca and in parliamentary minority, had to act quickly before Roca Togores’ project to reform the public limited companies legal system was passed by Parliament.<sup>80</sup> With the help of Serrano and after the more than likely intervention of the Queen Mother and her husband, they convinced Isabel II to withdraw her trust in the Sotomayor Cabinet and to appoint a new Cabinet presided over by Pacheco, which came into being on 18 March 1847. Salamanca kept the post of Minister of the Treasury and set about introducing three urgent measures: the first was aimed at controlling the proliferation of public shareholder limited companies, which would require express authorization for their constitution as well as the subscription of at least 50 per cent of the capital;<sup>81</sup> the second was an emergency monetary reform which devalued the real to a level at which the outflows of cash could finally be checked and the overseas commercial position of the country improved: the third sought, unsuccessfully, to find a solution to the debt problem.

However, the financier would have little time to see the effectiveness of his measures. Just six months after his arrival, the “Puritan” adventure came to an end in the famous scene where a shouting (and, according to some accounts, sword-brandishing) Narváez dissolved the meeting of the Cabinet on 4 October 1847.

With the Puritans out of power, the new, ultra-conservative Cabinet proposed to conclude the process of regressive economic legislation exactly where it had been left some years earlier. Salamanca’s monetary measures did not survive even a week and in January 1848, following rapid parliamentary discussions, a new, definitive companies act was passed which effectively decapitated the capitalist system in Spain. From that moment on it was forbidden to set up any public

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<sup>78</sup> Martín (1980: 243).

<sup>79</sup> Santillán (reed. 1960: 311) accused Salamanca of taking on the Ministry of the Exchequer as an attempt to save his personal businesses and settle his outstanding debts. This judgement has remained almost unchallenged in the historiography ever since.

<sup>80</sup> The project was presented on 26 February. Bernal (2000: 11).

<sup>81</sup> R.O. of 15 April 1847. See also Torrente (1974: vol. 2, 185) and Bernal (2000: 11).

limited or jointly owned company that could not demonstrate an appropriate public utility.<sup>82</sup> Following this, and under what was now a quasi-dictatorship in the second half of the “moderate decade”, the conservative governments’ agenda focused on administrative and financial reforms, although on this occasion it did not fall to Alejandro Mon to carry them out, but to the more impulsive Juan Bravo Murillo, who held the ministerial post for two almost uninterrupted periods: the first, as Minister of the Treasury, from 20 September 1849 to 29 November 1850, and the second as president of the government as well, from 14 January to 14 December 1851.

Bravo Murillo had come into power with the idea of forcibly solving what he considered to be the country’s major problems and by means of a totally personal “top–down revolution”. His steamroller approach led to a raft of laws and initiatives that broached all aspects of political management. Some of these had been long awaited, such as the laws for reorganizing the public administration and the compulsory introduction of national accounts. But there were others that spawned controversy, such as his intervention in the burgeoning railways, his project for constitutional reform and his measures to sort out the State debt, which included his polemical 1851 solution – a new reordering of the floating debt and the creation of the *Caja General de Depósitos*,<sup>83</sup> a government body that held deposits in escrow.

Bravo Murillo’s strictly financial reforms had two fundamental aims: one was to close once and for all the chapter of debts that had been generated since the liberal *Trienio* through to 1834 – something that all the Ministers of Finance since Mendizabal had considered a lost cause; the other lay in finding the means by which the State could free itself from dependence on moneylenders for short-term financing and to offload the cost of very high returns in what was a simple problem of resource management.

As regards solving the problem of the debt, it has to be emphasized that the reform did not only suppose the recovery of Mon’s unfinished 1845 project, but also a response to the demands in recent years by holders of Spanish debt abroad. Let us not forget that the State creditors, represented in London by the Committee of Spanish Bondholders (hereinafter, the London Committee), had accepted, through the Rothschilds, the conversion of all their bonds and the loss of part of the nominal values that were still in circulation in the form of liability debt. Holders of Spanish debt were now complaining that the government had been bent on casting them adrift ever since 1836 and had taken no measures to rectify the situation other than the capitalization of interest arrears in 1841. Since then, non-payments on old bonds had again accumulated and successive governments had attended only to the 3 per cent issue, something which had basically favoured Spaniards. Thus, of the 14,974 million paper reales that Spain recognized at the end of 1849, not including the more than 1,800 outstanding debt for materials and

<sup>82</sup> Sardá (1970: 103) and Tortella (1973: 39–40).

<sup>83</sup> On the Bravo Murillo reforms, see Gonzalo (1981) and Artola (1986: ch. 6).

personnel, 2,852 million was interest in arrears. Of these the greatest item was the unpaid interests on the foreign 5 per cent bonds since 1841, which totalled 1,469 million reales and which was still in the hands of bondholders in the form of bills contested against the Spanish Treasury.<sup>84</sup>

The government had until then argued that the impossibility of assuming all its debts in circulation, plus the low values of the bonds (due precisely to the non-payments), prevented recourse to any further issues to sort out the problem without considerably increasing it. It was, therefore, necessary to establish some way of reducing the volume of debt to a realistic level and avoid a continued suspension of payments that it was in nobody's interests to maintain any longer.

The London Committee, and those of other European stock exchanges, accepted Narváez at his word when, at the end of 1847, he solemnly promised before Parliament to find a fast and fair solution to the problem.<sup>85</sup> However, all the general did was to set up a commission led by Santillán to study the feasibility of satisfying all the demands of the various creditors. The commission,<sup>86</sup> however, was diligent in its work and put forward two broad proposals encompassing a raft of possible solutions. The idea behind all of them was to reduce the amount of debt in circulation so as to be able to meet payments, although there was debate as to whether all the debts should be given the same importance for conversion, whether this should be voluntary and whether valuations should be negotiated or made according to some kind of criteria or on the basis of current stock market values.<sup>87</sup> In June 1849 the commission proposed an alternative plan under which unpaid interests since 1841 would be recapitalized in 3 per cent bonds, following an increase of capital, to compensate for the losses on the return. It likewise asked for domestic debt bonds to be relinquished, and accepted by way of concession the possibility of a temporary reduction in the amount of interests on the debt on condition that partial payments were made in cash.<sup>88</sup>

Yet the argument finally used by Bravo Murillo in Parliament in April 1850 was rather different. All the old debt in circulation was to be reconverted in bonds at 3 per cent, at a third of its value, except for the consolidated debt, which would keep its nominal value. As regards interest arrears, these would be governed by the

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<sup>84</sup> Sánchez Ocaña (1855: 402) and *Documentos relativos al arreglo general de la deuda del Estado* (1851), published by the Imprenta Nacional, p. 109 (hereinafter, *Documentos* (1851)). This information has been analysed in depth by Artola (1986: 266–279).

<sup>85</sup> Narvaéz's exact words were: "The government intends to bring before the Cortes the issue of the foreign debt so that foreign creditors may expect true Castilian honour and all the honour of the ministers who love our country and our dignity." *Documentos* (1851: 50–51).

<sup>86</sup> This was made up of Santillán, Aristizábal, Aquilino Pérez, Cortés, Sánchez Silva and José Borrajo.

<sup>87</sup> *Documentos* (1851), Artola (1986: 267–269) and Carrera Raya (1987: 58–59).

<sup>88</sup> "Memorandum from the Committees of Amsterdam, London, Paris, Antwerp and Berlin", of 30 June 1849. *Documentos* (1851: 52–61).

conversion, like the non-asset bonds (i.e. their value would fall by 66.6 per cent) and, furthermore, they were susceptible to a second reduction should their stock market value drop below the price of the consolidated 5 per cent.<sup>89</sup> Inevitably, the plan met with strong opposition from foreign holders, who could not understand how a reduction in debt that was already liquidated under the Spanish budgets could be proposed.

On behalf of the government, on 5 July 1850 a “Junta para el Arreglo de la Deuda” – a meeting to “settle” the debt issue – presided over by Manuel Bertrán de Lis, brought together all the foreign creditors in order to study the limit of their demands and the possibilities of reaching an agreement. Weisweiller was present as a representative of the London Committee and came armed with letters from Lionel Rothschild, who had chaired the meeting of creditors in London. In the letters, the head of the London House reminded the government of all the hardships it had caused the long-suffering holders of Spanish debt, from the preferential treatment it had given to Ardoin under the Toreno conversion in detriment to other creditors, to its suspension of the coupon payment, to its neglect of the liability debt. He finished by passing on the unanimous decision of the members of the London Committee not to admit any reductions in capital of the consolidated debt in effect nor losses on unpaid interests, although the members were open to negotiate a temporary reduction in interests collected, as had been indicated a year earlier. The committee in Spain listened to Weisweiller and to representatives of the Dutch, Belgian, French and Prussian stock exchanges but no formal negotiations were begun and the meeting did little more than allow declaration of intention.<sup>90</sup>

After some months of interruptions, Bravo Murillo brought a new bill to the Parliament on 1 February 1851, two months after his being appointed head of the government. It was substantially different from previous ones since it drew on parts of the memoranda of the committees from 1849 and went beyond the limits of the proposals of the committee of ministers and other experts. In the case of the foreign debt, the project established a radical transformation of its constituent parts, under which the consolidated 3 per cent bonds in circulation since 1841 would remain unchanged. All consolidated debt bonds at 5 per cent in force were to be recognized, along with the interest arrears, although these were to be reduced, under the law, by half and then reconverted under a new deferred debt bond also at 3 per cent that would pay only a part of the interest, the latter gradually increased by quarters of a point over the following 19 years until the bonds reached the same conditions as those consolidated at 3 per cent. A further creation was a second-class foreign amortizable debt that would take in all the 1831 deferred debt, all bonds pending redemption since 1834 of 5 per cent and the older 3 per cent and, fundamentally, the liability debt which had been suspended that time.

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<sup>89</sup> R.O. of 18 April 1850, *Documentos* (1851: 3–16).

<sup>90</sup> Bill of 1 February 1851, *Documentos* (1851: 15–19).

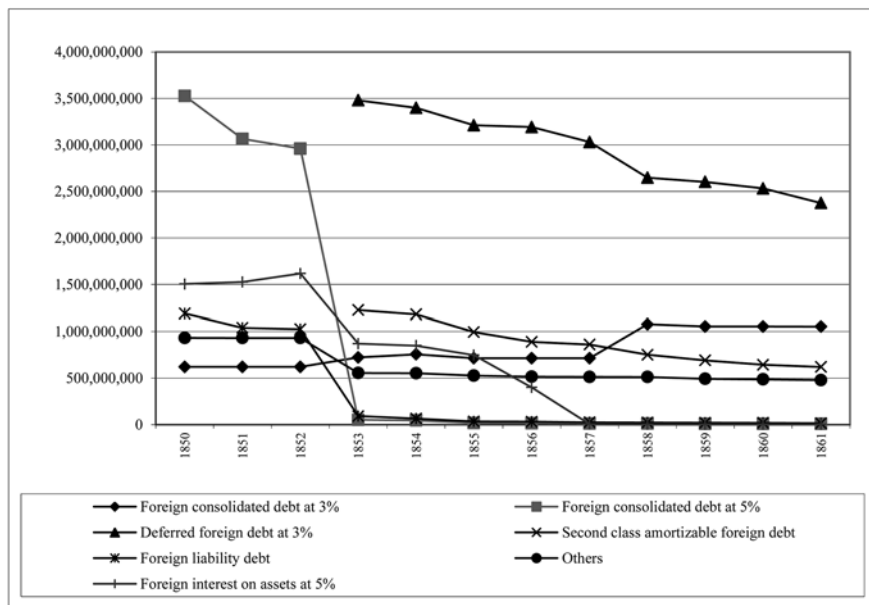


Figure 3.2 Foreign debt items, 1850–1861 (reales de vellón)

This was the response to the London Committee's concerns about the earlier liabilities.<sup>91</sup> In short, it was a manifest declaration of bankruptcy, as all authors have underlined,<sup>92</sup> in which Spain explicitly recognized that it could not pay its debts, however solemnly they had been undertaken.

Avoiding any type of legal, political or economic arguments, the striking thing about this process is the lack of any talks to find an agreement between the administration and the creditors. Apart from the meeting mentioned above, there seem to have been no other contacts with those affected by the conversion. It is significant that when the project was finally presented to them, the apparent intransigence of the British holders shattered. Bravo Murillo received a note from Weisweiller assuring him that the creditors accepted all the changes concerning the assets and liabilities debts and that the only issue on which he considered that they would refuse to back down was the reduction by half of the interests accrued over the previous 10 years.<sup>93</sup> The acceptance of this would not have meant a serious outlay in terms of the whole deferred debt but the head of the government

<sup>91</sup> Ibid.

<sup>92</sup> Tortella, Cameron, Comín, Artola, Tedde, Estapé or Carrera Raya, among others, and the contemporary Piernas Hurtado or Luis María Pastor, as well as the politicians of progressive ideologies.

<sup>93</sup> Letter from Weisweiller dated 19 February 1851. *Documentos* (1851: 97).



stuck to his idea and refused to change any part of his project. Bravo After a spirited debate Murillo pushed the bill through parliament almost as it stood and it was finally passed on 1 August 1851. The London Committee forthwith declared its break with the Spanish authorities and again demanded that no Spanish bonds be accepted on the London Stock Exchange.<sup>94</sup> This is unlikely to have worried Bravo Murillo as he had no plans to make any issues abroad. In the long term, however, it would affect his successors, who for almost 20 years would find the overseas credit doors closed to them.

The conversion went ahead from January 1852 under the terms envisaged by the act, although, as Figure 3.2 shows, there was a strong reticence on the part of the creditors to exchange their certificates of non-payment of interests, which took six years to be to be converted in total against their other debts. There may have been some forlorn hope that the government might retract.<sup>95</sup>

To round off his project, Bravo Murillo extended his reforms to managing the revenue budget. All items were brought under the control of the central administration. Measures were applied to keep the amount of floating debt under control, including a ban on issuing above a previously budgeted cap and the obligation to present monthly public statements of the Treasury debt.<sup>96</sup> Finally, in 1852 he took the decision to set up the *Caja General de Depósitos*, a carbon copy of a French institution, whose mission was to bring together all the various funds of the administration (bails, fines, deposits, etc.) and to make accounts available for individuals with the sole aim of giving the Treasury some lasting solvency for its running costs and of freeing the State from the burden of having to resort to occasional lenders, and even the *Banco de San Fernando*, which proved reluctant to yield to the demands of the Treasury, a matter which led to some personal friction between Bravo Murillo and Santillán.<sup>97</sup>

### **Reconversion of Business and Transition within the Agency**

Bravo Murillo's policies led to a cessation of all relations with the Rothschilds, which had in any case been precarious since 1847. But this was not really because of the conversion itself, even if Lionel had presided over the London Committee, but had more to do with the government's refusal to continue with its old policy of loans, which considerably hindered the House's business possibilities in Spain. Thus it was that the family's activity in Spain waned between 1848 and 1852.

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<sup>94</sup> Artola (1986: 273).

<sup>95</sup> In 1855 the London House of Rothschild had a portfolio of 305,600 nominal pesos (6.1 million reales) in these coupons. ARL, I/1/30.

<sup>96</sup> Gonzalo (1981: 83–90), Artola (1986: 265–266) and Sánchez Ocaña (1855: 382–385).

<sup>97</sup> Gonzalo (1981) and Tedde (1999a: 251–252).

The Rothschilds took advantage of the break to make some structural changes to the Madrid agency in an effort to compensate for the departure of Barcaiztegui and Urquijo and to help an overworked Weisweiler who had also been suffering from persistent health problems since the end of the 1840s. The family opted for the brilliant Ignacio Bauer, a Rothschild employee of Hungarian descent who had been born in Trieste and educated among the Morpurgo family. He was also the nephew of Moritz Goldschmidt, who had been head of staff under Solomon in Vienna.<sup>98</sup> The Rothschilds also took on the German William Ettling, who joined the agency at some point prior to 1850. However, the new arrivals' positions at the agency were not the same. Bauer would soon be at the same high standing as Weisweiler, while Ettling had a less important role, although each would enjoy full powers as representatives of the company over the coming years.

Bauer had temporarily joined the agency in June 1848 when Weisweiler was out of Spain, and had assumed the running of the office. On Weisweiler's return, he moved to Italy where he spent almost all of 1850. We know that in 1851 he was in control of the Rome agency, but that he quickly returned to Madrid where he was in sole charge of the agency in 1853 and 1854, as Weisweiler was again absent.<sup>99</sup> When Weisweiler returned, it was decided to institutionalize the equal partnership between the two men as of 1 January 1855, and the Weisweiler & Bauer *Cía* was set up. The same day also saw the formal association between K. Scharfenberg and Tolmé & Compañía, leading to the establishment of Scharfenberg, Tolmé & *Cia.*,<sup>100</sup> which from thereon would operate as the House of Rothschild's presence in Havana. During this period business was rather slack with only sporadic deals of middling importance.

After the tensions of 1848–49 between the Rothschilds and Spain in the struggle for the London mercury market, a new contract was signed in 1850 which sought to reestablish the trade of the Almaden production. It was a failure. The Rothschilds had tried to capitalize on the situation and the same year, shortly after signing the contract with the Spanish Treasury, had reached another agreement with the owners of New Almaden, under which they were to share the Mexican market and the rest of the world. The agreement, however, barely survived a year, and prices fell in a few months from 110 pesos (2,200 reales) to a mere 45 (900 reales).<sup>101</sup> Despite the loss in margins, the Rothschilds and the Spanish government opted to continue operations in 1852, albeit with many precautions. Six-monthly renewable agreements were signed to sell on a commission basis at the highest price possible, never below 40 pesos per quintal, in all the world except Spain and Mexico. Commission was 1 per cent plus costs. The first of these agreements

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<sup>98</sup> Ferguson (1998: 300) and Gille (1967: 576).

<sup>99</sup> "Weisweiler & Bauer" folder, ABE, Old Registry Archive, 1st Transference, file 553 and Otazu (1987: 445–446). Otazu (1987: 445) and Gille (1967: 576).

<sup>100</sup> ABE, Secretary's Office, Boxes 1015 and 1022. Scharfenberg and Tolmé were brothers-in-law.

<sup>101</sup> Sánchez Molero (1859: 18–19) and Martín (1980: 226–227).

came into effect on 1 October 1852 and ran until 30 June 1853, with the provision that it would be automatically extended for three-month periods unless either party wished otherwise. This did not occur and the agreement remained in effect until March 1854.<sup>102</sup> A new contract was then signed on a sales commission basis, at the best price, with a minimum wholesale price set at 32.94 pesos per quintal, the current retail price in London, and with all costs to the contractor paid up front. The agreement lasted until June 1856.<sup>103</sup> A cursory glance shows that the minimum prices stipulated were rather less than a quarter of the prices prior to 1847. The conclusion is straightforward: mercury had become a secondary business.

Another activity that began to recover was that of the Banco de San Fernando's offices in Paris and London, following two purchases of gold. In principle, these operations were of a different nature to previous ones we have mentioned since they were not related to any financial crisis, as were those of 1846–48, but to sweeping changes in the international monetary market as a result of the discovery of the gold seams in California in 1848. The mere news of the first finds revolutionized the metal markets to the point that the fixed gold/silver ration (15.5:1) was threatened and there was a danger of ruin for holders of gold and of a general rocketing of prices, as had occurred in the sixteenth century when the American metals had first begun to arrive.

Against this backdrop the Rothschilds regained their standing as international leaders on the metal markets. The London House took the initiative in acquiring the new batches of gold, and so consolidated its position in the City as well as its relations with the Bank of England. Benjamin Davison, the agent who had been charge of the mercury, went from Mexico to California with the express purpose of shipping as much gold as possible to London. Once in London, the Rothschilds transferred it in bulk to the Bank of England and the Bank of France, so heftily increasing their reserves and swiftly balancing the supply of banknotes against the new influx of metal brought about with the railway investments.<sup>104</sup> In 1852 New Court sought and obtained the lease of the Royal Mint and so strengthened operations even further. Sales of gold to the Bank of England soared that year to 15.3 million pounds.<sup>105</sup>

With the right integration between metal suppliers and brokers, an extensive network of private and associated refineries, and the control of several houses, the Rothschilds' priority lay in finding the best combination of transport and price of the coins to take best advantage of the gold–silver fluctuations. With what appeared

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<sup>102</sup> Copy of the base contract for the sales on commission by the Rothschilds of the Almaden mercury from 3 March 1852. The contract was renewed every three months. ARL, XI/38/245.

<sup>103</sup> Martín (1980: 247–251).

<sup>104</sup> On the development of the railway in France, see the second section of the following chapter.

<sup>105</sup> Ferguson (1998: 578–579).

to be tiny margins (1.25 per thousand),<sup>106</sup> the net profit from operations arbitrage of metals depended totally on the scale of the operations and on the possibility of optimizing the sales flow. The most oft-used strategy was for the London House to negotiate the purchase of Californian or Australian gold even before it arrived on British soil, and then forward the gold to Paris via Le Havre, at the best price, as long as the exchange was favourable, from where it was then sent on to refineries and mints controlled from rue Laffitte. At the same time, a reverse flow of silver was set in motion: the Paris House collected French silver *écus* (or napoleons) and sent them melted down or as coin to the London House, where their cousins negotiated with Anglo-Indian houses or sent them to the East.

The central banks did not oppose these deals and not just because the Rothschilds sat as regent directors and advisors on the boards of the Banks of England and France, but also because, in exchange, the Rothschilds and the leading banks arising during any difficult periods. Similarly, their arbitrage operations, together with competition from small smelters, offset the changes and avoided fluctuations in gold and silver prices and the erratic actions of the professional money changers.<sup>107</sup> The Rothschilds had become a cornerstone of the European two-metal system, a position they would hold at least until the consolidation of the gold standard and fiduciary systems.

Thus came to an end what we can call the third stage of development of the Rothschilds in their march to forming the great financial emporium of the Western world. The first step had been to consolidate and dominate a real international market of capital, and then an international public debt market. The next step was to consolidate their network and so become the number-one exponent of international arbitrage of precious metals during the last third of the nineteenth century.

In Spain, though, things continued to be done the other way round. Following the monetary reform of 1848, and the corresponding devaluation of the price of gold in relation to silver, it seemed as if the first step was finally being taken towards a “modern monetary system with national and rational bases”. But the government, frightened by the possible uncontrolled expulsion of silver coin from the market, went back on its own decision in just a few months: it raised the price of gold again and indefinitely suspended the minting of gold.<sup>108</sup> The measure had certain logic behind it but proved to be highly counterproductive and out of all proportion to what appeared to be a unique context in which to boost the ailing monetary circulation of the country.

As director of the *Nuevo Banco Español de San Fernando*, however, Santillán did not wish to miss out on the favourable international gold prices and in November 1852 he made an agreement with the Rothschilds for the delivery

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<sup>106</sup> Flandreau (1995: 105 and 212–216).

<sup>107</sup> All this achieved was to replace them in one of their basic functions as central banks.

<sup>108</sup> García Ruiz (1996: 145–146).

of 120,000 pounds (3 million francs) in gold, followed by another in 1853 for 10 million francs,<sup>109</sup> in both cases to be handed over in gold five-franc coins. The rescue of the Banco de San Fernando was in full swing following the takeover of the Banco de Isabella II, so the purchases would have had direct repercussions on the bank's cash liquidity and for the recovery of its reserves. Yet the sales stayed as they were, in part due to Santillán's interest in keeping the liabilities of the bank to a minimum and in part because a few months before the revolution of July 1854, as the final twist in its monetary policy, the conservative government decreed the resumption of the minting of gold and at a par that was more in line with international prices.

### **A Summary of the First 20 Years**

Figure 3.3 provides a summarized view of the operations undertaken by the Rothschilds in each of the periods we have highlighted but without the gold deliveries mentioned above or the family's participation in the 1830–1835 mercury contract. The volume of business was more or less continuous from 1834 through to the onset of the crisis of 1846–48. The most plentiful years for deals were 1838 and 1846, coinciding with the moments of severest unrest caused by the Carlist War and the monetary crisis. A clear distinction can, nevertheless, be drawn between the periods of the Gaviria relations – characterized by classical short-term loans to the Treasury and the Crown – and the post-war years of intermediary operations with debt and loans linked to the purchase of precious metals, along with an interim period of adaptation under the Espartero regency. This is not to say that the Rothschilds discriminated between Progressives and Moderates when it came to offering their services. As we will see in the following chapter, operations with public entities fell into decline in recent years because of the lack of business opportunities in this area and mainly because of the bias in those years towards the railway businesses.

What is noteworthy, as we will continue to insist, was the capacity of the bankers to combine commercial and financial operations of different types at the same time. However, I do not totally agree with the views of Otazu and Fontana,<sup>110</sup> when they state that the House of Rothschild, in pursuit of its own interests, employed a deliberate strategy to hinder Spain's access to foreign credit and so assure themselves short-term operations or maintain indefinite control of the trading of the Almadén products. In my view, the family's strategy regarding Spain involved little planning and much improvisation and seemingly no previously established line of action.

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<sup>109</sup> ABE, Secretary's Office, box 1015.

<sup>110</sup> Otazu (1987) and Fontana (1977).

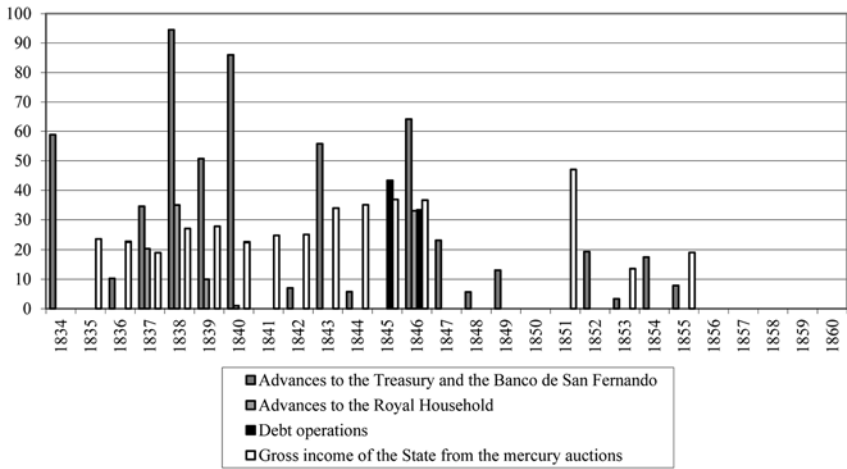


Figure 3.3 Annual amount involved in operations contracted by the Rothschilds with various Spanish institutions, 1834–1860 (in millions of reales)

Hence, the merit of the Madrid agency lay in adapting itself to the opportunities offered by the political and financial situation, and so take advantage of the extraordinary possibilities available to the new Spanish capitalists, with few delays or losses, while avoiding risky operations, such as the loans.

In any case, the main conclusion to be drawn from this period is that after long years of effort, the Rothschild Madrid agency had established itself as a key point of reference for Spanish finances and had consolidated a network of relationships that was to be fundamental in the development of its activities in the coming decades.

From the perspective of Spain's public economy or, if one prefers, of those that received or suffered its services, the analysis is rather more complicated. Considering that the liberal State had inherited an archaic financial structure, a nonexistent fiscal administration and a crippling volume of debt, the overall judgement of the period cannot be said to be negative in the least for we must take into account that the degradation of public finances was interspersed with a series of important improvements in the organization of the Treasury that brought about a degree of modernization and order. The argument as to why the State preferred to reward such an unbalanced system of financing that constantly fed back into itself and made loan repayment generous is an open one, although a sharp observer of and leading protagonist in the situation, Santillán, had few doubts:

... we could no longer count on any efficacious aid from our foreign allies, and domestic resources seemed totally exhausted by the efforts already made, ... the system of contracts and advances of funds to the Treasury, so heavily censored at the time and subsequently on account of the excessive gains made by those who participated; yet today it may be stated that it is to those contracts that the triumph of the cause we defended is due. There was no other resource to draw on and it almost always provided the funds to attend to pressing needs ... and what did the lenders receive? Orders of payment of which most were contested and which they later had to get rid of at great loss ... Such a system, which naturally made services much more costly, must have produced speculation in the Treasury stocks, which would only have been aggravated to a greater or lesser extent by the war, depending on whether the stocks were more or less prosperous; but this type of game, which in their eagerness to make great gains all the capitalists directly or indirectly played, put into circulation capital that would otherwise have remained buried, as well as adhering to our cause many unsure persons who might otherwise have remained neutral.<sup>111</sup>

From this perspective, imbalances in the Spanish public accounts would have been justified for a time by the higher aim of saving the consolidation of liberalism in Spain at any cost, an aim in which almost all the Spanish political classes of the time, whatever their ideology, coincided.

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<sup>111</sup> Santillán (reed. 1960: vol. 1, 154 and 157).

## Chapter 4

# Financing the Railways

On 24 July 1854 the liberal-conservative generals Leopoldo O'Donnell, Dulce and Serrano staged a military exercise in the fields of Vicálvaro, Madrid. As on many other occasions in the nineteenth century, the aim was to bring down the government and put an end to a series of cabinets that was threatening to spell the demise of the whole Isabelline Regime.

Politically, the concerns of O'Donnell and his companions are easily understood, but there was never cause for revolution. Since the fall of Narváez in 1851, the declining fortunes of the Moderate programme had been apparent. Fiery political debates, stoked by a series of financial scandals involving railway concessions,<sup>1</sup> left Parliament suspended for three years. The political climate degenerated into a massive institutional crisis, the upshot of which was a lurch towards authoritarianism.

Spain's economic situation was faring no better. Spain continued to be an anomaly in comparison to what was going on in neighbouring countries and, worse still, the Moderates seemed to have opted for a distinctly regressive type of political programme. Rather than a guarantee of growth, the State appeared to be more a serious obstacle to it. Outstanding reforms piled up: land ownership, much of which was still amortized, was a spoke in the wheel when it came to achieving any semblance of acceptable agricultural production; industrial growth suffered from a shortfall in mean incomes and the measly demand in an incredibly narrow market; on top of all this, domestic trade continued to struggle with the same dearth of infrastructure that had plagued the country for centuries. It was this issue that concerned the critics more than any other and they railed against the enormous gap that was opening up with respect to other Western economies and which was only being exacerbated by the railway boom. By 1850 barely 30 kilometres of railway track had been laid in Spain while the rest of Europe had been building railways for the last ten years at a rate of 1,000–2,000 kilometres a year,<sup>2</sup> not to mention the fact that Spain, owing to technical mishaps, used a different gauge from the standard one in other European countries or that what network it did have did little to meet the real needs of the Spanish economy.

Lastly, Spanish governments had also failed to implement modern measures to tackle the problems of financing. The paltry repercussions of the Mon–Santillán

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<sup>1</sup> The most important was the favouritism shown to Salamanca in the case of the Madrid–Aranjuez line and its extension to Almansa. López-Morell (2002) and Mateo del Peral (1978: 70 and 80–87).

<sup>2</sup> Carreras (1999b: 42).



reforms had made all attempts to balance budgets sterile. The highly contested measures adopted by Bravo Murillo had made few inroads into the chronic public deficit and proved highly unpopular as well as largely ineffective.<sup>3</sup> His successors had not fared any better. Repeated delays in payments on the floating debt fanned the continuous complaints of the leading capitalists of Madrid, who finally withdrew their support for Domenech, the Minister of the Exchequer under Sartorius, who had no option other than to prepare a compulsory bond issue for May 1854.<sup>4</sup>

Amid the discontent of the wealthy classes, the summer of 1854 was to witness a crisis of some importance. This, along with all the above, was the spark that would set off popular revolt and the military uprising, which quickly went out of the hands of the rebel generals. O'Donnell's aim was to replace only a few incompetent politicians, but the uprising spread to all the main Spanish capitals to become a full-blown revolution. The most radical of the revolutionaries took advantage of the mayhem to oust a good many of those who held public positions, to set up provincial juntas, to get rid of the loathed tax on consumption and to demand universal democratic elections and Constituent Cortes.

Such an unexpected event at a time when the rest of Europe was experiencing a conservative backlash, led to much excitement and put Spain in the eye of a hurricane of European diplomacy. Observers of the status of Karl Marx<sup>5</sup> tried to see something more in the Spanish revolution than just a re-creation of a political anachronism and glimpsed the possibility of the advent and consolidation of democratic liberalism and, even elements of a workers' movement.

The outcome of the next two years was rather more confusing. The Progressive revolution had little short-term effect on the economic panorama, and the country's political problems were to some extent aggravated by the infighting of the parties and a lack of authority of successive ministers to carry out their reforms. It was then that the government jumped on to the bandwagon of economic development. The idea was to make a complete sweep of the legal bases underpinning the banking and railway activities, which many writers have pointed to as unquestionable indicators of the modernization of the Spanish economy. Yet, as we shall see later, although these advances in legislation were not in themselves as important as some have argued, they were the preamble to an explosive reaction in terms of overseas investment. Here again the House of Rothschild was to hold singular sway. It is from this time on that the family's operations began to involve truly important amounts of capital and that one can begin to talk about a large-scale investment.

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<sup>3</sup> In 1852 Bravo Murillo was forced to apply new cuts to the salaries of the functionaries in order to raise funds. Artola (1986: 301).

<sup>4</sup> Carr (1985: 244, n. 71) and Gonzalo (1981: 235). The 1853 issue of 9.5 million pounds through Barings had failed, Ziegler (1988: 170). Shortly afterwards, the attempt to impose the public accounts on the Banco de San Fernando had ended with Santillán being ousted.

<sup>5</sup> Kiernan (1970: 41ff.) and Marx and Engels (translation 1970).

## The Impasse of the Progressive Revolution (1854–1856)

With the popular revolution a *fait accompli*, Queen Isabel appointed as president the popular Progressive general, Espartero, although she had little faith in him, so relegating O'Donnell and his colleagues to the second tier. Her sole motivation was to keep the populace content and to put an end to the revolt. The Progressive Party was swept back into power and so repeated its experience of the early 1840s, as it found the monarchy, the Church and a large part of the military pitted against it. As could not have been otherwise, the bases of the revolutionary government were tainted from the start. Worse still, the constituent chamber, elected in November, was anything but harmonious. Personal and ideological differences were irreconcilable, a perfect recipe for endless parliamentary debates that hampered any legislative process.

In his first term, the “Duke of Victory”, Espartero, appointed the banker José Manuel Collado as Minister of the Exchequer, in the hope that this would woo the Madrid financiers to his cause, so gaining some leeway for manoeuvres and a chance to find a quick solution to the problems besetting the Treasury. The financial difficulties facing the new government need to be put in context. As would occur again in 1868, the Progressives had inherited a large floating debt from the preceding conservative governments, although the balance of the outstanding accounts was not desperate.<sup>6</sup> The problem followed on from the revolutionary decision to suppress the tax on consumption, which created a hole in the State coffers that was difficult to rectify in the short term. The issue, therefore, was to develop a stopgap alternative that would not unduly harm the fundamentals of the liberal revolution, while avoiding unpopular measures.

Collado set himself the priority of regaining public confidence. In the first place he reinstated Santillán as head of the Banco de San Fernando, and then did the same for all the civil servants who had been ousted from their posts during the upheavals of the summer. A few days later, he brought together a fair-sized group of capitalists at the house of Espartero to sound out their opinions and to drum up support among his colleagues to get out of the tight corner. The meeting was attended by the cream of the Madrid financial world – Weisweiller and Bauer were surely there – as well as Santillán with his entire board of directors, Bayo, representing the Treasury, the “Duke of Victory”, ministers of the Navy (José Allendesalazar), government (Francisco Santa Cruz) and, of course, Collado himself. The members of the government sought to reassure their listeners by stating a solemn commitment to restore order and to respect all outstanding debts and so create a favourable climate for business and possible reforms, but they insisted that in return they would need the support of those present. The Banco de San Fernando, after an initial refusal, went along with Collado's wishes and offered its support to guarantee an emergency loan to the Treasury. However, a month later the bank allowed its arm to be twisted and sponsored

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<sup>6</sup> This is the opinion of Gonzalo (1981: 212–241).

an advance by the capitalists to the Treasury for 64,925,620 reales,<sup>7</sup> guaranteed by the overseas savings banks. Weisweiller and Bauer participated in this to the tune of 17.4 million.<sup>8</sup> The “patch-up” gave the government some minimum relief until the budget was presented to the Constituent Cortes in December amid great anticipation.

The budget was a realistic attempt to tackle the situation using the means available. Collado designed a new tax measure based on the restoration of the earlier tax base, consumption taxes included, with expected revenues of 168 million reales. When the members of parliament became aware of this detail, the fireworks began. The radical Progressive parliamentarians flatly refused to restore a symbol of Moderate fiscal politics and blocked the vote. After some hesitation, Espartero finally acceded to a resolution under which Parliament rejected the tax and assumed the loss of revenue, with no alternative offered. Collado resigned there and then, and the budget was left lame and with no possibility of taking effect.<sup>9</sup>

Collado was replaced by Juan Sevillano, another outstanding figure from the Madrid banking world, who after barely a month resigned without having carried out any effective measures at all. The government resorted to Pascual Madoz, hitherto President of the Congress. The new Minister for the Treasury was a highly regarded lawyer, and an intellectual of standing, who had a long political career in the Progressive ranks behind him and had notched up a few important successes as Governor of Barcelona. However, that did not mean that he was by any means the favourite choice of the bankers or Santillán, who devoted just two lines to him in his *Memoria histórica del Banco de San Fernando*. Time was to prove them right. Madoz was not a skilful negotiator and tried to solve the problems of liquidity with drastic measures even if these had to be forcefully imposed and without due authority or the necessary support. Yet the Rothschilds gave him a certain vote of confidence and signed a new advance on the Havana funds for 6,520,000 reales (326,000 pesos) under the usual conditions.<sup>10</sup> But problems were not long in coming.

Madoz’s plan for a swift solution to the Treasury’s problems was based on returning to the confiscation process begun by Mendizábal, which had been put on ice by successive conservative governments since 1844. His plan, which was acclaimed by the most radical elements of the revolution, sought to complete the sale of goods confiscated from the Church and to extend the Confiscation of National Possessions to the lands owned by the State and the town councils.

<sup>7</sup> Santillán (1865: vol. 2, 62). The Banco de San Fernando took 16.8 million for itself.

<sup>8</sup> Cuenta, M. 1854 No 2, 525,000 pesos fuertes, “Billson Habana” and Cuenta, M.L. 1854. 350,000 Pesos fuertes, Orders of payment on Manila (both with the Paris House), ARL, I/1/29.

<sup>9</sup> Kiernan (1970: 133).

<sup>10</sup> Letter from the Treasury to Weisweiller and Bauer dated 24 February 1855, ARP, 132AQ6152 and ARL, I/1/30.

The project would be christened the *desamortización general*, or “general confiscation”, and would eventually entail the practical privatization of all the rural properties belonging to the Church and to Spain’s public institutions.

Madoz simultaneously presented a bill to issue a loan to get rid of the Treasury’s current floating debt. This would give immediate liquidity to outstanding accounts and would be financed in the long run by the returns on the sales of the National Possessions. The project involved the issue of some 1,500 million reales nominal in bonds at 3 per cent consolidated (domestic and foreign) so as to raise 500 million reales cash.<sup>11</sup> So far the project seemed reasonable and it would have gone ahead according to plan were it not for the fact that Madoz had omitted to negotiate it with those in charge of authorizing such issues abroad.

Not surprisingly, after just a few days the minister received written advice from Weisweiller and Bauer that the Rothschilds and other British holders of old Spanish debt were not about to allow any new issue until old scores had been settled, that is, the payment of half the interests that the 1851 settlement had repudiated.<sup>12</sup> The British ambassador to Spain, Howden, wrote to Weisweiller, expressing his reservations as to any satisfactory settlement between British bondholders and the Spanish government. It was his view that the response to the wishes of the London Committee was anything but simple, since the government needed to agree a proposal in the Cortes that was not a priority for all involved. Furthermore, the ambassador saw little sign of a spirit of collaboration among the few liberal-conservative members and the government. He also had information that many members of parliament and Espartero himself were not completely supportive of the measure. In Howden’s view the government was so weak as to be incapable of coming up with any intelligent proposal and of energetically imposing it. Nevertheless, he advised the minister that the British government unreservedly supported the claims of the British holders.<sup>13</sup>

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<sup>11</sup> Letter from Weisweiller and Bauer dated 14 February 1855, with the bill, ARP, 132AQ6152.

<sup>12</sup> Letter from Weisweiller and Bauer dated 7 March 1855, on behalf of the Committee of Spanish Bondholders, to Pascual Madoz, ARP, 132AQ 6152.

<sup>13</sup> Letters from Howden to Weisweiller dated 11 and 13 March 1855, ARP, 132AQ6152. Howden wielded a great deal of influence in Madrid during the revolution, much more than his French counterpart, Turgot. Kiernan (1970: 126).

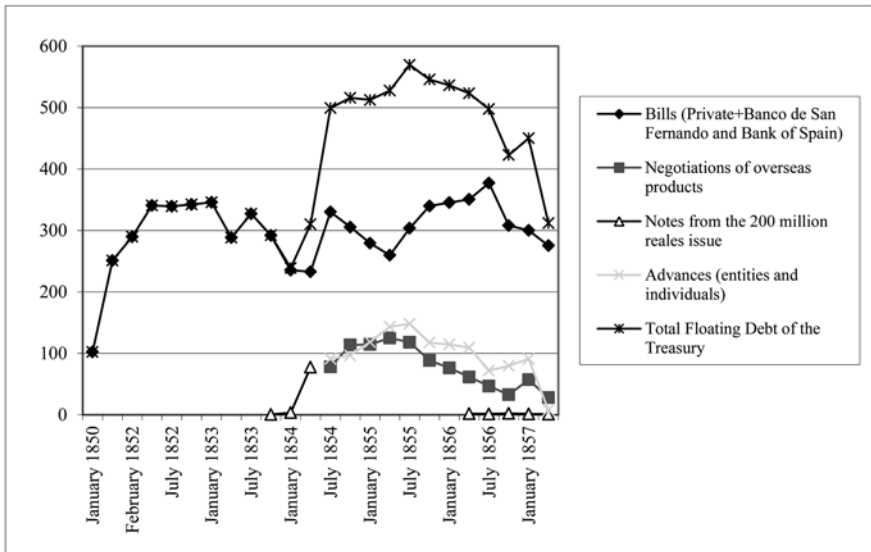


Figure 4.1 Quarterly evolution (in millions of reales) of the Treasury's floating debt from January 1850 to July 1857

Weisweiller meanwhile prepared a proposal for the government at the beginning of April to take charge of a loan of 500 million reales in cash if an agreement was reached.<sup>14</sup> But by then Madoz had discarded the idea<sup>15</sup> and had begun to finalize the fundamentals of his reform in the famous Confiscation Act, availing himself of a sovereign loan forced on taxpayers who paid more than 500 reales a year,<sup>16</sup> along with other measures against the national militia. These – which without doubt had the fewest economic repercussions – set off huge protests amongst those who were in theory his political allies, and so became the last political act of the short-lived Pascual Madoz government. Madoz resigned immediately, exhausted by the lack of support he enjoyed even within his own Cabinet.<sup>17</sup>

It was finally confirmed that the Progressives were incapable of coming up with new ideas to solve the problems of financing the State. Subsequent

<sup>14</sup> Bill for the government of 6 April 1855, ARP, 132AQ6153.

<sup>15</sup> Madoz himself opposed the creation of a committee to study the British claims, despite the protests of Weisweiller and Bauer. Letter dated 30 April 1855 from Weisweiller and Bauer to the Constituent Cortes on behalf of the British Committee of Holders of Spanish Funds, ARP, 132AQ6152.

<sup>16</sup> Copy of the law of 1 June 1855, forwarded by Weisweiller and Bauer, ARP, 132AQ615.

<sup>17</sup> Kiernan (1970: 170–171).

Ministers for the Exchequer, Juan Bruil and Francisco Santa Cruz, had to restore the consumption taxes<sup>18</sup> and they extended the old short-term finance system so beloved of the capitalists. Figure 4.1 shows how government short-term debt grew significantly over the biennium, in clear contradiction to the stated policies of the advanced liberals, who complained about the State's continued influence in the capital market. From whatever perspective, the Progressives' performance in public finances was more or less the same.

The Rothschilds devoted themselves that year to taking two more orders of payment on the Manila Savings Banks, one for 225,000 and the other for 167,590 pesos fuertes.<sup>19</sup> The climax for 1855 was a new contract signed on 5 December for the sale on commission of the Almaden products which assured them the business until the following July.<sup>20</sup>

### **The Railway Race and Its Consequences**

With its attempts to improve public finances in tatters, the only alternative for the government was to bet heavily on its liberalizing projects. The railway was to be the driving force behind the new economic growth.

The Railway Act of 3 June 1855 served to soften the defects of the Companies Act of 1848 and that of the railway guarantees of 1850. It also launched a wide programme of construction subsidies; granted concessions on lines for 99 years without the obligation to assure the total construction cost; and granted privileges in the import of materials and access to land expropriations. After the copious and fruitless planning and legislative programmes of earlier years, such facilities, the government believed, would surely sound the starting gun for a frenetic race to win the concessions for the best stretches of railway in Spain.<sup>21</sup> The approach was not completely off track, but it did not have to be long term. Indeed, the simple cause-and-effect relation conventionally applied to the new railway acts and the acceleration in the building of Spain's railway network over the following years is not quite so clear cut.

In the months following the act, investment stagnated. The government received many requests from unknown would-be investors to study the viability of various lines, but no firm proposals were forthcoming. The only stretches of line to come up for tender in the first six months were the Madrid–Valladolid–Burgos–Ebro line (with a planned extension to Irún) and the Madrid–Saragossa and Seville–Jerez lines, both of which had in any case already been tendered and attracted

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<sup>18</sup> Artola (1986: 321).

<sup>19</sup> Accounts ML 1855 and FC 1855, ARL, I/I/30.

<sup>20</sup> The contract established the sale on commission at a minimum wholesale price of 32.94 pesos per quintal and at the going retail price in London. The contractor had to forward the expenses. Martín (1980: 247–251).

<sup>21</sup> On this aspect, see Tortella (1973: 50–51) and Mateo del Peral (1978).

concessionaires. Only one more line, Barcelona–Saragossa, was awarded in the remainder of the year and this was subject to the 1844 act.<sup>22</sup> There was nothing at the time to indicate that any significant change in railway construction was about to occur, nor that it would be so explosive. At most, there was an expectation of a new period in railway construction characterized by a more open approach to the concessions and by a greater realism with regard to State support; in the medium term, at least, there was little hope of any change from the slow progress made during the previous decades.

However, at the end of 1855, six months after the act had been published, events took a sharp turn. The railway business in Spain was revolutionized not by the efforts of the country's political institutions but by specific foreign investors and by sure signs of economic recovery in nearby countries. It should nevertheless be underlined that the process was not limited to Spain but was part of a railway craze that was sweeping through Europe. So while not discounting the positive influence of the railway legislation, nor the later influence of the banks, it is evident that this was not sufficient in itself to trigger the first and most important investment drive in Spanish history.

James Rothschild, who for some years had been the family's expert in the railway business, was fully aware that the massive construction of national rail networks was a one-off opportunity to make quick profits. It was a case of seizing a moment of widespread disproportionate small investor activity, which was rife in Europe on account of the deceptive railway business. The Paris House believed that the trend could continue in Spain as well, and competed with the Pereire for the railway "cake". James knew that the profits to be made from the business lay not just in the projects themselves but in public expectations regarding their success and the likelihood of their continuing to plough their money into the European stock exchanges. It was on this premise and on the experience he had acquired in other countries that he prepared his biggest business investment ever in Spain.

### *The Unstoppable Tide of Railway Investment in Europe*

Technically, there was no clear reason for the jump from the initially slow beginnings of railway construction during the first half of the nineteenth century to the exponential growth it underwent all over Europe in the following 30 years. Naturally, industrial development oiled the process in areas of high railway concentration such as England and Belgium, but this hardly holds true for countries where industrial development was in its infancy and where there were few major cities, as in the case of Spain, Italy, Austria or Russia, where there was nonetheless a similar boom.

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<sup>22</sup> GM from June to December 1855, especially 16 November 1855, 2 November 1855 and 31 December 1855 and Casares (1973: Annex 3). According to the 1888 *Memoria de Obras Públicas*, published by Mateo del Peral (1978: 100), the number of kilometres awarded was 310 in 1855 compared to the 1,248 in 1856.

In France, whence came most of the money behind the building of Europe's railways, the leading private Parisian *hautes banques*, led by James Rothschild, had, from the end of the 1830s through to the 1850s, been slowly financing the construction of the early lines. A certain status quo prevailed in the group and there is little evidence of the bitter infighting so characteristic among the railroad magnates in contemporary North America. Apart from odd cases in the Île-de-France there is nothing similar in France at the time. It seemed that nothing could break this mutual interest, and nothing would until the early 1850s, when two brothers, Isaac and Emile Pereire, stormed in with an independent, large-scale railway and industrial project for the south of France that was very much influenced by their Saint-Simonian ideas. In bygone times, a pinch of the Jewish banker's political influence and his muscle in the financial world would have been enough to put the young upstarts in their place.<sup>23</sup> But once it became evident that their operations went way beyond what could have been expected, James had to act swiftly to avoid being blown away in the storm the Pereire brothers had got up.

The first defensive step taken by the Paris Rothschilds was to give their support to the industrialist Talabot in fighting the Pereires' plan to extend the Compagnie du Midi lines into the growth area of the Mediterranean Railway along the Paris–Lyon–Marseilles vertebra. In response, the Pereires, true to their economic beliefs, set up a finance company on 9 September 1852, the *Crédit Mobilier* (with a capital of 60 million francs), which is considered the first modern share-based investment bank, and came to an agreement with Comte Auguste de Morny to create a huge railway company – the Grand-Central (founded in 1853) – with the aim of using every means to complete the French railway network and to control the main strategic lines.<sup>24</sup>

Not content with that, the Pereire brothers exported their project to the rest of Europe, opening a *Crédit Mobilier* and a railway company in every capital in Central Europe. The Rothschilds pursued them everywhere, trying to save the situation and avoid a rapid loss of their influence in the financial world, which they had controlled since the Napoleonic Wars. The most illustrative example was in Austria, where James Rothschild was forced to defend the influence of his House before the Viennese court, the domain of the *Kreditanstalt*, which was to all effects a copy of the *Mobilier*. Never before had continental Europe witnessed such a wave of investment fervour. In a matter of months thousands of kilometres of

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<sup>23</sup> James Rothschild knew the Pereires well. Indeed, not long before they had been his employees, and he was well aware that a great deal of their business acumen was due to him. However, he did not share the aggressiveness of the brothers nor their desire to speculate on an uncontrolled and unlimited issue of bonds nor their ceaseless pursuit of a monopoly. Bouvier (1967: 167–168 and 171).

<sup>24</sup> In the following months the Grand-Central obtained the concessions for 915 kilometres of railway in France, thus posing a threat to the Paris–Orleans railway and Talabot's Mediterranean Railway company. Bouvier (1967: 173).



railways were laid at a dizzying rate, sponsored either by James Rothschild or the Pereires and their Mobilier.<sup>25</sup> It seemed that nothing could halt the process.

In Spain the phenomenon arrived slightly later, in part because of the absence of any domestic promoters for the project and in part because of the government's attitude and the difficulties presented by the legislation. In May 1853 the *Crédit Mobilier* made a direct application to create a *Mobiliario* in Madrid through which to implement its industrial and railway model in Spain, just as it had in the rest of Europe; but the application was rejected.<sup>26</sup> With the Progressive revolution of 1854–56 the political situation shifted radically and the moment seemed ripe for the brothers to develop their plans.

There is no real way of knowing if the Pereires took part or had any sway in drawing up the Railway Act as we have only the testimony of the Minister for Economic Development, Francisco Luxán, who stated, when the act was being debated in Parliament, that he had official proof that “overseas houses had decided to present proposals for the main stretches of line the moment these are passed”.<sup>27</sup> He may have been referring to the Pereires, or to Comte Morny, or to Alfred Prost, director of the *Compagnie Générale des Caisses d'Escompte*, but certainly not to the Rothschilds. What is clear is that the Pereires soon won back the initiative. In November 1855, with, as far as it is known, no concessions as yet granted to them, the Pereire brothers made the Treasury an advance of 14.3 million francs, as a show of goodwill.<sup>28</sup> Their intentions were confirmed barely a month later, when they formally re-presented their proposal to set up the Spanish *Mobiliario*.<sup>29</sup>

This was a head-on attack on the Rothschilds in one of their most exclusive spheres of influence in Europe and it was just a question of time before hostilities were openly declared. So when the government started to process the proposal, James went on the counterattack. The events of the next few months would determine the future of the railways in Spain.

### *Negotiation and Intrigue*

At the end of 1855 James Rothschild had no great banking or railway schemes for Spain, but he did know that he had to seize the initiative or, at the very least, not be left trailing by his rivals. He began by giving orders to his agents in Madrid, who in just two weeks had set up a twin entity to the Pereires' organization, called

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<sup>25</sup> For more on the clash between the Rothschilds and Pereires, see Bouvier (1967: ch. 8) and Cameron (1971: ch. 7).

<sup>26</sup> Cameron (1971: 166–167).

<sup>27</sup> Mateo del Peral (1978: 99).

<sup>28</sup> Broder (1979: 646–647).

<sup>29</sup> On 24 December 1855 the Minister for the Exchequer, Bruil, addressed the Constituent Cortes and informed it of the offer made by the Pereires to set up a *Crédito Mobiliario* in Spain. GM. 25 December 1855. For more on the *Crédito Mobiliario Español*, see Sánchez-Albornoz (1977: ch. 6) and Tortella (1973).

the Sociedad Española Mercantil e Industrial (hereinafter SEMI), which came into being on 15 January 1856 under the recently passed banking legislation. It had a healthy proposed share capital of 76 million pesetas.<sup>30</sup> As an indication of the high hopes and the new direction investments in Spain were to take, the London and Paris houses closed their accounts for advances on the Havana funds and transferred the funds to a new account to finance their participation in the new business.<sup>31</sup>

However, one must be wary about the formalities of the process and the figures mentioned. The SEMI was not set up to finance any preconceived industrial, financial or railway project, but simply as a way of politically and economically isolating the Pereires in Madrid and to provide James Rothschild with some type of base from which to attack them within a framework that was legally independent of the Paris House, as well as with some support from the Spanish financiers. Certainly, Weisweiller and Bauer did not have to try very hard to win the support of almost all the financiers in the Spanish capital, with all of whom they were involved in some type of business.<sup>32</sup> The result was that the Pereires had to present their proposal for the Sociedad de Crédito Mobiliario Español with O'Shea, the long-established Barings agent in Madrid, as the only financier of any renown as a partner.

James Rothschild did not have to wait long to be released from any anxiety he might have felt about his strategy in Spain, for within a week he was approached by Auguste Morny with an offer to set up a grand railway project for Spain, under the terms envisaged by the recent Spanish legislation.<sup>33</sup> Comte Morny and his partners – advisors of the Grand-Central – Benoît Chatelus, Gustave Delahante and Léopold Lehon, had, on 20 August 1855, signed an agreement with Salamanca to buy from him the concession for the Madrid–Almansa line. The contract remained in force for some months until Weisweiller and Bauer intervened and it was modified to accommodate the Paris House. Under the new agreement Salamanca was to receive 3 million francs, put up in equal parts by the partners of the Grand-Central and the Rothschilds, while he promised to cede the continuation of the line

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<sup>30</sup> SEMI, company printed matter in 1856, ABE, Secretary's Office, file 3,820. The Crédito Mobiliario Español, with a share capital of 114 million pesetas, and the Compañía General de Crédito en España, promoted by Alfred Prost, the director of the Compagnie Générale des Caisses d'Escompte, with a share capital of 99.75 million pesetas, were set up under the same law. Tortella (1973: 68–80).

<sup>31</sup> SE "Société Espagnole" account. Joint account with the Paris House in 1856, ARL, I/I/33–34.

<sup>32</sup> A letter from Weisweiller and Bauer, when negotiations to set up the SEMI were in full swing, reflects the initial distribution of the 35,000 shares of the first project: Weisweiller and Bauer 12,500; Bayo 6,300; Collado 2,000; A. Álvarez 1,200; Sevillano 2,000; Rodríguez Salcedo 1,000; José E. Moreno 500; Pérez Hernández 600; Cerrajería 1000; Ramón Pelayo 600; Tapia, Bayo y Cia.; Casariego 1,000; Soriano 1,000; Urquijo 600; Gaviria 2,000; Ortueta 500; Antonio G. Moreno 2,000; and Udaeta 1,700. Letter from Weisweiller and Bauer dated 9 January 1856, ARP 132AQ 6155.

<sup>33</sup> Letter from James Rothschild to Weisweiller and Bauer dated 16 February 1856, ARP, 132AQ728.

to Alicante to Morny and his partners. Another clause gave the Paris House the right to half of the business in the case of its going ahead – a consistent feature of the mortgage contracts they signed.<sup>34</sup> Everything seems to point to the Rothschilds as having considered the transaction as a simple financial operation with no real notions of taking it any further.

The situation was now quite different. The Pereire brothers had acted with their habitual speed and efficiency and by mid-February of 1856 they had won the Valladolid–Burgos line and were threatening to reach the Pyrenean border before the Rothschilds could seal their alliance with the Grand-Central. Weisweiller and Bauer even complained that the SEMI was running the risk of becoming a laughing stock. Recently established, it had neither approved its articles nor did it have clear plans for the future.<sup>35</sup> Morny, for his part, was keen to continue with the contract with Salamanca, supported by the Rothschilds, and to extend the project with another line, from Madrid to France, beginning with the Saragossa stretch. Indeed, he had already obtained an outline agreement for the concession from the government.<sup>36</sup> James Rothschild was in agreement with the idea but he made it clear to Morny that he would not separate it from the Alicante issue. This was the basis for setting up the company that would build and run these and any future lines.<sup>37</sup>

The unlikely agreement between Morny and Rothschild to set up a grand Spanish railway project can only be explained either by Morny's immense skills of diplomacy or by a profound cynicism on the part of both parties. At that very moment the Rothschilds were finalizing the setting up of Réunion Financière in France, with no other aim than to exclude the Pereires from the Paris financial market,<sup>38</sup> while Morny was sitting on the board of the Crédit Mobilier and working on a large-scale project in France with the Pereires which flew in the face of the railway interests of the Rothschilds and their allies. Yet the letter from James Rothschild to Weisweiller and Bauer informing them of the visit of Chatelus, Delahante and Lehon to negotiate a definitive agreement is very clear: the agreement is a fact, although nothing at all has been signed; he is in no doubt that

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<sup>34</sup> Salamanca had tried the previous summer to involve the Rothschilds in promoting the railways, but James did not take up the proposal. Letter from Weisweiller and Bauer dated 5 July 1855, ARP, 132AQ6153. For Salamanca's previous investments in the railways, see López-Morell (2002).

<sup>35</sup> Letter from Weisweiller and Bauer dated 21 February 1856. ARP, 132AQ6152.

<sup>36</sup> Letter from James de Rothschild to Weisweiller and Bauer dated 16 February 1856, ARP, 132AQ728. The plan was to join up the line through the Pyrenees and Limoges to Paris, with options to extend it further to Madrid, the Mediterranean and Portugal. The names put forward included Grande-Central Spain or Pyrenees-Madrid-Mediterranean. Cameron (1971: 239).

<sup>37</sup> Ibid.

<sup>38</sup> In this company the Rothschilds brought together all the rivals of the Pereires in France: Talabot, Bartholomy, Blount, Vernes, Marcuard, Davillier and Schneider (from Creusot). Bouvier (1976: 174).

Morny is in agreement with the Pereires, but he believes that Morny is convinced he stands to gain more through his association with the Rothschilds than with the Mobilier; and not to be trusted at all, according to James, were Morny's partners, Chatelus and Delahante, who, he was informed, would stop at nothing to win the contracts to lay the lines, just as they were doing in France with the Central, and that was something that the Baron de Rothschild was flatly opposed to.

But James Rothschild, fully aware of what was at stake, was not about to confuse urgency with rashness. He had been involved in railways for 20 years and knew that the greatest profits for a banker came from building them and then providing continuous financial services to the companies. Likewise, he knew that the volume of capital required in a project of this nature would mean other very important businesses in Spain might have to bear the brunt. However, it was his opinion that the majority of the investors in Paris were not correct in their calculations of the risk attached to railway shares and went as far as to describe the speculation about them as sheer madness. It was not his aim to make a profit out of mere speculation based on selling a Paris–Madrid railway. He preferred to put his money into a solid, long-term project, and he was certainly not about to let the partners of the Central make more profits from a project that he, and he alone, had to control. In any case, he gave *carte blanche* to his agents in the negotiations, but reserved the final decision for himself.<sup>39</sup>

The situation was not an easy one. The agreement with Morny and his partners was a loosely tacked affair, and 24 February marked the deadline for tenders for the Madrid–Saragossa line auction to be held on 8 March, so the agreement had to be closed before then. At the time, the Rothschilds were only sure of an option in the Madrid–Almansa line and a vague promise regarding the continuation to Alicante, which rather exposed them to foul play from the Central, which might win the Saragossa line and then pass it on to the Mobilier or join forces directly. There remained the option of leaving aside the Saragossa line, which was scarcely worth its high price of construction if it did not run on to France, and stick to the Alicante stretch, where work was well advanced and which was a lot cheaper.<sup>40</sup>

For Morny and his partners the possible advantages of an agreement with the Pereires did not outweigh the risk of a third bidder appearing who might take away

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<sup>39</sup> Letter from James Rothschild to Weisweiler and Bauer dated 16 February 1856, ARP, 132AQ 728.

<sup>40</sup> It was calculated that the line from Madrid to Alicante could give a 10 per cent return on the investment. Nevertheless, as Weisweiler and Bauer rightly pointed out, "Alicante without Saragossa is not a complete business and Saragossa, even without any subsidy but joined to Alicante, is better than Alicante alone ... [although the purchase of the Saragossa line] will put us in a stronger position in Spain and will hurt the *Crédit Mobilier* more." Letters from Weisweiler and Bauer of 25 February 1856 and of 1–5 April 1856, ARP, 132AQ6155.

the only remaining line out of Madrid to the north.<sup>41</sup> Such an event would spell disaster for all their Spanish projects. But they could not ignore an alternative that would reap them greater profits – a voluntary withdrawal by the Rothschilds from the agreements – which would give them all the options on both the Alicante and the Saragossa lines. So Chatelus and Delahante did all they could and more over the next weeks to break the agreement. They tried to force the situation by making various protests and held parallel meetings with the Mobilier. But what they did not know was that the Rothschilds already had a secret agreement with Léopold Lehon to go ahead with the plan initially negotiated in Paris, so the Rothschilds were at all times abreast of the manoeuvrings of the partners of the Central and the real extent of their contacts with the Mobilier. Weisweiler and Bauer were not taken in for a moment and steadfastly refused to sign any agreement to close the purchase of the Alicante line before the tender had been awarded.<sup>42</sup>

The patience shown by the Rothschilds and their agents bore fruit and on the eve of the auction the partners of the Central apparently threw in the towel. They offered an agreement to link the Saragossa and Alicante lines under a single railway company with a capital of 160 million francs to finance the 800 kilometres of the two lines, at an estimated cost of 200,000 francs per kilometre. Chatelus and Delahante expressly renounced the option of building the lines. An arrangement was immediately made with the other bidders for the Madrid–Saragossa line, leaving the Rothschilds as the sole candidates.<sup>43</sup>

For Weisweiler and Bauer, the option of uniting the two projects under one company was a unique chance to isolate the Pereires in Spain as well as being the only way they would avoid losing all the work done so far.<sup>44</sup> The decision was therefore left to James Rothschild, who finally agreed to accept all the consequences.

Yet the affair was far from being over. The easy withdrawal of the Mobilier from the bidding for the Saragossa line had reinforced James and his agents' theory that the men from the Central were playing a deeper game, despite the theoretical agreement reached. Over the following months, the partners of the Central continued to hedge their bets and came to a draft agreement with Duclerc, director of the Mobilier, to share the main network and establish common lines

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<sup>41</sup> According to the law, an agreement between the State and a developer interested in a line did not amount to a direct concession, since the offer could be bettered by anyone in an auction. Tedde (1978b: 13 and 17).

<sup>42</sup> Letters from Weisweiler and Bauer dated 25 February 1856 and 1–5 April 1856, ARP, 132AQ6155.

<sup>43</sup> The terms of the agreement were the following: the Mobilier was to withdraw unless the Central ceded it its part in the Rothschild contract; a certain Matheu was to be offered the purchase option of 8,000 shares in the new company; SEMI was to hold a share of exactly one-quarter in the new company; Salamanca was to have the contract to build the line (which he then sold to the SEMI for 4,500 francs per kilometre). Letters from Weisweiler and Bauer dated 3 and 8 April 1856 and 27 May 1857, ARP 132AQ 6160 and 6155.

<sup>44</sup> Telegram from Weisweiler and Bauer 4 March 1856, ARP, 132AQ 6152.

for the connection with Portugal, with the Mobilario taking the north and west and the Central the south and east. The success of this intrigue continued to rest on the Rothschilds' not gaining control of the Alicante line and that they would end up transferring it. So, if things went to plan, that line would serve as a bridge to the south. Thus, in March 1856 the Central started to put pressure on the government and Parliament to win the concessions for the south and the access to Portugal, without counting on the Rothschilds.<sup>45</sup>

At first, the Pereire–Morny tandem had the advantage in the south since their partner in the Mobilario had already won the Seville–Córdoba line in 1853 and was managing it along with members of the bank's directors. So it seemed that closing the deal on the Andalusia line was a simple matter, as long as the Mobilario gained the northern and southern accesses to the line. To the south, the stretch that had been awarded and completed was that which went from Jerez to Puerto de Santa María, which was famous for having been the first line to be formally applied for in Spain, back in 1830, while the Seville–Jerez stretch remained unfinished since a certain Sánchez Mendoza had failed to fulfil his State commission to build the line. The government speeded up the auction to avoid losing an investment that had already been made of 4 million reales,<sup>46</sup> offering a subsidy of 600,000 reales per league (107,642.6 reales/km, or 28,327 francs/km) to the highest bidder.<sup>47</sup>

When the tender was announced the Crédito Mobiliario reduced the subsidy to 11,000 reales per league, certain that this figure would more than suffice, but in an unprecedented and unexpected decision, Prost's agents from the *Compañía General de Crédito* renounced any subsidy and even proposed a bonus to the government of 2,000 reales per league. Prost's agents won the deal outright, despite the vehement but impotent protests of the agents of the Crédito Mobiliario.<sup>48</sup> Despite the setback, the sleeping partner of the Mobilario went ahead with the original plans. In June 1856 Morny wrung from the government the provisional concession for the Andalusia and Portugal lines under the same terms of agreement as the Saragossa line, following a deposit of 1.5 million francs<sup>49</sup> and, of course, without the Rothschilds.

In contrast, on 7 July the sale of José Salamanca's Madrid–Almansa line finally went through in favour of Morny, Chatelus, Delahante and Le Hon, as directors of the Grand-Central, and of the Rothschilds.<sup>50</sup> All that remained was to resolve the

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<sup>45</sup> Letters from Weisweiller and Bauer dated 11, 13 and 28 March 1856, ARP, 132AQ 6155.

<sup>46</sup> Letter from Weisweiller and Bauer dated 21 March 1856, ARP 132AQ 6155 and Casares (1973: annexes).

<sup>47</sup> G.M. 31 December 1855.

<sup>48</sup> "Following the adjudication there was a tumultuous scene between the delegates of the Mobilier and those of Prost that ended in insults", reported Weisweiller and Bauer in a letter dated 21 March 1856, ARP 132AQ 6155.

<sup>49</sup> Letter from Weisweiller and Bauer dated 19 June 1856, ARP, 132AQ6155.

<sup>50</sup> Notary's founding deed of the MZA, AMFEF, B-31200.

question of the continuation of the Almansa line to Alicante, which Salamanca had committed himself to handing over. But this was no easy operation, either, and so Morny's hopes were kept alive.

The branch line had not been finished and all that existed was a promise that expired on 29 November 1856 to sell the stretch to the Rothschild–Morny partnership (which had no established name at the time) for 170,000 francs per kilometre – in total 15,980,000 francs.<sup>51</sup> Furthermore, the concession of the stretch did not belong exclusively to Salamanca, nor to the marqués Río Florido, with whom the concession had been obtained under a ministerial order of 23 November 1855, but was at the time ascribed to a company with a capital of 50 million reales, held in 25,000 shares of 2,000 reales of which Salamanca held 17,000 (68 per cent).<sup>52</sup> However, the problems did come from this source. Although definitive governmental authorization for the concession on the line had not come through until November itself, in June 1856 Salamanca had easily persuaded the shareholders to cede the rights to negotiate the sale.<sup>53</sup> Just when it seemed that everything was going through on schedule, Salamanca tried to take advantage of the weak position the Rothschilds found themselves in and flatly refused to hand over the 2,965,790 franc subsidy granted by the government to construct the line.<sup>54</sup> The whole project was at stake and all the interested parties knew it. After several discussions, the line was finally handed over on 12 December and paid for according to Salamanca's wishes and at a net profit of 21,994,001 reales.<sup>55</sup> What is not known is whether Salamanca shared the subsidy with the other shareholders of the Almansa–Alicante company.<sup>56</sup>

The complete concession of the line was the final nail in the coffin for Morny's Spanish plans. He had misjudged how much he could take on and how long James Rothschild could hold out. His house of cards came tumbling down, coinciding, not by chance, with the crash of the Grand-Central in France, which,

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<sup>51</sup> Letter from Weisweiller and Bauer dated 22 November 1856, ARP, 132AQ6158.

<sup>52</sup> This contradicts Hernández (1984: 106), who states that Salamanca owned only 12,301 shares.

<sup>53</sup> Letter from Weisweiller and Bauer dated 20 November 1856. ARP, 132AQ 6158 and Tedde (1978b: 20).

<sup>54</sup> 15 million reales in railway shares at 6 per cent, drawn at 75 per cent; in total 11,250,000 reales (2,965,790 francs). Letters from Weisweiller and Bauer dated 8, 17 and 22 November 1856, ARP, 132AQ6158.

<sup>55</sup> One must discount the 3,000,000 francs lent to Salamanca for works on the line.

<sup>56</sup> Tedde (1978b: 19–20) seems unaware that Salamanca kept the government subsidy, thus reducing his profit from the sale of the stretch from Almansa to Alicante for 3.4 million pesetas. Added to the losses of 4.7 million, calculated for the sale of the Madrid–Almansa stretch, gives a deficit of 1.3 million pesetas for the whole Madrid–Alicante line. Tedde assumes that Salamanca amassed 22,000 of the 25,000 shares issued by the company.

as a consequence of over-issuing bonds, suspended payments and went into liquidation in 1857.<sup>57</sup>

### *The Birth of MZA*

With the acquisition of the basic network now a *fait accompli* and the purchase of the small Castillejo–Toledo concession, again from Salamanca, it became necessary to give the operation some legal form. On 31 December 1856 came the formal constitution of the *Cía. de Madrid a Zaragoza y el Mediterráneo*. The name was almost immediately changed to the *Cía. de Ferrocarriles de Madrid a Zaragoza y a Alicante* (hereinafter MZA), under a deed of 10 January 1857.<sup>58</sup>

The new company had a peculiar management structure whose only function was to assure that the executive power and the established balance of power remained clearly and perpetually in the hands of the founders. It took a triangular format, made up of a Board of Directors, with headquarters in Madrid, the SEMI, and the Management Committee in Paris. The committee in Paris was the real power base and was where the decisions on financial management, lines of growth and even purchases of company materials were taken. The Board of Directors was in charge of the day-to-day running.<sup>59</sup> In essence, the board was a carbon copy of the Paris Committee and limited itself to unquestioningly accepting the decisions from Paris. In fact, one of the first decisions of the Paris Committee was to designate an Inspector of the Board of Directors, Osborne Sampayo (from Grand-Central), to oversee the relations between the two bodies and, of course, to impose discipline.<sup>60</sup> Meanwhile, in Madrid the SEMI was to act as the theoretical banker and contractor for the contractor company.

Table 4.1 shows how the executives of the three bodies were perfectly linked and representations clearly established. Evidently, the members of the Paris Committee never attended the meetings of the Board of Directors in Madrid (although the opposite did occur) but delegated representatives, as is shown in the fourth column. The other members were prestigious Madrid politicians and financiers who sat on other boards, such as that of the Bank of Spain, and who generally had other interests in common with the Madrid agency. The Honorary Chairmanship bestowed

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<sup>57</sup> The competition took advantage of the situation to share out the lines: Talabot took the Loire lines and the Gier valley, and the western lines of the *Chemin de fer d'Orléans*. Bouvier (1967: 175).

<sup>58</sup> Notary's founding deeds of MZA, AMEFF, B-31200 and Tedde (1978b: 21–22).

<sup>59</sup> It is highly significant that the Committee chose as its headquarters the offices at 17, rue Laffitte in Paris, adjacent to the House of Rothschild and owned by the latter. James Rothschild, who did not bother to register as a board member, usually attended the committee meetings. All he had to do to certify his control of the Spanish railway company from Paris was to walk a few yards along the pavement.

<sup>60</sup> Records of Proceedings of the Paris Committee, meeting of 14 January 1857, AFE, MZA, *Secretaría de Dirección*, L1.



on Morny was an elegant solution to the count's flight to the French Embassy in St Petersburg after the bankruptcy of the French Grande-Central.

Table 4.1 Common board members and representatives on the committees associated with MZA

<b>SEMI</b>	<b>MZA Board of Directors</b>	<b>Paris Committee</b>	<b>Committee representatives on the Board</b>
<p><i>Chairman:</i> Alejandro Mon</p> <p><i>Vice-chairmen:</i> Duque de Sevillano, José Manuel Collado</p> <p><i>Members:</i> Antonio G. Moreno, Daniel Weisweiler, Ignacio Bauer, M. Bermúdez de Castro, Antolín de Udaeta, Antonio Angel Moreno, Ventura de Cerrajería, Hipólito Rodríguez, Antonio de Gaviria, Estanislao Urquijo, Rodríguez Soriano, Vicente Bayo, F. Fernández Casariego, Antonio Álvarez, R. Soriano y Pelayo, M. Pérez Hernández, Adolfo Bayo, José Ortueta</p> <p><i>Director:</i> Francisco Camacho</p>	<p><i>Honorary Chairman:</i> Compte de Morny</p> <p><i>Chairman:</i> Alejandro Mon</p> <p><i>Vice-chairmen:</i> José de Salamanca, Antonio G. Moreno</p> <p><i>Members:</i> Daniel Weisweiler, Ignacio Bauer, M. Bermúdez de Castro, Antolín de Udaeta, Antonio Ros Olano, Alejandro Llorente, José de Zaragoza, Antolín de Udaeta, Joaquín de Gándara, G. López de Mollinedo</p> <p>Plus the eight members of the Paris Committee</p> <p><i>General Director:</i> José Déglin</p> <p><i>Secretary:</i> Félix Nicolás</p>	<p><i>Members:</i> Gustave de Rothschild, Edmund Teisserene, Michel Poisat, Eduard Blount, B. Chatelus, Gustave Delahante, Conde Léopold Lehon, Albert Courpon</p> <p><i>Secretary:</i> John Lemoine</p> <p><i>Inspector:</i> Osborne Sampayo</p> <p><i>Groups theoretically in the MZA:</i></p> <p><i>Rothschild group:</i> Gustave, Rothschild, Edmund Teisserene, Michel Poisat, Eduard Blount, Daniel Weisweiler, Ignacio Bauer</p> <p><i>Salamanca Group:</i> Alejandro Llorente, José de Zaragoza, José de Salamanca</p>	<p>Zaragoza represented Le Hon, Mollinedo represented Chatelus, Weisweiler and Bauer represented Rothschild, Poisat, Blount and Teisserene, Gándara represented Courpon, Salamanca represented Delahante, Moreno represented Bermudez de Castro</p> <p><i>Grand-Central group:</i></p> <p>B. Chatelus, Gustave Delahante, Léopold Lehon, Albert Courpon, Joaquín de Gándara, G. López de Mollinedo</p> <p><i>SEMI group:</i> M. Bermúdez de Castro, Antolín de Udaeta, Alejandro Mon, Antonio G. Moreno</p> <p><i>Independent(?):</i> A. Ros Olano</p>

*Sources:* SEMI, printout from 1856, ABE, Secretary's Office, file 3,820; MZA, Report from 1858; and Records of Proceeding of the Paris Committee, 14 February 1857, in AFFE, MZA, Board Secretary's Office, L1.

The new company began with a capital of 114 million francs in 240,000 shares of 500 francs book value released at 475.<sup>61</sup> Of these the SEMI took 64,000 and the Rothschilds 66,000, giving them 51.7 per cent of the total, slightly more than the initially stipulated half share. The remainder was held by partners of the Central.<sup>62</sup>

The law authorized the new company to issue a certain number of bonds, up to half the share capital. These bonds, at 475 francs, were launched on the market at 50 per cent of the nominal value. The discount should not be seen as signifying any lack of confidence in the issue, since the breach was perfectly designed so as to give the bondholders an annual 6 per cent interest, twice the amount allowed under French law.<sup>63</sup> In some cases, though, it was possible to issue above this amount, which must be seen as a bonus.

This did not occur in the early months when, despite the prestige of the promoters, placement of the shares on the stock market was more problematic than expected. We should bear in mind that the Paris market at the time (the London market was closed to Spanish stocks) was in the midst of a crisis that had already seen the collapse of the Grand-Central, and the company had to act with the greatest prudence to avoid flooding the market with its shares.<sup>64</sup> There were also bureaucratic problems. The Minister of Finance took almost a year to authorize the price of the MZA shares,<sup>65</sup> even though the Rothschilds placed most of the shares amongst their customers.

### *Consolidation of the Network and Frustrated Projects*

Once the administrative and financial issues had been sorted out, MZA went ahead with completing the annexation of the lines agreed upon and continued the expansion plans with the aim of closing the north–south and east–west axes of the Peninsula before the Mobiliario. The disappearance of Grand-Central left the Rothschilds and the Pereires pitted against each other, face to face, as each sought to win the battle for the main Spanish network. It was not an easy struggle, though, and MZA soon suffered its first great setback when its main priority –

<sup>61</sup> Letter from Weisweiller and Bauer 6 October 1856, ARP, 132AQ6158.

<sup>62</sup> Notary's founding deeds of MZA, AMFEF, B-31200; Tortella (1973: 74).

<sup>63</sup> Artola (1978c: 375) and Broder (1981: 888–889).

<sup>64</sup> Foreseeing this crisis, James Rothschild implored his agents to delay no longer in setting up the company, since the goodwill in Paris towards Spanish railway stocks was starting to flag. Letter from James to Weisweiller and Bauer dated 15 September 1856, ARP, 132AQ728.

<sup>65</sup> On 21 July 1857 the Compagnie des Agents de Change asked the Minister of Finance to approve the floating of the MZA shares on the Paris Stock Exchange. The minister was reluctant to do so until there was confirmation that French stock would receive similar treatment in Madrid, and put a halt to the process; an indignant James Rothschild wrote to the minister on 22 December demanding an explanation for the delay. The minister replied on 11 January 1858 and the matter went ahead. AMEFF, B-31200.

access into France – ran into problems. This failure not only served to highlight the limits of the company's political and economic influence, but also led to a deep split on the MZA board, where the personal interests of the members continued to predominate until the Rothschilds managed to gain full control.

For MZA the access into France was the logical project to pursue after the acquisition of the Saragossa line. Three alternatives were under consideration: the most direct line was through to Pau via the Somport pass, but technical problems ruled this out from the start and many decades would pass before it was reconsidered; the second option, Saragossa–Barcelona–Perpignan, ceased to be viable for the MZA when Manuel Girona won the Saragossa–Barcelona line; this left the third option, which avoided the Irún concession of the *Mobiliario* (later the *Compañía del Norte*), that of the Aldudes pass, a few kilometres to the west of Roncesvalles.<sup>66</sup>

Initially, when founder member of the SEMI board, Manuel José Collado, was Minister for Economic Development (14 July 1856 to 12 October 1856), it seemed that there would be no problem for the concession of the Aldudes to Bayonne route. However, the change of Cabinet with the fall of O'Donnell government led to ever increasing opposition.

When discussing the company articles, the minister Claudio Moyano refused to accept the term “Pyrenees” in the name of the new company, insofar as no concession existed to that effect. The board insisted on the name, since, despite the apparent triviality of the issue, at stake was the important question of the company's image for small investors and its whole future direction. The Narváez government would not be moved and the company had to forego not only the use of “Pyrenees” but even that of “Mediterranean”.<sup>67</sup>

In October 1857 Salamanca won the Tudela–Pamplona concession<sup>68</sup> and MZA returned to the fray to try to win the Aldudes pass. President O'Donnell turned down the request for two basic reasons: the Aldudes line would greatly hinder the construction of the Norte's line through San Sebastián and could lead to Bayonne becoming a predominant centre of trade coming to Spain, to the detriment of Spanish cities, in particular San Sebastián. For Weisweiller and Bauer, this appeared to be nothing other than a clear manoeuvre on the part of the *Mobiliario* to block MZA's access into France. Their line of argument was to offer the government some alternatives. First, the Aldudes exit could connect directly with Dax, which as well as not favouring Bayonne would also reduce the distance from Madrid to Paris by 20 kilometres. Meanwhile, the *Compañía del Norte* could be offered

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<sup>66</sup> Comín, M. Aceña, Muñoz and Vidal (1998: vol. 1, 74–75), Cameron (1971: 259–260) and MZA report from 1858, pp. 18–21.

<sup>67</sup> Letters from Weisweiller and Bauer dated 12 and 14 November 1856 and letter from Sampayo, Weisweiller, Bauer, Moreno and Urquijo to Moyano dated 4 November 1856, ARP, 132AQ6158.

<sup>68</sup> MZA report 1858, p. 18. The board clearly expressed in the report that it intended to compete for the line once the problem of the Pyrenean pass had been solved.

some kind of compensation, perhaps even in the form of the Alar–Santander line, which was controlled in part by the SEMI. Moreover, it was not just a question of the Alduides exit, but whether there was a wish to strengthen connections with France.<sup>69</sup> The arguments do not seem to have convinced O'Donnell.

With the northern project at a halt, the Rothschilds launched a counterattack in the south. Taking advantage of the fact that the Almansa line was the best option for opening up a connection with Andalusia, MZA acquired the Alcázar–Ciudad Real line, which in theory was a gateway to the south and on to the border with Portugal, although it was unable to win the continuation of the line to Badajoz and Portugal, which was taken by a group of Spanish investors.<sup>70</sup>

The next step in this particular race against the clock was the Manzanares–Cordoba line, which took in the crucial kilometres of the traditional access to Andalusia and crossed the Linares–La Carolina mining basin. Yet it had its drawbacks, too. It ran for 243.6 kilometres of desert land with no capital or town of any size and faced the problem of the Despeñaperros pass, which would be expensive to overcome and would require connections with two rival companies. Aware of the problems involved in the construction, the government proposed a subsidy of 182,609 francs per kilometre (44.5 million francs or 71.1 per cent of the officially quoted cost) in the hope of finding a taker for an adjudication that had found none in earlier years when subsidized at 60,000 francs per kilometre.<sup>71</sup>

Before the bidding, Eugène Pereire came up with a proposal to sell the Cordoba–Seville line to MZA, on the understanding that the “North and West [of the Peninsula] were his”. The Rothschild agents replied that under no circumstances would they renounce the rights to the Andalusia, Barcelona and the Alduides pass access routes. The talks must have become more heated and Eugène declared that his offer should be seen as an ultimatum,<sup>72</sup> something which does not seem to have overly alarmed Weisweiller and Bauer, who firmly replied that if the Mobiliario was looking for a fight it would have one. Swords remained drawn and MZA was willing to play hard.

The bid attracted no fewer than 13 offers, including those of MZA, the Mobiliario, the Compañía General de Crédito and other eminent Spanish capitalists such as José Campo, Jorge Loring and Larios. To quash any doubts, MZA made a much lower offer than its nearest rival, decreasing the amount of the subsidy by 37.2 million francs. It was a decision that the board would later have to account

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<sup>69</sup> Letter from Weisweiller and Bauer to James Rothschild dated 14 November 1858, ARP, 132AQ6163.

<sup>70</sup> Tedde (1978b: 21) and Casares (1973: annexes).

<sup>71</sup> Ibid.

<sup>72</sup> Eugène represented his father (Isaac Pereire) and his uncle, Emile, in businesses in Spain. The proposal entailed handing over the company shares at 600 francs, to be paid with MZA bonds, valued at 250 francs. Letter from Bauer to James dated 20 October 1860, ARP, 132AQ6169.

for to its shareholders given the strategic importance it had given to its plans to expand the company towards the south.<sup>73</sup>

Meanwhile, with his habitual optimism, Salamanca tried to squeeze more out of the situation at the expense of the Rothschilds. In December 1859 he had set up a company with his Pamplona concession. It was a project that included Chatelus, Delahante and Courpon and had the support of the French financier Mirès.<sup>74</sup> The next step was to force MZA to buy the line from him before there was confirmation of the Alduides line. The decision brought about an outright power struggle within the management of the company with Salamanca throwing down a gauntlet to James, who refused to buy a line that produced barely 8,000 francs per kilometre per year (three times less than the average for the MZA lines). When put to the vote, it received only the support of the Pamplona–Saragossa partners and Llorente and the matter was shelved.<sup>75</sup>

Salamanca's response was swift and extremely aggressive. In a matter of weeks he had applied to the government for the immediate concession of the remaining stretch of line to Saragossa, from Sigüenza to Tudela via Soria, and for the Madrid–Torrijos–Talavera line, in order to then continue it down through Cáceres and Badajoz to Portugal. This amounted to a new national railway project. However, when it was discussed in Parliament it ground to a halt in the face of opposition from MZA members Bermúdez de Castro, Moreno and Mon (president of the House), who forcefully opposed both the Alduides project, and that of Soria, for fear that Salamanca would connect the former up to his Pamplona line, so creating a third route into France.<sup>76</sup>

In 1863 Salamanca abandoned all his plans: one year later he joined his line to the north and two years later merged it with the Saragossa–Barcelona line. He thereafter forgot about promoting railways and took refuge in his real estate projects, which would end up ruining him in 1868.<sup>77</sup> The Alduides line was forgotten about.

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<sup>73</sup> Company reports from 1861. Tedde (1978b: 21–22) and Cameron (1971: 192, 242 and 247).

<sup>74</sup> Cameron (1971: 261–262).

<sup>75</sup> Chatelus threatened, without success, to put Salamanca's plan to a shareholder vote. Letters from Weisweiller and Bauer dated 15 and 18 November 1860, 5 January 1861 and 20 April 1861, ARP, 132AQ6169 and 6170.

<sup>76</sup> A parallel line to the MZA Saragossa one could mean greater losses than the gains expected from the line to Alduides (some 2,000 francs more per kilometre on the line from Madrid), as well as the loss of the Navarra and High Aragon markets. Salamanca continued to offer the line at 370 to 400 francs per share, which to Bauer seemed absurd, given that the shares had fallen to 160. Letters from Weisweiller and Bauer dated 5 January 1861, 26 and 27 April 1861 and 23 January 1862, ARP, 132AQ6170 and 6173.

<sup>77</sup> Letter from Weisweiller and Bauer dated 20 July 1865, ARP, 132AQ6182 and Torrente Fortuño (1969: 206–216).

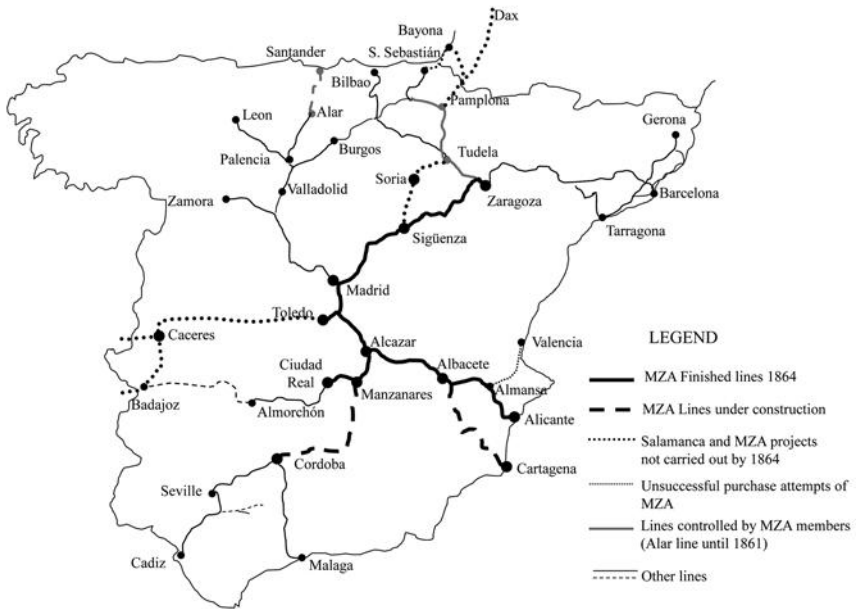


Figure 4.2 The Spanish railway network in 1864

The MZA had to temporarily give up its idea of connections with France and content itself with the possibility of lesser acquisitions. Of these only the Albacete, Murcia and Cartagena was successful during the next years. The purchase was not that necessary as the Alicante connection existed but it was more a special favour to the government by Salamanca and the company as it linked the capital to its most important Mediterranean naval base. Salamanca purchased the line in 1860 and passed it on at no cost to MZA, which was granted a nice subsidy of 75,000 pesetas/km.<sup>78</sup>

Neither the purchase nor the takeover of the railway businesses of José Campo came to fruition, though. The Valencia financier was no longer so keen to keep his Almansa–Valencia line now that MZA had outstripped him in his aim to link Madrid to the Mediterranean, and in 1858 he offered to sell the company the whole line. A deal seemed closed in November of that year under which Campo agreed to lower the price of 158,000 francs per kilometre for the 118-kilometre railway line to 153,000 francs.<sup>79</sup> However, the deal fell through because, it seems, of problems on the Paris Stock Exchange.<sup>80</sup> The Rothschilds resumed their interest in the line in 1860 and signed an outline agreement to purchase it in exchange for a loan of

<sup>78</sup> Tedde (1978b: 21).

<sup>79</sup> Letter from Weisweiler and Bauer dated 26 November 1858, ARP 132AQ 6163.

<sup>80</sup> Broder (1981: 895).

1 million francs. After lengthy discussions Weisweiller and Bauer made an offer of 90 million reales for the railway, accepting it in its current state. This was an increase of 4 million reales on the price stipulated in the initial agreement. Campo, however, was after 10.5 million reales and the agents asked James if he would accept that price. We have not located his reply but from subsequent events he seems not to have done so. The loan was rigorously paid and no sale was made.<sup>81</sup>

In short, after five years of frenetic competition the Rothschilds had completed the first stage of their railway project in Spain. Their company, MZA, had not succeeded in opening up a route into France and had paid a high price for two lines that connected up with theoretical competitors. Even though the network was slightly lopsided the company had nevertheless a wide geographical area of influence and the future looked hopeful. As Figure 4.2 shows, MZA consolidated its control of the access routes into Madrid from three of the cardinal points, with lines that supplied some of the most dynamic of the inland markets. So the company's results for 1860 to 1864 seemed relatively good and the company paid out its first dividends. Significantly, in 1862 shares in the company were selling at over 670 francs on the Paris market.<sup>82</sup>

Over the long and medium term, perhaps, the Rothschild railway project in Spain did not achieve the profits or the growth expected, as we shall see later, but it does seem clear that the aim to establish a strategic stronghold in the context of the Spanish railway was more than achieved. More importantly for them, the Rothschilds had during a few extremely tense years of won out in Spain against the Pereires, who, despite initiating the whole process, had laid barely half the kilometres of railway their rivals had<sup>83</sup> and who had possibly seen the doors close on their large-scale investment plans for the country. Thus, James Rothschild was proved right when he had stated that “the person who builds the first great lines will gain the great businesses in Spain”.<sup>84</sup> This was not far off the mark. Indeed, in his own case it was to be an apt summary of his activities in Spain over the coming years.

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<sup>81</sup> Letters from Weisweiller and Bauer dated 28 July 1860 and 20 October 1860 and telegram dated 1 August 1860, ARP, 132AQ 6168 and 6158.

<sup>82</sup> Cameron (1971: 247–248).

<sup>83</sup> 1,163 km laid in 1864 by MZA compared to 663 km by the Norte.

<sup>84</sup> Letter from James Rothschild to Weisweiller and Bauer dated 16 February 1856, ARP, 132AQ728.

## Chapter 5

# Years of Financial Euphoria and Crisis, 1856–1868

Such a substantial and appealing business as the railways in no way meant that the Rothschilds were to forget that public finances remained their natural source of business. The resources they sent to the Bank of Spain and to the Treasury during the 1860s and 1870s exceeded all the MZA investment. Yet between 1856 and 1860 the consolidation of the wave of railway investments and the massive creation of companies had completely changed the face of the Spanish economy and brought about a temporary lapse in the Rothschilds' operations with Spain's public institutions.

To a large extent the economic bonanza was the fruit of the political and social peace that had finally set in. Bauer himself openly admitted to James Rothschild, in July 1856, that the O'Donnell coup would give Spain "the strong government it needs",<sup>1</sup> after so much anarchy. Time would prove him right. The thriving prosperity of the following years would wash away memories the Spanish leaders had of erstwhile poverty and would grant them some breathing space in their history of chronic debt. It all added up to Weisweiller and Bauer's being able to focus almost exclusively on the railway deals, at least until 1860. As of then, operations with the Bank of Spain and the Public Treasury came to the fore again, albeit under very different conditions to those that had prevailed in the past.

### **The Temporary Self-sufficiency of the Treasury**

The sudden changes in economic and political conditions were especially felt in areas of public finance which, between 1855 and 1863, enjoyed increased income, so putting an end to the stagnation of the previous five years. Certainly, by no means all of the improvements were the result of the diligence of the new leaders but were rather the consequences of an exceptional climate in which the State benefited indirectly from the economic growth thanks to higher revenue and some of the measures taken by earlier governments which the Liberal Unionists were able to take advantage of.

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<sup>1</sup> Letter from Bauer dated 16 July 1856, ARP, 132AQ 6157.



Table 5.1 State income, 1850–1863 (in millions of current pesetas)

Year	Direct taxes	Indirect taxes	Monopolies and administration services	State revenues	Sale of State properties and rights	Ordinary Treasury resources	Extraordinary Treasury resources	Total income
1850	92	98	93	22	–	21	3	330
1851	96	98	96	17	3	10	4	325
1852	104	109	97	9	3	15	3	338
1853	107	107	101	9	3	24	–	352
1854	105	99	98	8	4	39	13	365
1855	109	65	99	11	4	13	81	380
1856	124	92	111	17	28	23	65	459
1857	116	113	122	21	17	49	60	497
1858	127	114	132	10	20	42	15	471
1859	129	122	140	21	31	80	16	539
1860	129	130	145	26	44	29	77	580
1861	129	139	157	20	52	9	65	571
1862	129	137	165	20	73	9	2	535
1863	130	138	181	26	77	7	30	589

Source: Comín (1989: 411–412).

The first such measure to have a direct bearing on the State budget was the continuation of the confiscation process designed by Madoz. As Table 5.1 (column “Sale of State properties and rights”) shows, income from expropriated lands had a relatively modest effect during the biennium and did not take off until later years, when the government took over the bases of the legislation and gave a boost to sales. Revenues therefore rose steadily to 77 million pesetas (13 per cent of the total income).

At the same time, direct and indirect tax revenues grew significantly, although not at a comparable pace to the increases in other budgetary items, as for example the almost doubling of income from State monopolies, with 89 million pesetas coming from tobacco alone in 1863,<sup>2</sup> a consequence of increased incomes among the population. Extraordinary Treasury resources, generated in the main by issues of debt, remained relatively high after years of insignificance, although again benefiting from conditions that varied greatly from the issues of earlier decades.<sup>3</sup> Two of these, in 1855 and 1856, were, for example, a clear result of the government’s opportunism. It took advantage of the huge interest of the railway groups to strengthen their investments and forced them to get involved in special debt issues. In both cases, the Rothschilds were directly involved.

In the first issue, taken out during the first quarter of 1856, minister Bruil forced a goodwill gesture on the three large French groups (Pereire, Rothschild and Prost) regarding the proceedings of the Credit Companies Act – an act regulating credit companies. Between them they would have to undersign 40 million pesetas in cash of a domestic sovereign loan which aimed to raise 50 million pesetas (200 million reales) in total. The Crédito Mobiliario took 20 million, the SEMI 9.2 million and the Compañía General de Crédito 10.5.<sup>4</sup> In each case they were obliged to accept bonds for over 40 per cent of their nominal value, when the price was barely 25 per cent.<sup>5</sup>

One year later, the Narváez Cabinet tried to capitalize on the expectations raised by the change in regime to bring in foreign investors. The Rothschilds were wary about supporting the conservatives until the political situation became more stable, and closed ranks against any issue, even though they were put under pressure by some of the members of the Committee of Spanish Bondholders. The government, through the duque de Riánsares, contacted the Paris banker, Jules Mirès,<sup>6</sup> who had been showing a keen interest in the Spanish railways.

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<sup>2</sup> Comín (1989: 420).

<sup>3</sup> Except for issues of 1855, which correspond to forced internal loans.

<sup>4</sup> Tortella (1973: 71, 74 and 76) and Broder (1981: 646).

<sup>5</sup> SEMI took precisely 90,891,000 reales nominal at different interest rates, of which 9,089,000 reales would be resold to the House of Rothschild (at a cost of 3,661,278 reales). Letter from Weisweiller and Bauer dated 16 June 1856, ARP, 132AQ 6156.

<sup>6</sup> Born in Bordeaux like the Pereires, Mirès was quickly rose in the Paris financial world thanks to the mid-nineteenth century financial and railway fever. Around 1848 he stopped being the owner of *Journal des Chemins de Fer* and became railway promoter and

On his return to Paris after a meeting with the Minister of the Exchequer, Mirès tried to convince James Rothschild to come in on the deal, but he scorned the invitation. Meanwhile, the government made skilful use of the ambitious French financier and in November 1856 talked him into an outline agreement for a loan of a nominal 200 million pesetas, to be issued at 36.5 per cent. Once again, Mirès sought to get the Rothschilds to participate, this time through the SEMI, but it flatly refused, as did the *Mobiliario*. Finally, the government was forced to lower its request to just 75 million pesetas, given that Mirès was unable to cover the full original amount. This was much less risky and encouraged James to bid for the whole deal. Mirès was bent on winning it, though, and upped the Rothschilds' offers again and again up to an issue at 42.56 per cent.<sup>7</sup>

The two debt operations served to collect just under 112 million pesetas. Hardly spectacular amounts, but they did go some way to keeping debt issues going when the doors of the London and Amsterdam exchanges were closed to Spanish shares.

The long ministry of Pedro Salaverri was dogged from the outset by an institution that had been set up years earlier: the *Caja General de Depósitos*. This fund had until then been one of Bravo Murillo's unfinished projects and for the previous five years had stagnated, with terrible results.<sup>8</sup> However, from 1858, without any changes to its financial products, there was a spectacular growth in deposits, which soared from 11,579,719 pesetas, in December 1855, to 306,678,650 by April 1861.<sup>9</sup> Some of these came from the deposits from the railway auctions, but these represented a minimal amount compared to the growth in traditional voluntary deposits, which grew exponentially over the period. This gives an idea of how important the recovery of individuals' trust in savings was for the economic cycle.

Its value to the government was incalculable, since the resources of the *Caja* had no other legal function than to provide funds for Treasury operations. The *Caja* paid 5 per cent on deposits, which was a much more favourable rate for the Treasury than the policy of short-term credits and the issue of ruinous loans.

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speculator. In 1850 he organized the *Caisse des Actions Réunies*, converted into the *Caisse Générale des Chemins de Fer* in 1853, whose capital reached 50 million francs in 1856. Several authors agree that Mirès had a reputation as risky promoter and many of his actions were at the very edge of legality. After a series of failed transactions, he went bankrupt in 1861. Cameron (1971: 133–134).

<sup>7</sup> Gille (1967: 287–289).

<sup>8</sup> Some politicians wanted to certify his death in advance. On 2 July 1855 the MPs Sánchez Silva, Ordaz-Avecilla, Orense and Montemar presented a bill to Parliament in order to create a *Caja General de Crédito Público*, a type of public credit fund, which, under Kerveguen, Millaud y Cia and with a capital of 800 million reales, would take over the functions of the *Caja General de Depósitos* and the Bank of Spain itself, including the Mints and the obligation to assign part of its assets to finance the Public Treasury. Copy of the project dated 5 July 1855 sent by Weisweiller and Bauer, ARP 132AQ 6153.

<sup>9</sup> Gonzalo (1981: appendix 2).

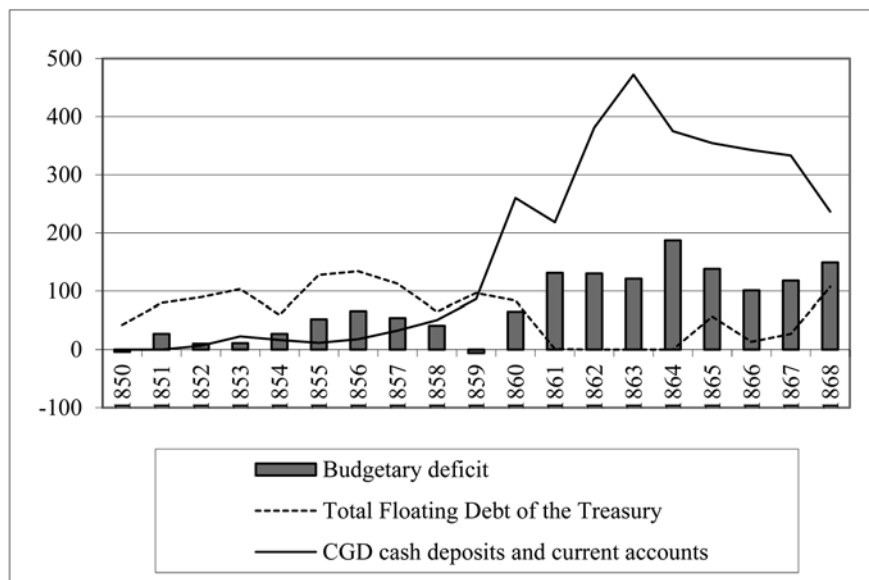


Figure 5.1 Evolution of public deficit, the Treasury's floating debt and the deposits of the Caja General de Depósitos (1850–1882), millions of pesetas

Sources: Comín (1989: 443–444), Fernández Acha (1976: 319–325), Tortella (1973:48) and Gonzalo González (1981: 455).

Apart from this, the growth in contributions made by the Caja would compensate for the sudden loss of income from the Cajas de Ultramar – the Overseas Funds – which would begin to disappear from the budgets from 1860.<sup>10</sup>

With these new resources the government was finally able to control its floating debt and give a certain self-sufficiency to the Treasury, which freed itself of occasional lenders like the Bank of Spain<sup>11</sup> for its running costs without fearing any temporary growth in the deficit as this could now be financed easily and at much lower cost. This general availability of funds for the Exchequer continued to improve to the point that it enabled the Liberal Union governments to undertake a

<sup>10</sup> After collecting a total of 209 million pesetas between 1850 and 1860 (70 per cent of the “Ordinary Treasury resources” in Table 5.1), the Overseas Funds would gradually disappear, with the exception of a brief resurgence in 1866; Comín (1988: vol. 1, 321). The American Civil War was the reason for the suspension of money transfers from Havana, which paralysed all business and credit activities in Cuba. Because of this, the Treasury lost the transfer of 24 million pesetas. Santillán (1865: vol. 2, 200–203).

<sup>11</sup> The new Banco Español de San Fernando became the Bank of Spain in 1856.

fleeting colonialist policy in Santo Domingo and Morocco and to subsidize some of the railway constructions.<sup>12</sup>

For the Rothschilds it meant the temporary suspension of any advances to the Treasury and placed an important restriction on negotiations of possible sovereign loans. Significant losses were unavoidable, with the most important being the temporary loss of the Almaden business when the government proved its willingness to recover the management of mercury sales.

On 30 June 1856 the Minister of the Exchequer, Santa Cruz, decided to settle all the outstanding mercury debts with the Rothschilds and so be in a position to organize the market freely and to sell either directly or on commission. On 13 October 1857 a Royal Decree signed by Manuel García Barzanallana ushered in a system of direct sales of mercury in London, Seville and Cadiz. It failed abysmally and the Minister of the Exchequer was obliged to auction off the excesses in London and then introduce a system of fixed prices which would last until 1866.<sup>13</sup>

At least relations between the Rothschilds and the Bank of Spain could be said to have improved, with the London House taking charge of the payment of the foreign debt interest payment for the second half of 1858.<sup>14</sup> However, as mentioned, the bank would not do any really important deals with the Rothschilds until 1860.

### **The Monetary Problems in 1860–1861**

During the five years following the railway investments and while the new banking structure was still finding its feet, the Spanish economy continued to suffer monetary tensions. But this time these were related to typical problems of growth and not to palpable errors in monetary policy. So while the trade deficit took off on account of the import of railway materials, it was offset by the massive foreign investments. There was also a large number of new issuing

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<sup>12</sup> Salaverria designed an extraordinary infrastructure plan of 500 million pesetas over eight years. Gonzalo (1981: 275). Development expenses rose from 8.6 per cent (1856–59) to 11.2 per cent (1860–1864) of the budget, the highest percentage until the 1920s. Comín (1988: vol. 1, 350 and 366).

<sup>13</sup> Martín (1980: 254–259). Weisweiller and Bauer (letter dated 31 May 1858, ARP, 132AQ 6152) did not show much faith in the ability of the government to sell its mercury, since they knew that the asking price (in London 10 per cent above the auction price in Seville) and the amount sent were excessive for a sales system that did not enjoy a real monopoly. Time would show otherwise as, according to Nadal (1975: 109–110), the State managed to sell 268,216 flasks of mercury at an average of 788.25 reales (7 pounds and 18 shillings) from 1857 to 1866.

<sup>14</sup> Letter from Weisweiller and Bauer to Santillán dated 11 June 1858, ABE, Secretary. Box 1015.

banks (17) which led to an important increase in the number of banknotes in circulation, which was much higher than in neighbouring countries. This meant that the 1857 international monetary crisis could be weathered without having to resort to rises in the interest rates, a measure which France and England were obliged to adopt.<sup>15</sup> But cash continued to leave the country, and even more so than before, since if silver was not quickly sent abroad the Spanish public tended to hang on to large amounts of it in the hope of gaining higher profits. Since it was all but impossible for the Bank of Spain and the Treasury to gain access to silver sales on the London and Paris markets, where the premiums paid were prohibitive,<sup>16</sup> the government was obliged to authorize unprecedented issues of gold and to continue to allow the massive circulation of foreign currencies.

However, the middle of 1860 saw the situation take a worrying downturn, even though the Mints were doubling their activity and breaking all production records<sup>17</sup> – see Table 5.2. The monetary authorities saw with concern that the deliveries of old coin to the Mints by individuals were not enough to cover a demand that was made all the greater by a bad harvest that had set the price of wheat soaring and which meant that grain had had to be imported from France.<sup>18</sup> In an attempt to stave off the risk of deflation owing to a shortage of cash, the Treasury and the Bank of Spain decided, in the middle of the growth cycle, to go back to importing bullion. This would prove to be the Rothschilds' opportunity to return to their operations of 1852 and 1853 on a large scale.

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<sup>15</sup> Tortella (1973: 9 and 104–106) and Santillán (1865: vol. 2, 117–127).

<sup>16</sup> Santillán (1865: vol. 2, 186). The root cause was, as noted, the increase in the production of gold and the distribution of silver in Europe in order to finance trade with the Far East.

<sup>17</sup> For Sardá (1948: 138–139) this situation was the best and perhaps the only way in which Spain was able to access the gold standard. Santillán (1865: vol. 2, 187–188) points out that minting suffered a considerable delay during these years due to the slow expansion works of the Mint.

<sup>18</sup> Santillán (1865: vol. 2, 185).

Table 5.2 Evolution of basic monetary variables in Spain, 1850–1864 (millions of pesetas)

Year	Net gold casts	Net silver casts	Gold coin in circulation	Silver coin in circulation	Bank of Spain notes	Notes of other banks	Current accounts with Bank of Spain	Current accounts with other banks	Cash reserves*	Monetary supply*
1850	15.69	6.93	471	130	25	2	13	8	–	–
1851	2.82	5.87	474	136	30	2	19	10	–	–
1852	0.20	6.81	474	144	30	2	26	16	–	–
1853	0.00	8.12	474	154	30	1	17	14	–	–
1854	21.12	10.47	495	164	30	1	18	15	–	–
1855	36.63	7.64	532	172	30	3	30	16	–	–
1856	44.87	6.35	577	178	40	17	41	15	48	820
1857	32.40	4.07	608	181	46	26	34	17	45	867
1858	9.44	9.49	616	191	52	34	45	18	51	905
1859	50.10	4.97	667	196	67	45	57	25	65	992
1860	57.07	6.37	724	202	63	55	43	26	53	1.060
1861	95.00	9.00	819	211	45	55	36	18	48	1.136
1862	69.78	12.24	889	220	52	48	55	18	52	1.230
1863	148.81	15.12	937	224	68	50	57	19	55	1.300
1864	62.36	10.89	1.038	239	72	53	22	16	45	1.395

*Source:* García Ruiz (1996: 246–247), Schwartz (ed.) (1970: appendices) and Tedde (1999a: 251). Gold minting 1860–1873 in Sardá (1970), 1874–1900 in Tortella (1974a), corrected by the re-mintings reported by García Patón (1903).

*Note:* \* Prior to 1856 we only have figures for the metal reserves of the Banco de San Fernando, thanks to the work by Tedde (1999a), but not for the other issuing banks, so a complete calculation of the national monetary supply is impossible.

In September, the Bank of Spain agreed with the Rothschilds an important purchase of 15 million francs in gold bars to be delivered through a habitual dealer of the bank's in Bayonne, Ignacio García.<sup>19</sup> This was followed by a further five purchases over the following months, always of gold, up to a sum of 29.5 million francs (over 31 million pesetas), but the deliveries became especially important as of the following June, when the public suddenly rushed to change banknotes for coins.

This sudden loss of confidence by holders of notes came about following an unexpected move by the Treasury, when it closed the counter of the *Caja General de Depósitos* and transferred its payments to an account at the Bank of Spain.<sup>20</sup> The real reason for this lay in the decision by Salaverría to modify the conditions of the *Caja* account, reducing the interests on redeemable deposits from 5 to 3 per cent, in order to reduce the institution's financial costs and to favour fixed-term accounts, which were clearly less of a risk.<sup>21</sup> The reform was certainly necessary given the size of the *Caja*'s liability bonds<sup>22</sup> and the huge amounts that had to be paid out in interest, but it was based on the presupposition that the public would accept the change and transfer funds to another account and that the execution of the reform would fall entirely to the Bank of Spain, which would guarantee the payments and returns demanded from it on behalf of the *Caja*.

In a matter of hours the Bank of Spain – which barely a week before the publication of the reform had anticipated possible contingencies by agreeing with the Rothschilds a further delivery of 10 million francs in gold ingots – found its counters harangued by a growing group of anxious savers alongside the normal stream of speculators, fearful that a sudden crisis might unsettle the bank and spell losses for them.<sup>23</sup> Faced with what was becoming a daily avalanche, the directors sought to take measures to guarantee liquidity while the Treasury forwarded new funds to the provinces: a large part of the bank's debt portfolio was sold<sup>24</sup> and discount and loan operations were restricted to the minimum as were issues of cash, which were only allowed through the refunding of bills, with the exception

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<sup>19</sup> ABE, Secretary, file 733. In 1859 the Bank of Spain bought bullion from abroad at a value of 54 million reales (Santillán 1865: vol. 2, 133), but documents from the Rothschilds do not show any transactions of this kind with the bank. It is unknown who could have supplied this amount of bullion.

<sup>20</sup> Sardá (reed. 1970: 145).

<sup>21</sup> RD dated 12 May 1861, collected by Gonzalo (1981: 516–522).

<sup>22</sup> The *Caja* immobilized 1,213 million reales in loans for the Treasury, compared to only 28.1 million in statutory reserves. 85.1 per cent of this amount was refundable deposits at 15 days. Gonzalo (1981: 276).

<sup>23</sup> Santillán (1865: vol. 2, 204). See also Fabié (1898: vol. 1, ch. 8).

<sup>24</sup> The Bank of Spain offered the Rothschilds 120 million reales in deferred debt held in the portfolio, but the board did not accept his offer to buy at market price with a discount of 2 per cent. The bonds were kept by Ramón Romero Valdivares, who took 42 per cent and only 0.5 per cent in commission. Santillán (1865: vol. 2, 210–211).



of the Treasury, which was obliged to accept bills in exchange for notes, in spite of the government's protests.<sup>25</sup> The May gold delivery was followed by another two Rothschild deliveries for 15.5 and 7.5 million francs in June and August. These were urgently forwarded to the Spanish Mint to be coined. In this instance, however, the bank was not strengthening its reserves as it had some months previously but was simply maintaining credit.

During the four months that the *Caja General de Depósitos* needed to consolidate its reform and recover deposit levels, the directors of the Bank of Spain saw away through the crisis by strictly applying the measures outlined and through the withdrawal of a large part of its notes.<sup>26</sup> Once the initial panic had subsided, the bank went ahead within ceasing its reserves through new purchases of bullion, in the main from the Rothschilds. In total, between 1860 and 1863 the Rothschilds directly sold 153,046,608 million francs (161,101,693 pesetas) in gold to the Bank de Spain, but not without a few liquidity problems for the bank till, which required them to request to advances from the Rothschilds of 7.5 million francs in September so that it could continue to purchase gold.<sup>27</sup> In any case, what is important here is that the Bank of Spain was able to respond efficiently in what were very delicate circumstances. For a few months it once again bore the weight of an imbalance in the State accounts and, as far as it was beholden, it succeeded in maintaining financial stability during an extremely tough period, when the amounts of cash that were acquired at the height of the crisis and in the aftermath were crucial for the necessary growth of monetary circulation.

### Complacent Growth

Thus, with the sole exception of the 1861 crisis, the country continued its period of unprecedented economic growth, as is borne out if we look back at the evolution of some of the growth variables of the period as shown in Figure 5.1. As can be observed, the trade balance was particularly active from 1855 on. During a five-year period imports rose threefold, due mainly to the massive arrival of railway material. Exports performed quite well, although they could not completely constrain the growth of the trade deficit.

<sup>25</sup> Santillán (1865: vol. 2, 203, 206–208). The interest rate increased from 5 to 7 per cent.

<sup>26</sup> The volume of Bank of Spain notes decreased from 273.3 to 162.1 million reales between June and September 1861. Sardá (1970: 145).

<sup>27</sup> ABE, Secretary, File 733 and letter from Weisweiller and Bauer dated 17 August 1861, ARP, 132AQ 6171.

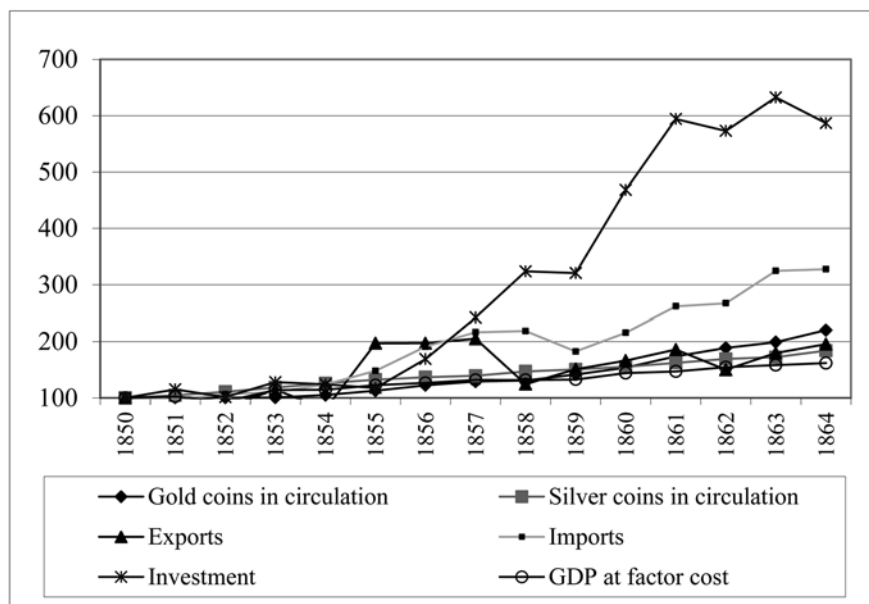


Figure 5.2 Some significant economic variables, 1850–1864 (1850 = 100)

Source: Carreras (1997: 42), Prados (1988: 140–147 and 182), Prados (1995) and García Ruiz (1996: 246–247).

A similarly significant increase can be seen in the amount of money in circulation,<sup>28</sup> in line with the rise in economic activity and the increased revenues. But, undoubtedly, the most outstanding feature of this period was the strong boost to investments, which were the driving force for the other variables in a typically Rostovian increase that appears to have pulled the country out of a century of lethargy.

Other, more speculative variables, such as stock prices, followed a similar route. Bank of Spain shares benefited from its healthy dividends<sup>29</sup> and from its proven strength in times of crisis. Their price rose from 103 per cent of the nominal in January 1856 to 220 per cent by the end of 1863.<sup>30</sup> Even the poor level

<sup>28</sup> These are the only monetary variables available for this period of time (see the figures in Table 5.2) – it would have been more significant to show an evolution of the quantity of money in circulation over these years.

<sup>29</sup> From 1857 the Bank of Spain dividends did not fall below 10 per cent of the capital, reaching a maximum of 25 per cent in 1861. Santillán (1865: appendices).

<sup>30</sup> Santillán (1865: appendices) and Tortella (1973: appendix i).

of public debt picked up significantly, rising from 24.42 to 41.61 per cent over the same period.<sup>31</sup>

This combination of a buoyant economy and unusual political stability<sup>32</sup> gave rise to significant initiatives, apart from those in the railways, which reinforced the image of a thriving economy. The Rothschilds would again be in on the action, even if not always successfully.

In the autumn of 1862 Salamanca approached Weisweiller and Bauer with the idea of setting up a *Banco Hipotecario* (mortgage bank) in Spain.<sup>33</sup> The idea was justified by Salamanca's own projects to extend the built-up area of Madrid. He had acquired 923.076 square metres behind the recently finished Paseo de Recoletos. Salamanca had initially thought to finance the project through a large estate agency that would raise its funds on the London Stock Exchange. The British authorities had quashed this idea as they continued to refuse entry to any Spanish fund. With foreign capital denied him, the only suitable vehicle seemed to be the creation of a *Banco Hipotecario* to finance what appeared to be a highly profitable venture.<sup>34</sup> Weisweiller and Bauer saw the operation as a good way of normalizing relations with Salamanca after the tensions of the previous year caused by the Pyrenean railway line, and they accepted his offer. After lightning negotiations, in which the SEMI and Vicente Bayo took part, an agreement was reached. Salamanca was to put up 39 per cent of the company capital, the SEMI 21, Vicente Bayo 15 and the Rothschilds 25 per cent, through Weisweiller and Bauer. The only condition made by the Rothschilds was that their name should expressly appear in the future bill for the creation of the bank. If not, they would reduce their participation to 15 per cent, given the possibility that Salamanca might monopolize the operation at the last moment with the House's own money.<sup>35</sup>

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<sup>31</sup> Reference courtesy of Andrés Hoyo.

<sup>32</sup> After four short-lived governments between July 1856 and June 1858, the well-known "Gobierno Largo" (literally "Long Government") under O'Donnell came in and continued without interruption until March 1863.

<sup>33</sup> The project to create a mortgage bank in Spain was not an idea that had originated from Salamanca. According to Tortella (1973: 44, n. 57), the first request dates from 1 October 1853 and was presented by the Frenchman Berryer. The offer was rejected. Salamanca himself tried to do it in June 1858 but the project was suspended with the fall of the government. Isturiz; Lacomba and Ruiz (1990: 27–30).

<sup>34</sup> Torrente Fortuño (1969: 193–195 and 206–207) provides testimonies from Salamanca himself which attest to the scarcity and to the excessive house prices in the centre of Madrid. According to Salamanca, the difference in the price of the land between Puertadel Sol and his lands was as much as 135 times greater.

<sup>35</sup> According to the project, the new bank would be created under the name "Sociedad General de Crédito Inmobiliario y Mobiliario" with a capital of 80 million pesetas, of which at least a quarter would be freed as required. Letters dated 14, 23 (2 letters), 23 (which includes the project) and 26 November 1862, and an undated agreement between the participants, ARP, 132AQ 6174.

The Rothschilds also began to get more involved in other commercial activities in Spain. After a quiet decade, the Madrid agency went back to doing business with the lead smelters of the Sierra de Gador and Cartagena.<sup>36</sup> It began again to take an interest in the tobacco industry<sup>37</sup> and even began to work in areas that in theory were well outside its normal spheres of interest, as in the case of grain.<sup>38</sup> In short, while we find little more than passing references to small-scale businesses, they do reveal the agency's interest in diversifying as much as possible so as to take maximum advantage of the favourable economic climate.

In a highly symbolic gesture, Alphonse Rothschild, James's eldest son, visited Spain in May and June 1863, taking in Pamplona, Valencia, Malaga, Granada, Madrid and Seville. The baron would have used the railway for all but two short journeys by post-chaise. The money lavished on the visit<sup>39</sup> was indicative of the Rothschilds' ostentatious habits, but the relaxed nature of the trip shows the family's confidence in a country where their businesses were thriving: MZA was paying out larger dividends; the government and the national bank used their services and were punctual in their payments; new business opportunities abounded and sowed optimism for the future.

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<sup>36</sup> The Madrid agency financed these lead exports through the House of Spencer & Roda and Hilarion Roux respectively. In addition, it briefly controlled a foundry in San Fernando. Several letters by Weisweiller and Bauer to the Paris house in 1861, ARP, 132AQ 6171.

<sup>37</sup> There is only partial information regarding the tobacco supply business from the United States to the Tobacconists between 1855 and 1887. We know that Weisweiller and Bauer had signed an agreement with Manzanedo in 1856 which was thwarted almost before it had started (Otazu 1987: 185–186). From October 1857 to September 1863 the Rothschilds probably functioned in the tobacco business without any outside help. The business was profitable, as net profits amounted to 4,611,131.65 francs (Account "1/2 dépôt tabac 'Régie de Espagne' (Tobacco Revenue)", ARL, I/I/34–46). Immediately after they signed an agreement with Manzanedo in order to run the business jointly, with 40 per cent for the Rothschilds and 60 per cent for Manzanedo, contract dated 22 February 1863, ARP, 132AQ 6175.

<sup>38</sup> Letter from Weisweiller and Bauer to the Paris House, 29 August 1861, ARP, 132AQ 6171.

<sup>39</sup> Alphonse spent 137,245 reales (34,311.25 pesetas) covering travel, meals and any whims that cropped up, in just over 40 days. "Note on the payments made under the name of Baron Alphonse Rothschild" sent by Weisweiller and Bauer on 29 August 1863, ARP, 132AQ 6176.

## The First Symptoms of Crisis

But the economic growth was not to be eternal. The huge railway and banking crisis that began in 1864 ended the best period of growth the Spanish economy had known. Industrial and commercial activity collapsed everywhere, dragging down public finances with them, and a severe political crisis ensued.

The slump in the economy was tremendous and the structural weaknesses of the regime were soon made all too apparent. The Isabella monarchy disappeared in all but name, giving way to a heterogeneous group of revolutionary democrats who would show a considerable lack of coherence when it came to tackling the various problems facing them. The subsequent climate and events made the late 1860s to early 1880s a golden age for the Rothschilds in their dealings with Spanish public finance, albeit it was not entirely unproblematic.

The fundamental reason put forward for this crisis has always been the sudden loss of confidence in the railway stocks, the first profits being much lower than anticipated. Many savers withdrew their capital and the Spanish railway values sank all over Europe, which had a knock-on effect on most of the new financial institutions that had come into being amidst all the railway speculation.<sup>40</sup> However, other explanations exist for the crisis faced by these companies which rest on two fundamental problems of an internal nature: the excessive cost of the building materials and the serious difficulties in finding financing.

As regards the first of these, the MZA case was particularly nasty since for some time the directors exploited the ignorance of the minority shareholders and bondholders so as to carry out operations that could hardly be described as above reproach. Apart from having to bear the costs of Salamanca's moves in the speculative sale of concessions, MZA also had to take on board the delays in the construction of the Madrid–Almansa railway line. To some extent this the company was not to blame here, as the first operations were made outside its field of competence. But the same could not be so easily said for the contract with the SEMI for the construction of the Madrid–Saragossa line. The company discovered that the cost of crossing the Sistema Ibérico mountain range far exceeded the estimated budget and deliberately slowed down the building in the hope that the company would be forced to respond under pressure to meet the deadlines agreed on. MZA finally released its financing company from the construction of the line but, amazingly, was forced to compensate it to the tune of 475,000 pesetas for breach of contract and a further 197,125 for each unlaidd kilometre,<sup>41</sup> meaning that the line was not finished until 1863. However, rises in costs were not always intentional, as was the case with the Manzanares–Cordoba line, whose cost shot up from the 55.25 million francs quoted by the engineers to a final figure of around

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<sup>40</sup> Sánchez Alborno (1967).

<sup>41</sup> Tortella (1973: 131) and Cameron (1971: 240).

90 million.<sup>42</sup> On average, the company's railway lines cost 46.4 per cent more than what was budgeted.<sup>43</sup>

Then there were the problems of liquidity, the result of a lack of clear external financing and the demands made by the founders (the Rothschilds and the former Grand-Central alike), who reserved some profits for themselves, which meant that they were the most important creditors of the company from the very beginning. In the company articles the founder members had guaranteed themselves a 6 per cent annual profit, in the form of interest on the initial outlay. This and the dividends paid out over the period – 3 per cent – meant that by the end of 1864 the shareholders would have recovered 62,130,050 francs – 48.6 per cent of the initial share capital invested.<sup>44</sup>

The Rothschilds also exclusively received a series of payments for the financial services they provided the company, which were likewise set against the company's liabilities. No sooner had the company been set up than the Rothschilds chalked up a profit of 2,275,000 francs for the advances made for the purchase of the 455 kilometres of railway track that immediately became the company's.<sup>45</sup> Thereafter, the income of the House with regard to this provision would be centred on two key areas: payment of the interests on shares and bonds and the interests on loans extended to the company. In the case of the former, the House would be responsible for the payment of the six-monthly company dividends in Paris (where almost all the shareholders and bondholders were based) and in London, where funds continued to be managed normally during 1870 and 1871, when the Paris House was all but at a standstill on account of the Franco-Prussian War and the later reorganization of bond issues under the new French Republic. The House charged 0.5 per cent for this service and, of course, it could also make use of the amounts periodically forwarded by the MZA from its operating revenues. In addition, when the company required funds, the Rothschilds would advance the money to cover the interest payments or any other type of running costs.

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<sup>42</sup> Cameron (1971: 248). According to Cameron, MZA engineers calculated that the line could be built 15 per cent cheaper than the official estimate, which is what encouraged the Rothschilds to make such a high bid. This author attributes the final increase in price to labour problems and to the impact of climate, among other factors. On this matter, the board member Poisat wrote to the Rothschilds in 1866 to inform them that a 20-kilometre stretch between Venta de Cárdenas and Vilches had been destroyed by flooding, with more harm done on account of the delay in the completion of the line than through the final repair costs. Letter dated 12 March 1866, ARL XI/109/88. The Company Report of 1866 put the cost of the floods at 36 million reales.

<sup>43</sup> MZA (1931), Cordero and Menéndez (1978: 264), and Casares (1973: appendices).

<sup>44</sup> The possibility of establishing fixed benefits for founders and/or administrators was authorized by a law of 11 July 1856. It was not, however, the MZA board who took advantage of this, but the Norte, which under its company articles assured itself up to 10 per cent of profits. Artola (1978c: 343 and 374) and Broder (1981: 892).

<sup>45</sup> Account "1/4 Saragossa. Joint account with the Paris House in 1857", ARL, I/I/33–34.

Naturally, the House charged for the service – at a rate of 6 per cent at three months plus fees – or it did until 1870 at least, when Bauer requested that it lower the rates by two percentage points to ease the financial straits of the company in the aftermath of the crisis.<sup>46</sup>

As for raising funds, the railway companies as a whole, and MZA in particular, were heavily conditioned by the evolution of their liabilities, which over the years had been leaning dangerously towards external financing in the form of bonds.

The legislation of 1855 had sought to prevent abuses in this respect by limiting the issue of railway bonds, so it was stipulated that share capital of the company should be sufficient to cover completely costs of the construction and the rolling stock. The law was reformed on 11 July 1856, but its spirit remained – thus it continued to be the case that it was forbidden to issue bonds over 50 per cent of the share capital.<sup>47</sup> The MZA founders adhered to this quite strictly to start with, and only freed half of the first series to pay Salamanca the last instalment on the Alicante line.<sup>48</sup> However, when the difficulties began, the board of the company started to put pressure on the government to admit officially that the estimations of the costs, in spite of the subsidies, had hardly been realistic, and to allow the issue of new bonds to continue the works or to start paying off their current financial needs.<sup>49</sup> Aware of the difficulties of conceding more direct aid, the government preferred that the companies indebted themselves and so it successively modified the legal cap on the issues of bonds the companies could make, allowing them initially to go up to the total value of the capital social plus subsidies (act of 11 July 1860)<sup>50</sup> and, later, up to twice the capital, plus the subsidies received (act of 29 January 1862).<sup>51</sup> These were followed by further authorizations at the onset of the crisis that extended the limits to cover debts with credit entities (act of 4 July 1865)<sup>52</sup> and a final authorization to include with all the rest the value of the compensations paid in customs duties on materials imported by the companies

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<sup>46</sup> Letter from Bauer dated 1 January 1870, ARL, XI/109/101.

<sup>47</sup> Artola (1978c: 373 and 375).

<sup>48</sup> Letter from Bauer dated 3 July 1857, ARP, 132AQ 6160.

<sup>49</sup> Letters from Bauer dated 24 April 1861 and 13 November 1861, ARP 132AQ 6170 and 6172, and Artola (1978c: ch. 1). Bauer negotiated a special law to compensate MZA for the delay in the works in Saragossa. Letter from Bauer dated 16 June 1862, ARP 132AQ 6173.

<sup>50</sup> GM dated 20 July 1860. The law also exempted companies from the need to release the entire company capital to issue the total of allowed liabilities, thus reducing their obligations by half.

<sup>51</sup> GM dated 5 February 1862. The law allowed the issuing of twice the company capital plus the release of subsidies, at a maximum interest rate of 3 per cent. See Artola (1978c: 376) and Cameron (1971: 249) for further information.

<sup>52</sup> Casares (1973: 110 and annexes).

in previous years, which were now considered as additional subsidies when calculating new bonds (act of 24 April 1866).<sup>53</sup>

The issue of bonds seemed on the face of it to offer great advantages to the founders as it would reduce the partners' capital contribution while not taking away any of their control of the business.<sup>54</sup> However, the MZA board was not in agreement in interpreting the limits of such measures. Indeed, it was the Spanish members of the board who insisted most on increasing the issues, in opposition to those members from the Paris Committee.<sup>55</sup> It may well be that the latter, whose task it would be to sell the bonds on the Paris market, were more than wary after the experience in France a few years earlier which had spelled the end of the Grand-Central. But Bauer also had his arguments. If the sale of bonds had been frozen in 1861, as the Committee intended, the company would have amassed an end-of-year deficit of 8.2 million francs, which could never have been covered by subsidies or by the final instalment payment of the share purchase.<sup>56</sup>

For once the Spanish board members imposed their criteria, and immediately after the 1862 reform MZA issued two complete series of 100,000 bonds each. The aim was to continue to sell further series at a rate of approximately 100,000 new bonds in each of the following years, up to a total of 1 million bonds.

The inevitable outcome of all the accumulated discounts and of the way in which the balance had been paid was that, in the middle of a crisis, MZA, like the other Spanish railway companies, suffered an acute shortage of resources,<sup>57</sup> which threatened to put them in a tight corner if forecasted incomes were not achieved. Such a gloomy outlook, which only some had foreseen, became reality in the summer of 1864. When this happened, the company had already failed to cover its costs for two years, although this was not recognized until the company report for 1866.

In the wake of these problems caused by the overblown growth and irregular management of the railway projects, it was the turn of the banking sector to be hit by the crisis.

As Gabriel Tortella has shown,<sup>58</sup> a large part of the Spanish finance system of the time had been generated almost from nothing, under the 1856 legislation. The facilities the new law granted – covering the issuing of paper money and the level of reserves, along with the flexibility given to the actions of credit companies – went far further than had the previous legislation of 1848 and were much better adapted to the new times. Moreover, the eagerness to gain the profits

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<sup>53</sup> GM 25 April 1866. These rights amounted to 165 million pesetas. Casares (1973: 110).

<sup>54</sup> This would be the argument upheld by Tedde (1978b: 35) and Casares (1973: 109).

<sup>55</sup> Specifically Bauer speaks of “the reluctance of the Committee to continue with the sale of bonds”. Letter from Bauer dated 18 November 1861, ARP, 132AQ 6172.

<sup>56</sup> *Ibid.*

<sup>57</sup> An opinion supported by Nadal (1975: ch. 2).

<sup>58</sup> Tortella (1973).



it was believed the new activity would return and the desire to be first out of the blocks did the rest, and for the next eight years finance companies were springing up all over the country. All this activity, which to a large extent was a copy of the initiatives of the large French groups, reached its climax in 1864, when a record number of businesses were set up: 14 new credit companies and seven new issuing banks.

Yet this unprecedented phenomenon in the Spanish economy had some serious deficiencies. Tortella has pointed out that this brand-new financial system suffered from excessive geographical concentration, along with a general scarcity of share capital and very little diversification of investment. Added to this, the credit companies and banks had the dangerous habit of accepting railway shares and their own shares as guarantees in credit operations. The assets of many of these financial entities were also in the main limited to financing the railways, which meant that they would be the first to suffer the consequences the moment the railway companies began to feel the effects of the crisis.

Another of Tortella's arguments to explain the impossibility of taking advantage of the momentum of the railway and banking boom in Spain is that the investments were to a large extent made at the expense of other sectors, especially industry. Tortella claims that the enormous amounts of money tied up in the railways clearly had to come from somewhere and led to less investment in other areas. The excessive investment in railways, which was six times higher than in industry,<sup>59</sup> would, therefore, have been the indirect, yet overriding, cause of the scarce capitalization of Spanish businesses during those years. This argument has been partially rejected by Nadal who, not without reason, points out that the railways cannot be held responsible for the lack of investment in industry when we have evidence that a large part of the finance came from abroad and made few inroads into national savings. The argument gains in strength when we see that the traditional cotton industry of Catalonia, the industrial area par excellence of the time, suffered no problems attracting finance, even though this was the sole region where national savings were poured into the railway companies on a massive scale. It seems only to have suffered from other, non-financial, problems that affected the market, for example the fall in demand or the supply problems that the textile industry suffered on account of the American Civil War.<sup>60</sup> Much the same was happening in the fledgling iron and steel industry in Spain, which suffered unfair competition because of the exemptions on imports of railway construction materials.

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<sup>59</sup> In the case of investment in credit companies, the proportion was 1 to 2.4 in respect of industrial companies. Specifically, Tortella (1973: 170) gathered data from the Statistical Yearbook of Spain for 1864, which reports that the capital invested by companies in industrial shares amounted to 98.4 million pesetas for that year, compared to 654.8 in railway shares and 242.7 in credit companies.

<sup>60</sup> Nadal (1975: 39 and 205–209).

However, we have contradictory reports about the real consequences of the crisis for the evolution of industrial production in Spain in general and Catalonia in particular. Bauer, for example, in August 1864 informs the Rothschilds: “Poverty is widespread in Catalonia where most factories are not in operation; yet, in general, there seems to be little preoccupation with the situation, and interested parties are exaggerating its seriousness”.<sup>61</sup> Carreras<sup>62</sup> sees no significant decrease in the Catalan levels of production during these years, which rather seems to point to the negative climate’s only having lasted a few months, maybe coinciding with the fall of Atlanta to Sherman’s army and the final defeat of the Confederates in the American Civil War.

The situation regarding food production was not brilliant either. After some relatively good years during which the crisis of 1857 seemed to have been left behind,<sup>63</sup> there followed a string of bad harvests from 1864 to 1865 and exports stagnated, significantly affecting Spain’s trade balance.<sup>64</sup> This general cooling down of the sector also had negative effects for the railway companies as a good part of their traffic was in the form of foodstuffs and the fall in these meant a fall in average earnings per kilometre of railway. In MZA, these earnings dropped from a record high of 24,854.3 pesetas per kilometre in use in 1860, to a record low of 14,001.7 in 1865.

Other factors, not strictly related to the economic structure of the company, also played a part in the crisis. In particular, there were the problems caused by the return of instability in the Spanish political world and the knock-on effects this had for other variables.<sup>65</sup>

The fall of the O’Donnell government in February 1863, after more than four years of uninterrupted power, marked the beginning of the end of the Liberal Union and also of what was possibly the only political option capable of bringing together the majority of the conservative liberals in Spain. The following years were marked by instability (five governments in just two years and eight in total since the revolution of September 1868) and the growing conflict between the ultra-conservatives and the up-and-coming Progressive camp<sup>66</sup> for which Isabel II’s intransigence and lack of political vision certainly had its share of blame.

<sup>61</sup> Letter from Weisweiler and Bauer dated 14 August 1864, ARP 132AQ6180.

<sup>62</sup> Carreras (1990: ch. 2).

<sup>63</sup> This crisis has been studied in depth by Sánchez-Albornoz (1977: 27–68).

<sup>64</sup> See Vallejo (1999: 185–188) for more details of this aspect.

<sup>65</sup> As some authors note (Carr (1969) or Fontana (1973b)), among others, economic difficulties, and problems with the railway in particular, were among the most important factors that caused political tension during those years and among the main triggers of the revolution of September 1868.

<sup>66</sup> In the summer of 1864 Bauer described the first of several disputes between Prim and his group of Progressives as they sought to seize power. Letter from Bauer dated 16 August 1864, ARP 132AQ6180. This attempt was followed by failed uprisings in Valencia (June 1865) and Madrid (January 1866).

The political decline and the poor economic climate took their toll on the Public Exchequer, which was too rigid to assimilate changes and too ineffective to solve its financing problems. Opponents of the regime and many contemporary commentators<sup>67</sup> were open in expressing their view that the Liberal Union had missed out on a unique opportunity to put the accounts of the Exchequer in order and to introduce a tax reform, instead of encouraging phantom military enterprises in the Caribbean and Africa.

The first clear sign of weakness in the system was probably the check on the funds in the *Caja General de Depósitos*, which after years of uninterrupted growth reached their maximum in October 1863,<sup>68</sup> and then started to fall steadily until their liquidation in 1868 (see Figure 5.1). The *Caja* was an institution that subsisted exclusively on the funds that arrived in its accounts by various means and on its speculation on Treasury bonds. For its part, the Exchequer had got into the habit of systematically using almost all of the money in it, leaving just enough to pay the annual interests on the accounts. The system worked as long as there was a flow of funds from individuals into the *Caja* and from thence into the Treasury. However, when deposits suddenly dried up, the *Caja* was no longer a help to the government; rather it became a substantial hindrance.<sup>69</sup>

With no extraordinary resources to fall back on, the government turned its eyes again to the Bank of Spain and began to put pressure on it to resume its role of two decades earlier as financial supporter of the Treasury. In reality, the bank had never really ceased to be this. In fact, as we have already indicated, it had for some years quite consistently been performing the task of regularly rebuilding the cash reserves of the Mints.<sup>70</sup> It had also continued with the financial services of previous years, in which the assets of the Bank ceded to the Treasury had grown handsomely, to the point that they had doubled.<sup>71</sup> Given the more than likely possibility that operations with the Treasury would multiply, the directors of the bank began to prepare for possible overdrafts. From early 1864 they raised interest rates to 9 per cent, they borrowed from various London and Paris banks, and prepared to put into effect the authorizations of 1851 and 1856 to increase the bank's capital.<sup>72</sup>

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<sup>67</sup> Tortella (1973) or Artola (1986), among others.

<sup>68</sup> 1,927,908,411 reales (481.9 million pesetas); Gonzalo (1981: appendices).

<sup>69</sup> Artola (1986: 309).

<sup>70</sup> However, from March 1864 the Treasury had already started buying gold from the Rothschilds without the bank's intervention. From that moment and until the end of the year, the Treasury bought gold from the Rothschilds to a total of 20 million francs. ARP, 132AQ6178 and 6180.

<sup>71</sup> The increase was even greater between 1862 and 1864, as the quantity of bank assets devoted to the public sector went from 49 to 141 million pesetas. Schwartz (coord.) (1970: appendices).

<sup>72</sup> ABE, Secretary, box 993 and Tortella (1973: 254–255).

For the final operation, which would be carried out in April, it was decided to issue 15,000 new shares of 2,000 reales nominal, thereby increasing its capital from 120 to 150 million reales. The bank distributed these shares among its shareholders except for 1,599 which were not taken up and were publicly auctioned at a minimum of 4,140 reales. It should be noted that Weisweiller and Bauer took most of these in the bid (1,368 shares) at 4,180 reales, so gaining a hitherto unlooked-for privileged share in the Bank of Spain.<sup>73</sup> The tumbling stock values of the Bank of Spain during 1864 – the share price fell from 4,268 reales to 3,594 (Tortella 1973, appendix) – may lead one to conclude that they had overpaid, especially as the crisis were by then already rearing its head. Another view, though, is that the purchase was a vote of confidence for a rapid improvement in the situation or, simply, an outward sign of the support of the Rothschilds for their mainstay in Spain.

### The 1864 Collapse

In conclusion, by 1864 there was a series of problems, some circumstantial and other long-standing structural ones, which were a serious threat to the growth cycle and which would finally come to a dramatic climax in the summer of that year. Perhaps any one of them could have set off the widespread falls, but finally the turning point was once again a sudden imbalance in the accounts of the Exchequer.

Salaverría had returned to the ministry on 1 March, this time under the orders of Alejandro Mon. He was ordered to draw up an emergency plan to stimulate the economy, which he did in a programme containing three urgent measures which was presented to Parliament for its approval. The first of these was the total liquidation of the floating debt of the Caja General de Depósitos, to be executed through a previously arranged agreement with the Bank of Spain. The operation involved a double issue: a first one of 325 million pesetas in Treasury bills at 6 per cent. Like most of the operations of that decade it was to be guaranteed by promissory notes signed by the purchasers of confiscated goods, which the holders of the Caja de Depósitos could exchange at a par for the deposit slips of their accounts at the Caja; non-exchanged notes would be distributed equally between the Caja and the Bank of Spain, who would sell them directly to the public.<sup>74</sup> Complementing this, parliamentary authorization was sought for an extraordinary issue of 150 million pesetas in bonds at 3 per cent consolidated (domestic and

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<sup>73</sup> The House spent 1,157,345 francs on the purchase of 1,068 Bank of Spain shares (1,083.6 francs each). The remaining 300 belonged to Weisweiller and Bauer. ABE, Secretary's Office, box 993 and ARL I/I/47–48.

<sup>74</sup> These notes were created by law in 1853 and were widely used in 1860 to pay for campaigns abroad. Santillán (reed. 1960: vol. 2, 191), Artola (1986: 308), Gonzalo (1981: appendix and 488ff.) and Fernández Acha (1976: 313).

abroad), which Salaverría wished to suspend until seeing the results of the issue of notes.

Secondly, Salaverría proposed a new monetary reform, which has become known as the “nominalist” reform, under which a new unit of currency was created – the escudo (equivalent to 10 reales). The rights to cast gold were suppressed and the law on cast silver was also changed to the extent that its parity was slightly higher than its intrinsic value. This was enough to discourage its export and to create the forerunner of the partially fiduciary coin in Spain. Finally, Salaverría unveiled the first tax on the railway which he sought to offset by promising future subsidies on the customs duties the companies paid should the government have to cease its programme of subsidies for the construction of lines.<sup>75</sup>

The measures were quickly passed and appeared as acts in the *Gaceta de Madrid* of 28 June 1864. Their effects, however, were somewhat uneven. The monetary reform was recognized as being a useful and necessary step, but it was not effective enough since it was not accompanied by a wholesale recoinage, which meant that old coins remained in circulation. Neither did it simplify the complicated exchange system in Spain. As was to be expected, the railway tax was met with protests from the railway companies. However, while it may have done more harm to the smaller companies than to the two largest ones, its overall effects were not great. The conversion operation, by contrast, was a complete failure. The Caja General de Depósitos struggled to sell 82 million reales<sup>76</sup> and, worse still, the ensuing fiasco led to a gradual run on its funds, which proved to be the last straw. The institution stumbled along until its dissolution four years later.

The blow left the government in a delicate position. The Treasury had liabilities of almost 500 million pesetas at the end of August 1864, of which 85.3 per cent (1,684.3 million reales) was owed to the Caja General de Depósitos. In theory, to cover this it had 1,031 million reales in mortgage bills from the Bank of Spain, 600 million in unissued bonds of 3 per cent, 202 million outstanding from the Morocco compensation, and 26,466,000 in unsold transported mercury, not forgetting that the budgeted State revenue, excluding extraordinary income on debt, was 518 million pesetas.<sup>77</sup>

The Bank of Spain was no better off. The directors had put a large part of its prestige and means on the table, but their overconfidence had brought long queues of worried individuals to their counters seeking to exchange notes for coin.<sup>78</sup> The letters sent by the Madrid clearly showed how things stood:

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<sup>75</sup> GM dated 28 May 1864 and letter from Bauer dated 15 August 1864, ARP, 132AQ 6180.

<sup>76</sup> Sardá (reed 1970: 134–138), Fernández and Anes (1970), Sánchez Albornoz (1967: 9–10) and Gonzalo (1981: 321).

<sup>77</sup> Fabié (1898: vol. 1, 329–330) and Comín (1989).

<sup>78</sup> Torrente (1974: 365).

The Bank [of Spain] issues mortgage bills at 6 per cent interest, but it does not make a real issue; this will be done when there is demand, but there are no agreed subscriptions. The amounts requested are insignificant, next to nothing. From the end of the year the Bank has to start repaying the 2 million pounds the State borrowed from the English banking houses and, therefore, this amount will be paid in part by the 500 million reales in bills at 6 per cent. Should no market be found for these, the Bank will have difficulties in repaying its loans on London. As for the Treasury, it sorely needs a sovereign bond issue and I believe that [for this] the minister will once more prove to be approachable.<sup>79</sup>

The concept of “approachable” referred to the possibility of obtaining favourable conditions for one or more operations with the government, which was in a tight corner on account of the pressing need to find a way out of the crisis before the general public became aware of its real magnitude.<sup>80</sup>

Indeed, a few days earlier Salaverría had requested a meeting with Weisweiller and Bauer to talk about the bond issue and other emergency Treasury operations. The meeting was held on the afternoon of 6 August, and was attended by the Rothschild agents, Salaverría and Alejandro Mon. Some of the matters to be dealt with over the next five years were aired at the meeting, and important outstanding issues were brought up. From the outset the minister sought to be frank and laid down that his immediate aim was to issue as soon as possible the 150 million pesetas authorized, by public subscription and exclusively domestically.<sup>81</sup> He wished to grant the maximum facilities in order not to overburden applicants, who would be able to pay for the bonds in 8 to 10 payments over five or six months. They would enjoy a 2 per cent discount on the market price and preference would be given to small subscribers. The minister was counting heavily on the Rothschilds to go ahead with the operation and requested that they gave an indication of to what extent they would participate, while insisting that it would have to be at least a third part.<sup>82</sup>

The Rothschild agents promised an answer in 10 to 12 days the moment they received news by post from James and Lionel (in Paris and London), but they also

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<sup>79</sup> Letter from Weisweiller and Bauer dated 16 August 1864, ARP 132AQ6180. The note concludes with the same postscript used in all these letters during those months: “Our revenue [in MZA] is in any case bad from all the lines.”

<sup>80</sup> The Rothschilds were aware of these problems since they had extended all their outstanding installments with the Treasury at the end of July, a total of 4.1 million francs, until 31 October. On 23 August the same was done for another 1.03 million francs, although the discount rate rose to 7.5 per cent. Letters from Weisweiller and Bauer, 27 July 1864 and 23 August 1864, ARP, 132AQ6180.

<sup>81</sup> “... unless you (said Salaverría) give notice to the contrary and wish to take responsibility for a subscription in your House or for other markets abroad.” Letter from Bauer dated 7 August 1864, ARP, 132AQ6180.

<sup>82</sup> *Ibid.*

took advantage of the occasion to bring up the subject of the possible foreign bond issue and to link it to the old arguments of the holders of Spanish debt, knowing full well that sooner or later the Spanish government would have to come up with an official answer if the foreign exchanges were to be reopened to Spanish issues. The facts seemed clear enough to all present at the time: any attempt along these lines would have to overcome the twin obstacles of the demands of the holders of amortizable debt and those who still had unpaid certified interest coupons from 1841. Salaverría was all too aware of the problems of both but he did not wish to place them on the same level. He knew that the holders of amortizable debt had been protesting for years, because they understood that the system of amortizing the bonds disadvantaged them. However, in his opinion, these people had been taken in by a false publicity campaign paid for by speculators, which had promised a faster payment than stipulated by the official regulations.<sup>83</sup> As for the holders of certified interest coupons, the minister was insistent that their claims had more justification than those of the others. He believed that Bravo Murillo had committed a serious mistake in excluding half of the interest, but stated that he would deny it in public unless Parliament stipulated otherwise, although it might be raised as a priority issue when Parliament reopened. Meanwhile, Salaverría sought to convince the Rothschild agents to give him an advance of 5–10 million francs in gold, which could be considered as part of the bond issue.<sup>84</sup>

All the cards were now on the table. The only difference was that the Rothschilds and their agents were becoming more and more aware of the advantage they held over the minister. From that afternoon on and over the following afternoon, Salaverría had almost daily meetings with Weisweiler and Bauer, although not at

<sup>83</sup> A letter from Mon to French Foreign Minister Moustier, dated 7 February 1866, AMEFF, B-31189, with regard to the closure of the Paris Stock Exchange due to pressure from the French Committee of Amortizable Debts, explains in detail the origin of the problem of the amortizable debt. Since the conversion of 1851, the Treasury had rapidly redeemed these bonds, as shown in the table below. Apparently, when circulation had been halved in 1861, a small group of speculators gathered together most of the bonds. After they failed in their attempts to raise the price, they pressed the Spanish government to increase payments using all the funds promised by the earlier law. The government, however, declined to use more than the annual 26 million reales they had been using. Speculators then refused to present their bonds at auctions, so the number of bonds recorded had been virtually the same since that year. The name of the speculators is unknown, but we do know that Edouard Blount chaired the claimant committee. The Rothschilds held hardly any bonds of this kind.

Table 5.3n Second-class outstanding foreign amortisable debt (millions of pesetas)

1853	1854	1855	1856	1857	1858	1859	1860	1861	1862–63	1863–64	1864–65	1865–66
306	295	248	222	215	188	172	161	155	153	152	151	151

Source: Fernández Acha (1976).

<sup>84</sup> Letter from Bauer dated 7 August 1864, ARP, 132AQ6180.

the ministry but at the agency, in an effort to come to an agreement on the issue and the advances. It is surprising to see how the demands of the minister decreased as the bankers refused one by one his requests for an advance, the rates he offered to pay and any guarantees put forward for the mortgage bills. Finally, Salaverriá realized it was going to be impossible to get anything unless he was flexible. When the interest rate for the renewal of the Treasury bills with the House reached 9 per cent, he began to cave in and to offer other facilities such as the guarantee of the mercury against possible advances. He even went so far as to consider forgoing the apportionment of the sovereign bond issue in the case of the Rothschilds, allowing the family to take the amount they wanted on the incentive that the Treasury would pay 1 per cent of the stamp tax to all subscribers of bonds in France, which was paramount to giving them and their subscribers an automatic three-point margin on the market price of the bonds. Yet Weisweiller and Bauer thought there were still more pickings to be had.<sup>85</sup>

Much of the minister's weakness stemmed from the tense situation the government was in, and Weisweiller and Bauer were fully aware of this,<sup>86</sup> as anybody close to the political world must have been. However, they realized that the foreseeable fall of the government need not affect the bond issue or the mercury operations, since they were betting, like everybody else, on an O'Donnell government with Santa Cruz in the Exchequer, who would follow Salaverriá's line of negotiation. Meanwhile, the latter could join the board of MZA to replace the late Moreno, now that the senior civil servant had become a leading public figure.<sup>87</sup>

By 13 September the government crisis was a reality, just as the Rothschild agents had predicted,<sup>88</sup> although they had been wrong about the identity of the new government, since the queen called on Narváez, not O'Donnell, and his followers to form the next government. With the conservatives back in power the chances of reaching an understanding were considerably weaker. Even so, the

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<sup>85</sup> Letters by Weisweiller and Bauer dated 19, 20, 21, 22, 23, 24, 26, 27, 29, 30 and 31 August and 1, 2, 3, 5, 8 and 9 September 1864, ARP, 132AQ6180.

<sup>86</sup> Letters by Weisweiller and Bauer dated 1 and 2 September 1864, ARP 132AQ6180, include statements such as: "On the political situation ... we are confident that major changes are about to take place" or "The shortage experienced by the Treasury may be glimpsed in the press, which is quite a weapon for the opposition."

<sup>87</sup> Letters by Bauer dated 8 and 24 September 1864, ARP, 132AQ6180.

<sup>88</sup> "A cabinet meeting was held in the afternoon and, after more than an hour deliberating, it has unanimously recognized, with a hitherto unseen modesty in the constitutional annals, that the Cabinet is not to rise to the occasion. President [Mon] has taken this statement to the Queen with the resignation of all ministers. Since this morning a new Cabinet is being set up and the odds are for Marshal O'Donnell ... the return to power of Marshal seems to many people the best guarantee for the preservation of order, for the restoration of morale in the army, and for a more liberal development of political affairs." Letter from Bauer dated 13 September 1864, ARP, 132AQ 6180.



agents persisted in their belief that the operation could be finalized and they went so far as to pass on certain hopes of this to the Rothschilds after the appointment of Manuel García Barzanallana,<sup>89</sup> who encouraged them to push ahead with the operations they had agreed on at the last hour with Salaverría – that is, a loan to the Treasury of 6 million francs and another of 5 million along with a delivery of gold. But when Bauer offered the issue to the new minister under the same conditions as negotiated with Salaverría, it was refused on the grounds that the price of the bonds was too low and that the government preferred to continue to go ahead with the mortgage bills of the Bank of Spain, and offered Bauer 25 million francs. The Rothschild agent replied simply that “he was closing his eyes to the situation”.<sup>90</sup>

### The Crisis Spreads

Evidently the agent’s allusion was one of self-interest, but it certainly sums up a very delicate state of affairs, in which to do nothing seemed to be the worst alternative in the gloom-and-doom climate that reigned among the public, industry and the politicians.

The damaging coincidence of two fundamental events – the loss of income from the transportation of goods, caused by the sudden crisis in agricultural production, and the end of the deferment period on the payment interests on the bonds along with the start of amortizations – meant the crisis hit the railways first and hard. These events were accompanied by a saturation of railway bonds on the Paris and Madrid exchanges, causing the price of the bonds to plummet everywhere.<sup>91</sup>

MZA in particular ran into one difficulty after another from the second half of 1864. Its headlong rush into debt was out of all proportion to its income from the company, which had fallen from 26,000 pesetas per kilometre in 1861 to barely 19,000 in 1864, which was insufficient to cover growing Treasury needs at a time when bonds had to be paid (see Figure 5.3). To make matters worse, August 1864 witnessed a terrible fire at the Atocha station, where the loss of both materials and goods cost a massive 750,000 francs (some 712,500 pesetas),<sup>92</sup> though this was a pittance compared to the disaster of the Andalusia line mentioned earlier.<sup>93</sup>

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<sup>89</sup> Bauer described him as “A very learned and hard-working man, [and] great friend of Salamanca: he was also Minister of the Exchequer in 1857 and at that time he was given the unfortunate job of negotiating the loan with Mirès. *L’expérience lui aura profité.*” Letters dated 13 and 19 September 1864, ARP, 132AQ 6180.

<sup>90</sup> Letters by Bauer dated 26 and 30 September 1864, ARP 132AQ 6180.

<sup>91</sup> Tedde (1978: 120–123), Tortella (1973: 183–200 and 258–262) and Artola (1978c: 350).

<sup>92</sup> Letters from Weisweiler and Bauer dated 29 August 1864 and 3 September 1864, ARP 132AQ 6180.

<sup>93</sup> See footnote 43.

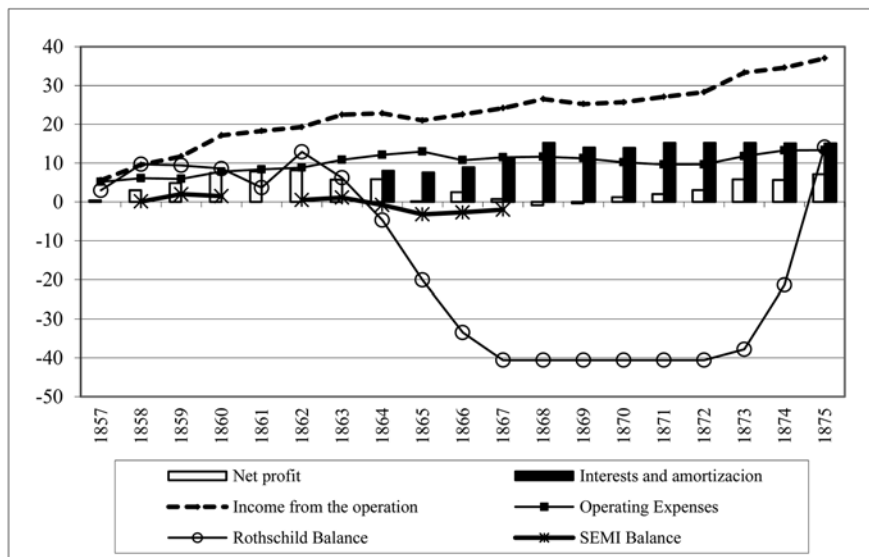


Figure 5.3 Annual incomes, losses and net profits of MZA and the balance of its account with the House of Rothschild, 1857–1875 (in millions of pesetas)

*Note:* Negative figures indicate a negative balance in the bank's favour.

The immediate solution lay in continuing to sell the bonds authorized in 1860, but the measure proved totally counterproductive. The desperate issue of three complete series on the French market was met with indifference and the fall in prices, leading to the bonds being sold at a growing loss and a subsequent increase in the real financial burden. In short, the stopgap remedy employed by MZA proved to be an enormous problem.

Borrowing on bonds having failed, the Rothschilds of Paris had to advance funds so that the company could keep up with its running costs. The first two of these were both for 5 million francs and were made in July and September of 1864. By 1865 the Rothschilds had lent the company over 25 million francs, but the figure continued to grow steadily, until in April 1867 the family decided that enough was enough. The sum had reached 42,754,000 francs.<sup>94</sup> The surety was 200,313 company shares that had been issued but remained unsold and which were deposited at the Paris House.<sup>95</sup> As we have indicated, the role of the SEMI was a purely subsidiary one.

<sup>94</sup> Gille (1967: vol. 2, 530–531).

<sup>95</sup> The House continued to lose with this guarantee because the value of the bonds was just over 130 francs, thus they amounted to only 26 million francs. Broder insists on this point (1981: 901).

To remedy the situation and to prevent bankruptcy, the board decided to stop paying the shareholders,<sup>96</sup> but James Rothschild and his agents refused to cease the payment of interests and to redeem the bonds. However, the situation could not be sustained over the long term the moment that, in 1867, the company deficit reached almost 12 million francs, and this on top of a financial situation that was on the verge of disaster.<sup>97</sup>

James Rothschild complained that a large part of the company's problems were due to the bad management of the early years and to internal conflicts between managers and the board. Some important changes to the composition of the board were made, such as disappearance of Mon (who was contributing nothing to the company) as chairman, the incorporation of Salaverría on the board as well as that of the prestigious French economist Léon Say on the Paris Committee as a replacement for Chatelus.<sup>98</sup> However, this was some way from the "spring clean" that James would have preferred.<sup>99</sup>

At least the MZA management problems did not reach the extremes of those of the SEMI, a company which had ceased to function effectively some years earlier and was merely existing, speculating with its portfolio in the hope that it could go into liquidation at the best moment,<sup>100</sup> unlike most of the recently created finance companies which were closely involved in the railway investments and which therefore suffered from the effects of the economic instability and the decline in business expectations. In October 1864 the crisis had meant the end of even such an emblematic company as the *Compañía General de Crédito*, owned by the Guilhous and Prost. Other entities found themselves similarly insolvent, although the balance of their accounts would take some time to become officially known. With no fewer than 17 credit businesses and banks closing their doors over the following four years,<sup>101</sup> the government dragged its heels as much as it could in the concession of new permits to open credit companies and other financial entities, including Salamanca's *Banco Hipotecario*, which was driven to issuing

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<sup>96</sup> The decision was taken on 1 July 1865. Gille (1967: vol. 2, 530).

<sup>97</sup> According to calculations made by Bermúdez de Castro, presented to the MZA board of directors on 12 November 1867 (ARL, XI/109/91), only an increase of 15 per cent in revenue would pay the interest on the bonds. Savings were implemented at all levels, beginning with the incomes of the board of directors, which were halved, resulting in the flight of some administrators, including Mon, who left the company without a chairman for two years. Gille (1967: vol. 2, 529).

<sup>98</sup> Letters from Weisweiller and Bauer dated 22 August 1864 and 24 September 1864, ARP 132AQ 6180, and MZA Memory 1864–1868. On 3 October 1864 Bauer confirmed the resignation of Alejandro Prompt, managing director of the company since 1861. He himself took over responsibility for the post for almost one year until he was replaced by Lemason.

<sup>99</sup> Gille (1967, vol. 2, 529).

<sup>100</sup> Letter from Weisweiller and Bauer dated 29 April 1867, ARL XI/109/91.

<sup>101</sup> Tortella (1973: 9, 244 and 258).

a series of mortgage bonds to keep the construction work going in its quarter of Madrid.<sup>102</sup>

The Bank of Spain tried to overcome its cash shortfalls and liability problems by renegotiating its debt and strengthening its reserves as far as it could. It reached an agreement in September 1864 with the French houses of Fould, Heine, Abarroa, Mallet and other smaller ones for a loan of 12 million francs at 18 months against national wealth bonds,<sup>103</sup> which would have brought some very welcome relief in what was a desperate situation. Even so, the bank had to make use of a hefty part of the outstanding 50 million reales increase in share capital which the General Meeting of 6 March 1864 had prudently approved “as a provision for coming events”. Official permission for the operation was applied for from the Minister of the Exchequer on 1 December of the same year “in order to respond to the difficult situation in which the Bank finds itself”. Barzanallana authorized it the following day. The shareholders quickly picked up one share at an equal value (2,000 reales) for every three old shares. The remaining 7,572 shares were offered publicly in January 1865,<sup>104</sup> and the Rothschilds again bought up the largest package,<sup>105</sup> thereby making them, if they were not already, the largest shareholder of the Bank of Spain.<sup>106</sup>

In spite of their swift actions, the directors of the bank came in for criticism from their shareholders at the meeting in March 1865. The session was almost entirely turned over to the business of the mortgage bills, an operation which some of those present claimed was illegal and prejudicial for the bank. Weisweiller had to take the floor to defend the administration, refuting the charges that had been made, arguing that the agreement with the Treasury had seemed convenient at the time and that following its failure, a vote of confidence was called for, although he made it clear that the directors had erred in believing that a decision of such importance did not need to be ratified by the shareholders. Weisweiller also aired his protest about the bill that had just been presented in Parliament to organize an advance of 300 million reales, and which he believed would seriously harm the

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<sup>102</sup> Salamanca tried to persuade the Rothschilds of the feasibility of the Bank of Spain project, although for Weisweiller and Bauer it was simply “dead”. Letter dated 20 September 1864, ARP, 132AQ 6180.

<sup>103</sup> Weisweiller and Bauer added: “there is no commitment to deliver gold but the Bank is requesting it”. Letter dated 15 September 1864, ARP 132AQ 6180.

<sup>104</sup> ABE, Secretary’s Office, Box 993, File 939.

<sup>105</sup> This time the agency did buy at a good price: 625.7 francs for each of the 1,100 shares, while the average for the quarter was 689,225 francs. Tortella (1973: appendix i) and ARL, I/I/47–48.

<sup>106</sup> At that time 3,642 Bank of Spain shares were drawn together, ARL, I/I/47–58 and ABE, Accounts, 2nd Shareholders Registry, books 13,255 and 13,261, sheet 220, 262 and 286. This information is not intended to contradict Robledo (1988), who does not include the Rothschilds in the group of main shareholders of the bank in 1852, 1861, 1871, 1881, etc. and “skips” some of the dates mentioned here.

Bank on account of the facilities the government wished to obtain in negotiating its mortgage bills at a discount, when according to the act of the previous June it was not allowed to negotiate below the par. Were this to occur, it was his opinion that the entity would be entitled to claim compensation.<sup>107</sup>

The Bank of Spain would have been satisfied with these figures and happily have used them had there been slightest leeway for manoeuvre. But by now the situation was way out of their control. Indeed, things continued to worsen over the following months to the point that the government had to come out in the bank's defence in the summer of 1865. It put pressure on the judges not to accept demands for the return of bills.<sup>108</sup> The government could little have imagined that it would be the very directors of the bank who would finally free itself of the charge, when they made a formal demand in 1866 to the Treasury for repayment of all advances currently in effect – 110 million reales in total.<sup>109</sup> It is likely that by then the bank had perceived that the problem really lay elsewhere.

### **The Search for a Way out of the Crisis**

The crisis was a serious blow to the Rothschilds' plans in Spain. Undeniably, they lost a lot of money, since they had no scale operation with the government, nor had they put up a single franc in MZA without the guarantee of return, apart from the shares they held. Yet it was undeniable that the expectations raised by such a sizeable mobilization of capital had not been met, and that many action plans would not go ahead. In spite of this disappointment, the family could not abandon its investments and its duties towards thousands of French savers so it became necessary to find new sources of income to compensate for the losses. This gave strength to the idea that any international sovereign loan should be linked to the concession of aid for the railways or to important changes in legislation. The main card for the Rothschilds lay in using the continuing difficulties of the Exchequer and their strong conviction that they should stick to their guns. From then on there is a clear correspondence between the company's financial operations with the State and the pressure exerted on the latter for aids and subsidies to be given to the company.

The main obstacle to a quick satisfactory solution to the conflict of interests between the company and the State was the rapid turnover in governments and the differing visions each government had on to how to find a solution to the crisis, both in terms of the railway problems and of the foreign debt. As usual, the Moderates sought to apply their restrictive policies and did all they could to contain costs and balance the budget. Hence, sovereign loans brought an increased burden

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<sup>107</sup> Minutes of the Shareholders General Meeting dated 4 and 5 March 1865, ABE, Secretary, Box 706.

<sup>108</sup> Tortella (1973: 275).

<sup>109</sup> Anes (1974a: 123–124).

over the long term that was not well received in their ranks. Although not directly opposed to issuing debt abroad, they favoured domestic solutions and disliked interference in this sphere of decisions. It was an issue marked by questions of honour and patriotism, the legacy of the well-known intransigency of their leader, General Narváez. The short Unionist government that followed the four years of the Moderates and which in turn was followed by the Sexenio tried, as did the Progressives later, to solve the debt problem the quick way. The government saw the sovereign loan as important only because of their interest in saving the railway investments and not as the only way to raise funds to help the Treasury out of its terrible liquidity problems. In consequence, they sought to take advantage of the dominant position of the Rothschilds on the Spanish debt committees to reopen the foreign stock exchanges to Spanish shares and so be in a position to mitigate to some extent the rigours of the crisis.

As indicated, the negotiations with Barzanallana in autumn 1864 did get off on the right foot, even though Narváez himself insisted on the government's wish to solve the problem of the State accounts quickly by speeding up the confiscations.<sup>110</sup> Yet the Bank of Spain's mortgage bills still found no takers, tax revenues continued to fall and the Exchequer accounts were on the way to an all-time low, following a record deficit of 186 million pesetas at the end of the year.<sup>111</sup> With no bond issues available, the minister set about seeking short-term funds to cover the growing needs of the Treasury. Among the first to be contacted were the Rothschilds, who received a firm proposal offering mercury in exchange for advances of funds. The deal did not go through because the bankers refused to delegate potential sales to the Finance Commission of London.<sup>112</sup> The government received other offers, some inadmissible, such as that of the Pereires, who were willing to lend 40 million francs to the Treasury over six months at 10 per cent and a charge of 5 per cent (*sic*), while others were barely solvent, such as that made by Salamanca, who was willing to advance money he did not have so as to save his real estate project in Madrid.<sup>113</sup>

Faced with such difficulties in raising funds, the government announced a rise in interest rates in December on the accounts of the Caja General de Depósitos,

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<sup>110</sup> Narváez ensured that a response from Rome would shortly arrive so that the sale of properties of the Church could continue, from which about 600 million francs could be obtained, which, he promised, would be devoted to amortizing the bonds at 3 per cent. Letter from Weisweiller and Bauer dated 4 October 1864, ARP, 132AQ 6179.

<sup>111</sup> Comín (1989: 443).

<sup>112</sup> Barzanallana offered to transfer 22,000 bottles of mercury to the Rothschilds at 7 pounds, while the value was 8 pounds. Letter from Weisweiller and Bauer dated 17 October 1864, ARP, 132AQ 6179. The transaction did not take place because Borrajo, chairman of the Finance Commission in London, had to use this mercury to guarantee other transactions, urged by the delays of the Treasury in the transfer of funds.

<sup>113</sup> Letters by Weisweiller and Bauer dated 29 October 1864, 13 September 1864 and 21 and 31 October 1864, ARP 132AQ 6179 and 6180.

which leapt from 6 to 9 per cent.<sup>114</sup> But this measure was not to be successful either and did not stem the continued flow of money from the institution, even if it did slow it down a bit. Barzanallana was therefore forced into asking for another deferment for the bills in effect<sup>115</sup> and he began to work on a bill for a forced bond issue (which the government preferred to call a “patriotic call”), to sell 500 million in mortgage bills among the largest taxpayers of the kingdom.<sup>116</sup> This went before Parliament at the end of the year.

The Rothschilds did not want to get swept along by the decisions of the conservative Cabinet and in March 1865, together with Barings, they presented a plan to the London Committee aimed at sorting out the Spanish foreign debt, in which the long-standing holders of the unpaid certified interest coupons would receive 50 pounds of deferred debt for each 100 pounds of certificates while holders of amortizable debt would accept a fixed amortization of 500,000 pounds a year for their bonds. The reception was mixed. The coupon holders’ committee accepted the intermediation of the two houses and also went along with the general conditions of the conversion, although the bonds were not to drop below 75 per cent of their value. The holders of amortizable debt refused outright to be drawn into an amortization period for their debts of 48 years, although they were open to a conversion to bonds at 3 per cent.<sup>117</sup> The Rothschilds felt the atmosphere was not completely unfavourable and passed on the committees’ decisions to Weisweiller, with the insistence that he negotiated with caution, because the consent of the Bondholders General Meeting was paramount if the bond issue was to be carried out when necessary.<sup>118</sup> Individually, the family adopted positions against possible changes, by increasing their portfolio of interest coupons from 64,940 pounds nominal (or 305,600 pesos fuertes) to 289,340 pounds, through five purchases of bonds by the London house between 16¼ and 16½ per cent.<sup>119</sup>

<sup>114</sup> The decision was reversed in February 1865, reducing interest rates to 7 per cent. Gonzalo (1981: 323–325), Sánchez-Albornoz (1967: 11) and Tortella (1973: 275).

<sup>115</sup> Barzanallana assured Weisweiller and Bauer that he had no funds to pay the half-yearly external debt unless the Rothschilds allowed him a few more months to return outstanding loans, a total of 11.5 million francs. Letter from Weisweiller and Bauer dated 11 November 1864, ARP, 132AQ 6179.

<sup>116</sup> Letter from Weisweiller and Bauer dated 17 October 1864, ARP, 132AQ 6179.

<sup>117</sup> Letters from the Committees of Spanish Certificates Holders and Spanish Passive Debts to N.M. Rothschild & Sons and Baring Brothers & Co. dated 13, 24 and 28 March 1865, ARL XI/109/86.

<sup>118</sup> Letter from N.M. Rothschild & Sons to Weisweiller dated 13 March 1865, ARL XI/109/86.

<sup>119</sup> Robertson’s attitude is also very significant (chairman of the committees of certified interest coupons and amortizable debts), showing enthusiasm for the possibility of closing the deal and the loan. He confirmed that he would readily take 100,000 pounds and would recommend the same to the rest of the creditors if the House of Rothschild and Barings issued the Spanish 3 per cent bonds at 45 per cent. Private letter from David Robertson to Lionel Rothschild dated 14 March 1865, ARL XI/109/86 and I/1/49–52.

However, there was no time to negotiate with Barzanallana, who abruptly left the ministry on 20 March 1865. It is not known if this was on account of the recent scandal caused by the Queen's proposal to donate a part of the Crown patrimony, which led to the famous article by Emilio Castelar "El rasgo" and the sad events of the Night of Saint Daniel,<sup>120</sup> or because of internal disagreements in the government. Parliament quite suddenly later passed his proposal for the forced issue of 300 million reales of bonds in mortgage bills with a discount of 12 per cent, and the issue of bonds at 3 per cent authorized the year before. The latter was launched exclusively domestically since the French government refused to allow the offer to be published in France in order to defend the interests of French holders of amortizable debt.<sup>121</sup> This was a stance that would have to be taken into serious account by the Spanish government in any future operations.

Following the unexpectedly successful issues,<sup>122</sup> the members of the agency observed that their businesses were picking up somewhat. This coincided with the new O'Donnell government and its policy of political détente based on the repeal of the Press Act, the extension of the suffrage, and the recognition of the Kingdom of Italy, and, in the economic sphere, the continuation of the confiscation process – which reckoned on a potential revenue of more than 1,100 million pesetas – and the putting into effect of measures to solve the country's foreign debt problem.<sup>123</sup>

Nothing very clear was stated about the railways and given the uncertainty surrounding the government's plans in this matter, Bauer sent his friends in the government suggestions for some immediate intervention measures which included the prohibition of lines that ran parallel to existing ones, the repeal of the law that levied 10 per cent on companies' products due to "high speed" (essentially passengers), reductions in the taxes on coal and iron, the need for the State to give new guarantees to the bonds, the sequestering of companies that were clearly bankrupt and disorganized due to insufficient directors. Other measures included relinquishing the norm used by the State for the transport of salt, tobacco, gunpowder, stamped paper and other monopoly articles, which generated huge expenses for the State at the time and which had no repercussions at all on the railway companies.<sup>124</sup>

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<sup>120</sup> The article was published in newspaper *La Democracia* on 24 February 1865. Isabel II had tried to sell off part of the Crown patrimony to her advantage, proposing a public auction in which she would graciously transfer 75 per cent of the value, keeping a quarter of the amount collected.

<sup>121</sup> Artola (1986: 309) and Gille (1968: 42).

<sup>122</sup> They must have sold well because their value was 90 per cent after one month.

<sup>123</sup> Letters from Weisweiler and Bauer dated 22 and 24 June 1865, ARL XI/109/87.

<sup>124</sup> Letter-report by Bauer dated 27 August 1865, ARP 132AQ 6182. MZA's case was strengthened a few months later thanks to another joint request from the group of companies to the government begging for immediate aid in order to solve their unfortunate situation. Mateo del Peral (1978: 148–149).



It was assumed that the new Minister for the Exchequer, Alonso Martínez – a politician with close links to the Crédito Mobiliario, and therefore to the Northern Railway,<sup>125</sup> and a man who, moreover, had been Minister for Economic Development in 1863 and 1864 – would be in favour of speeding up any possible measures to assist the railways. But the minister went much further and unveiled a general emergency plan to deal with the crisis, which was formulated in three bills.

Under the first of these, the government sought authorization from Parliament to carry out a general adjustment of the State accounts, which was covered by a decree to collect taxes and to draw immediately on the budget. Savings were made in public services and administration, including a gradual decrease in the salaries of functionaries until the accounts had been balanced. There was also to be a new issue of bonds at 3 per cent consolidated to raise 120 million escudos (1,200 million reales or 300 million pesetas). All these measures were designed to stem further growth in the deficit, to pay off earlier debts and facilitate a definitive solution for debts being claimed since 1851. In this respect, the bill established the recognition of the claims for the amortizable debts as well as those of holders of interest coupons, who were respectively offered the extension of the annual amortization fund to 30 million reales and the recognition of 25 per cent of the value of the old unpaid certificates. So, while it included considerable cuts, the bill responded to all the demands of the foreign debt committees.<sup>126</sup>

At the same time, a specific plan was presented to aid the railways. This was to be financed in part by the adjustment plan but it also included a series of proposals to help finance the completion of those lines already under construction as well as tax advantages which offered indirect financing to the companies as opposed to the traditional subsidies.<sup>127</sup>

Finally, a royal decree announced the creation of the Banco Nacional Español. The new entity was to be guaranteed by a syndicate of recognized London houses and was set up with the considerable capital of 12.6 million pounds (a little over 300 million pesetas), of which half was to be subscribed from the outset. The entity would take the form of a central bank, as in the past, carrying out the duties of government treasury and the mission to ensure fiduciary circulation in Madrid and the rest of Spain, to which end it was entitled to consider the takeover of the other issuing entities. Moreover, the new bank would be responsible for issuing and placing a bond issue in London of 100 million pesetas.<sup>128</sup>

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<sup>125</sup> Mateo del Peral (1978: 149).

<sup>126</sup> GM dated 8 May 1866.

<sup>127</sup> GM dated 25 April 1866. The draft authorized the government to advance funds to companies for the completion of lines in exchange for their own bonds and to use customs duty franchises as additional funds for the total bond issue.

<sup>128</sup> RD dated 4 April 1866, in GM dated 5 April 1866 and Tortella (1973: 277–278).

The minister's programme was the result of some deep thinking about the origins of the economic crisis and the extremities it had reached.<sup>129</sup> The plan was a reasonably balanced one given the circumstances. The spirit of the measures made it clear that help could not be given to the railways without substantial improvement in public credit and a recovery of confidence in monetary circulation. An increase in public debt in circulation was also ruled out if there was no support by a tried-and-trusted entity, which it was hoped the new Banco Nacional Español would provide. The emergency plan did satisfy almost all who had been affected by the crisis and it put into effect measures that continued to attract foreign capital at a reasonable price. The only complaints came, hardly surprisingly, from the Bank of Spain, which saw itself being side-lined and even threatened with being taken over by the new entity.<sup>130</sup>

Yet even before it could be discussed the latest project of Alonso Martínez fell through on 10 and 11 May when the news broke that Overend & Gurney, one of the largest shareholders in the new Banco Nacional Español, had gone bankrupt.<sup>131</sup> When it suspended payments, the commotion caused in the City of London was tremendous and immediately put paid to the financial basis of the minister's plan. He would have to proceed without any funds of his own and with no safeguard against the French moneylenders.

Despite the calls from the opposition, Alonso Martínez did not immediately resign and defended his proposed "authorizations" in Parliament in long, stormy sessions.<sup>132</sup>

The conservative opposition agreed with the government on the need to balance the budget, but they saw the law as bowing to speculators and foreign capitalists, even though Alonso Martínez had taken care to avoid criticism of the basis of the 1851 arrangement, recognition of any acquired rights by the old bondholders, or any qualification of the Spanish accounts that hinted at insolvency at that or any previous time. All this was highly paradoxical in the context of the discussions. Nevertheless, he insisted that the real issue to be discussed was whether or not it was desirable to take measures to open the foreign markets, something which everybody, even Barzanallana, agreed was desirable. But the opposition insisted that there was no room for bond issues or for recognition of debts. Alejandro Mon persisted that the prices at the time made it a bad moment

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<sup>129</sup> The preface to the creation of the Banco Nacional Español provides a synopsis of the political vision of Alonso Martínez and it is one of the best summaries of the economic situation of the time I have ever found.

<sup>130</sup> Tortella (1973: 278–279).

<sup>131</sup> Tortella (1973: 278–279) and Kindleberger (1988: 372–373).

<sup>132</sup> Alonso Martínez did have to resign on 30 May 1866, claiming to have "health problems". O'Donnell insisted before the Congress that the resignation had not been driven by any internal disagreement in the Cabinet and gave a vehement assurance that the government would not withdraw the project. GM dated 30 May 1866. Cánovas temporarily took over the Exchequer portfolio.

for any issue. Other members of his group, such as Claudio Moyano or Bravo Murillo (the latter in the Senate), argued for greater reductions in State spending or the massive dismissal of civil servants rather than any increase in State debt or giving in to the debt committees. Even Moyano, after a lengthy speech giving his motives for opposing the law, declared, in clear allusion to the Rothschilds, that he was not willing to “subject Spanish employees to a discount only to hand it over to London Jews”. Speaking on behalf of the progressive banks, Figuerola declared the authorization to be blatantly unconstitutional and attacked the failures that had led to the crisis, claiming that the government, both incompetent and bankrupt of ideas, had squandered a whole decade during which it could have brought in reforms at a time when credit had been accessible. The speech was an out-and-out attack on the economic policies of the Liberal Union and Salaverriá was forced to stand up and reply. The sessions dragged on for a full two months and, just as the Senate was about to begin its deliberations, there was the uprising of the Cuartel de San Gil (22 June). Narváez and O’Donnell had to abandon the session and suppress the mutiny, which ended with the execution by firing squad of 66 military personnel. General Calonge had no hesitation in stating before Parliament that the discussions of the bill had triggered the rebellion. Even so, the act went through without further problems.<sup>133</sup>

As for the bill to protect the railway companies, the draft underwent modifications during the debates which led to delays that would finally lead to its demise. Following another difference of opinion with the Queen, O’Donnell handed in his resignation.<sup>134</sup>

With the fall of the last Liberal Union government and the return to power of the conservatives, Bauer outlined a rather bleak outlook that would soon prove to be correct. Narváez took little time to dissolve Parliament and, with the end of the mandate, the new government had no reason to feel bound by earlier agreements. The new Minister for Economic Development, Manuel Orovio, was against any new laws to help the railways so the bill that had been awaiting authorization remained in limbo.<sup>135</sup> The situation was much the same with regard to the settlement of the debt and the bond issues, the bills for which had been passed, and which Barzanallana had opposed in the Senate. The government did not exactly withdraw them, but they remained suspended, as they were considered an attack on national pride and interests, despite the heavy pressures brought to bear by the railway companies and European governments, with the French at their head.

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<sup>133</sup> ACD, general series, file 131/14; *DSCCD*, 1866, pages 1214–2448 and GM dated 26 June 1866 to 1 July 1866.

<sup>134</sup> Mateo del Peral (1978: 150–152). The new railway law was voted on but the result was challenged by the opposition on the grounds of the lack of a quorum; the Minister of Exchequer sent a circular to all senators asking them to attend a new ballot, but presumably without any success. Letter from Bauer dated 12 July 1866, ARL XI/109/89 and GM 16 June 1866 to 10 July 1866.

<sup>135</sup> Letter from Weisweiller and Bauer dated 11 July 1866, ARL XI/109/89.

The Rothschilds and the Pereires tried to free the way forward by offering the government a loan of 25 million francs, an amount the Treasury was in sore need of, in exchange for presenting a bill that was similar to the one that had been frozen or for some type of help to the railway companies. No agreement was forthcoming but the government did listen to a group of French bankers, headed by Fould et Cie., former partners of the Pereires in the *Mobiliario*, who offered to issue bonds of 90 million francs. The issue would come to be known as the “Pagarés” – the “IOUs”.<sup>136</sup>

The Fould bond issue supposedly enjoyed the blessing of the French Minister for Finance,<sup>137</sup> but it meant a serious clash of interests for those banks who were keeping the railway companies afloat, especially the *Mobiliario*, and even for Napoleon III, who supported the claims of the French bondholders. Before the agreement was signed there was an attempt to make a three-way agreement between the Fould group, the Rothschilds and the *Mobiliario*, under which there would be an issue of 120 million francs of bonds that would take into account all the parties’ interests,<sup>138</sup> but the Spanish government was against the idea. It was then that the Association Nationale des Porteurs Français de Valeurs Mobilières (French Association of Exchange Agents and Brokers) refused to give the go-ahead to the Fould bond issue, in principle because of pressures from French holders of Spanish amortizable bonds, but undoubtedly because of pressure from the railway companies as well. Officially, the Paris Stock Exchange was closed to Spanish bonds,<sup>139</sup> as the London Exchange had been for decades, in spite of the protests by the ambassador to Paris, Alejandro Mon.<sup>140</sup>

The Spanish government turned a deaf ear to the French authorities, merely issuing a brief royal decree in support of the railway.<sup>141</sup> It contained three sections which included some of the proposals of the act that had been passed in July as well as other requests made by the railway companies. Under the first section, it backed down on the 10 per cent tax on passenger fares, although this amount would have to be applied to the payment of interests and the amortization of bonds.

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<sup>136</sup> Telegram from the French Foreign Minister to his ambassador in Madrid dated 21 December 1866, AMFF, B-31189.

<sup>137</sup> Achille Fould was by then Finance Minister. The fact that he left the post on 20 January of the following year should be borne in mind in order to fully understand the line of action taken by the French government during the following two years.

<sup>138</sup> Telegram from the French Foreign Minister to his ambassador in Madrid dated 21 December 1866, AMFF, B-31189.

<sup>139</sup> This measure was reinforced by a formal letter of protest from the British Association of Stockholders to Napoleon III, dated 7 February 1867, AMEFF, B-31,189.

<sup>140</sup> Mon did not understand why the Stock Exchange was closed to him, claiming that some bonds had been authorized for a decade and that interests had been religiously collected. Letter from Mon to the French Foreign Minister dated 7 February 1866, AMEFF, B-31189.

<sup>141</sup> RD dated 29 December 1866, GM DE 1-1-1867.

In the second section the government made three general stipulations: it declared the contracts with construction companies terminated should any company so demand; it expressed an intention to encourage mergers of railway groups in possession of over 1,000 kilometres of track, and it stressed its commitment to speed up the provision of the promised subsidies. In the third section, it announced that a commission was to be set up to study the concession of further subsidies. The French government did not see this as sufficient and the issue was not launched.<sup>142</sup>

The most surprising thing about the whole process is that the moment the process of negotiations we have described finished, the conservative government went back to its old contradictory ways. Not wishing to adopt radical reforms to overhaul the economic structure, nor any expeditious financial solutions, such as bond issues, it sought help in patching up the holes in its accounts from the same entities with which it had discussed the railways or the unpaid debts.

The House of Rothschild had closed no operations with the Spanish Treasury for a year and a half, but it now began to pay a proportion of the six-monthly payment of interest on the foreign debt for 1866, 1867 and the first half of 1868. This was done through short-term loans through the Paris and London Spanish Finance Commissions, to which they had to be returned over a stipulated time along with the interests, which were high. In addition, there were agreements signed to import metals for minting fresh coinage to make up the reserves of the Bank of Spain. These were either contracted directly or through the Treasury, where such operations began in 1867. One such loan – that of 22 September 1866 – entailed the recovery of the Almaden mercury contracts, which the Rothschilds had lost in 1857. From then on, most of the following loans were paid off from the account the Treasury held at the London House in the form of profits from the commission on sales of mercury.<sup>143</sup>

James and Lionel Rothschild would have preferred a quick solution to the debt crisis and the negotiation of a large bond issue instead of the contracts, especially if an operation of this magnitude could have served to shift funds towards the railways. However, continuing the lines of short-term credit linked to gold sales and mercury concessions offered numerous advantages, since it brought in a continuous high profit for the funds from the synergies of the other businesses of the House, and at little risk. As a result, it was not in the Rothschilds' interest either to force a situation in which they could make gains on all fronts and in all circumstances.

Barzanallana, for his part, was aware of his dependence on the Rothschilds, but did all he could to escape it. Thus, when it seemed that the only alternative

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<sup>142</sup> The French ambassador in Madrid, Mercier, understood that this was a good start for any eventual settlement, but his minister insisted: "Before authorizing a quote for the Spanish loan in Paris, an agreement that satisfies the interests of MZA and the Norte is necessary". Telegram from the ambassador in Madrid to his foreign minister dated 26 December 1866 and his reply dated 29 December 1866, AMEFF B-31, 189.

<sup>143</sup> Martín (1980: 254–275) and ARL, several files in the XI/109 series.

available was to give in to all their demands, the minister would unpredictably prolong his decisions or would turn to other banking houses so as not to give the impression that he was without support. There is evidence that in March 1867 he reached an agreement with one of the newcomers, the French Société Générale, to receive a loan of 25 million francs.<sup>144</sup> But this was an isolated occurrence, part of a growing number of measures to which the Treasury had to resort in order to meet its needs. According to the official government figures, the total short-term floating debt grew considerably under the last Moderate government, either because of the classical agreements with bankers or institutions or through new operations with the Bank of Spain, or as a result of the bills which, since November 1866, were drawn at one year by the Exchequer committees in Paris and London, with a discount of between 10 and 11 per cent and at 1 per cent commission<sup>145</sup> and which were to be used to pay the interest coupons on the foreign debt when the Treasury delayed forwarding funds, something that would have been hardly uncommon.

In May, Barzanallana, at least apparently, gave in and finally decided to make use of the solution to the debt envisaged under the old July act. In other words, the amortization fund for the liable debt was increased by 3 million pesetas and the conversion of 25 per cent of the value of the unpaid debentures during the Carlist War was accepted. However, the temperamental politician had a card up his sleeve: he obliged each bearer who converted his interest coupons to undersign a proportional amount of a bond issue at 3 per cent consolidated at 40 per cent of the trading price. With some 8 million pounds of interest coupons in circulation (about 200 million pesetas), the Treasury would collect 4.8 million pounds (approximately 120 million pesetas) in liquid funds. There was to be no transformation of amortizable debts into consolidated debt nor any attempt to subsidize the railways through non-recoverable funds. Moreover, Barzanallana refused to recognize any authority of the debt committees, from whom he sought no authorization, while at the same time demanding that the Paris and London stock exchanges be opened immediately. Weisweiller and Bauer expressed their concern at the response the public might give to what to them was an operation involving “a certain degree of blackmail” and one for which the Rothschilds were in no way responsible, and in which there was no direct profit to be made.<sup>146</sup> However, they did not deny that the minister’s announcement was, at least, something on which to start negotiating.

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<sup>144</sup> Gille (1968: 43). This company, chaired by the industrialist Schneider, had been founded in 1864 by former members of the Réunion Financière, which should not be confused with Belgian Société Générale, which was by then one of the major shareholders of the Norte company. Tedde (1978b: 27).

<sup>145</sup> This reached 128.3 million pesetas in October 1868. Fernández Acha (1976: 315–316). These figures do not include the mortgage notes of the Bank of Spain which had been at issue since 1864. Comín (1996: 163) points out that 750 million pesetas of these notes were issued between 1864 and 1873.

<sup>146</sup> Letters from Weisweiller and Bauer dated 14 and 15 May 1867, ARL XI/109/91.

The new negotiations were just as slow and unsatisfactory as the previous ones, with Barzanallana only agreeing to a certain commitment under which the railway companies might receive the excess amount from the conversion, if this exceeded 98 million pesetas – an amount which might turn out to be quite a lot less in the case of any last-minute devaluations. The agency, however, trusted that Spanish politicians with interests in the railway companies would bring sufficient pressure to bear on the Congress committee that was preparing the draft bill and would correct the government's blinkered attitude to some extent without this appearing to be the result of external pressure.

Indeed, a month after it began its labours, the committee put forward a final draft bill, which rather radically transformed the draft version proposed by the ministry. Under the new document, which would undergo only a few modifications,<sup>147</sup> the bases for sorting out the public debt were to be substantially reformed: amortizable debts were to be converted into asset debt, too, although bonds would not be changed one-to-one – rather the difference between their price at the time and an officially fixed price would have to be paid in order to receive the same number of bonds at 3 per cent consolidated, valued at 40 per cent of their nominal.<sup>148</sup> The certificates of unpaid interest coupons would not have to bear this added cost, and would be transformed exactly as Alonso Martínez had proposed, that is, they would be paid at 25 per cent in 3 per cent bonds abroad at 45 per cent, and would be paid on the following 1 July. There was also to be a foreign bond issue, distinct from that of the conversion, whose aim was to produce 100 million pesetas for the Treasury, which was to be used to bring down the floating debt. Elsewhere, an article of the draft bill that demanded the opening of the Paris Stock Exchange in 30 days was removed. Notwithstanding the importance of these changes, the most radical for the agency was the assumption that the 15 per cent of the net profits from the operations authorized would be used to succour the railways. The bill specified that the distribution of these amounts would be decided under a separate special act (article 7 of the same), but the initial calculations made by Weisweiller and Bauer had already established that they could contribute around 29 or 30 million pesetas, of which they were sure that 45 per cent would be for MZA and, although they considered the sum insignificant in terms of saving the companies, it could always be seen as a start for applying for more aid.<sup>149</sup>

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<sup>147</sup> GM dated 13 July 1867.

<sup>148</sup> In the conversion, amortizable bonds would not take their nominal value either but rather would be reduced until their value was in line with the following: 48 per cent of the nominal value of the outstanding bonds of amortizable first-class debt, and of deferred debt from 1834; 35 per cent of the bonds of second-class amortizable debt abroad; and 25 per cent in second-class domestic amortizable debt.

<sup>149</sup> Letter from Weisweiller and Bauer dated 14 May 1867, 28 June 1867 and 6 July 1867, ARL XI/109/91 and 92. The law regulating the arrangement (GM dated 13 July 1867)

Inevitably, faced with this new bill, the Rothschild agents advised their patrons to put pressure on the debt holders to accept the regulation and on the French government to help bring the issue to a close as quickly as possible. The next thing they did was to enquire of them openly about their availability to take on a bond issue, for which there were already several possible combinations involving the Société Générale and Barings.<sup>150</sup>

The relative ease with which the British and French creditors<sup>151</sup> accepted all the terms of the regulation, which were far from their earlier demands and which Comín finds so noteworthy,<sup>152</sup> is yet another example of the decision-making power wielded by the Rothschilds. In any case, the public's backing of the conversion by the European exchanges meant the operation was completely successful. A total of 500 million pesetas nominal at 3 per cent were issued, enabling the withdrawal of 345 million in old bonds. Moreover, the difference between the price of the various amortizable debts, which fluctuated between 28 and 35 per cent, and that fixed for the 3 per cent consolidated, allowed the Spanish Treasury to collect 92.5 million pesetas.<sup>153</sup> The downside would be the 15 million supplementary pesetas that would be borne by the budget in the following years to pay the interests on the new bonds.

Once the business of the "arrangement" had been brought to a more or less acceptable close, negotiations focused on how to provide the specific aid for the railway from the 15 per cent net profits of the conversion and from the bond issue, as well as on which banking house or houses would launch the business on the market.

The agency was keen to accelerate the process and so it gave some sweeteners to the Spanish Treasury in the form of short-term loans in order to create a good climate;<sup>154</sup> however, its plan rather backfired. Barzanallana took advantage of the occasion, as was becoming his wont, to slow down the bond issue process as much as he could. On this occasion he refused to announce the issue before the Paris price opened at 3 per cent, and since the French government was not willing to allow any opening without a firm commitment regarding the railways, the matter

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was passed after the Minister for State (Eusebio Calonge) and the Minister of the Navy (Gutiérrez de Rubalcaba) resigned in protest over the spirit of the law and its regulations.

<sup>150</sup> Letter from Weisweiler and Bauer dated 28 June 1867, ARL XI/109/91.

<sup>151</sup> Letter from Weisweiler and Bauer dated 26 July 1867, ARL XI/109/92 and letter from Barzanallana, dated 18 July 1867, to the Trustees of the Paris Stock Exchange requesting the acceptance of the conversion with the support of the Société Générale once an agreement had been reached with the committee for amortizable debts. AMEFF B-31, 189.

<sup>152</sup> Comín (1996: 162).

<sup>153</sup> Artola (1986: 316) and Comín (1996: 162).

<sup>154</sup> In particular, an advance of 6million signed on 1 July 1867.



became a tug of war, leading to a wave of protests from the French government and even from Napoleon III.<sup>155</sup>

Weisweiller and Bauer had a meeting with the minister in August at which they read him a letter from James Rothschild which sought to persuade him to change his position in the negotiations and to launch the bond issue without further delay. But the politician was sticking to his guns: “Señor Barzanallana has listened with religious attention and after some minutes of reflection has informed us: ‘Ask the Baron to give me an advance of ten million francs in gold ingots against bills at three months drawn on Borrajo [in London] or against the provinces with the guarantee of bonds at 3 per cent; I will be flexible regarding conditions the moment that the money is worth no more than 2 per cent of interest in Paris and London.’ This reply to the letter was (as Weisweiller and Bauer pointed out) like finding a hair in one’s soup, because you had criticized precisely such a system of debt issue against short term commitments and we have said as much to Sr. Barzanallana.”<sup>156</sup>

Such a course of action only served to strengthen the belief of the Rothschilds and their agents that Barzanallana did not want to go ahead with the operation, for the minister was never willing to put his commitments down in writing,<sup>157</sup> and when the French government finally authorized the bond issue at the end of September, he found new excuses to delay.<sup>158</sup>

The railway investors, who were counting on the funds to ease their liquidity problems, received all these delaying tactics with concern. They set about preparing new alternatives to speed up the issue or to find other assistance. Salamanca, meanwhile, sought to use his proximity to Narváez to push ahead a project to issue new railway debt bonds abroad, apparently with the support of four ministers, and unbeknown to Barzanallana.<sup>159</sup> Meanwhile, James Rothschild was having a series

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<sup>155</sup> Letters from Napoleon III to Narváez dated 31 July 1867 and letter from the French government dated 4 August 1867, forwarded by Weisweiller and Bauer on 4 July 1867, ARL XI/109/92. Napoleon III’s letter was a direct and diplomatic one to Narváez begging him to intercede on behalf of the railways. The general replied reaffirming the government’s commitment to helping the companies.

<sup>156</sup> Letter from Weisweiller and Bauer dated 7 August 1867, ARL XI/109/92. Alphonse Rothschild, in a letter to his cousins from London on 9 August 1867, expressed his total disagreement with the concession of this advance. A week later Weisweiller and Bauer reported that the minister had made the same request for a loan (10 million) to the Mobilier; letter dated 14 August 1867, ARL, XI/109/91.

<sup>157</sup> On 3 August 1867 (ARL, XI/109/92) Weisweiller and Bauer mentioned that “Barzanallana burst out in anger when he was asked for a written confirmation of all the commitments . . . which, from his point of view, should be . . . private and secret.” The scene was frequently repeated in the following months.

<sup>158</sup> The minister confirmed that he would not issue until the 3 per cent abroad value, which was around 32.5 per cent reached 40 per cent. Letters from Weisweiller and Bauer dated 23 September 1867 and 29 September 1867, ARL XI/109/92.

<sup>159</sup> The project consisted of a 100 million francs issue in securities at 6 per cent on the Paris stock exchange, at 70–75 per cent and an overall plan to set an annual grant of

of meetings in Paris with the Société Générale, the Crédit Foncier, the Pereires and the French Minister of Finance, Rouher, which led to a firm proposal of a loan of 100 million francs to Spain, on condition that half of the sum be forwarded to the railways.<sup>160</sup>

But neither the counteroffers by the financiers nor the Cabinet intrigues – were they real or carefully acted out by Narváez and his ministers – would get anywhere. Barzanallana continued to refuse to complete the issue to the, somewhat contradictory, despair of Bauer, since the Rothschilds went on lending to the government, and closed three operations for 18 million francs at a healthy 8–9 per cent interest rate. To cap it all, the minister managed to obtain a six-month renewal of the loan from the Société Générale and, without a word of warning, launched a new issue of 500 million reales in mortgage bills,<sup>161</sup> enabling him to close his budget at the eleventh hour. In February 1868 he resigned and the bill to aid the railways had not even been discussed in Parliament.

### **Epilogue to the Crisis: The Fall of the Isabelline Regime and Revolution**

A report by the French ambassador to Madrid at the time, Mercier,<sup>162</sup> sums up nicely what the government's strategy, especially Barzanallana's, had been during the crisis. He had prepared two lines of conduct to save the situation: either one opted for partial, random measures to keep moving forward in the hope of a gradual return to higher levels of productivity – something which did not occur either in the railways, the credit institutions or economy more generally; or one went for thorough-going policy reforms in the areas of customs, navigation, mining legislation and credit institutions as well as for a complete remodelling of monetary and fiscal policies to meet the needs of the economy – in short, a generalized process of economic ordering and liberalization that would have encouraged the return of foreign capital to Spain and a healthy improvement in the markets. The obstinacy of the government in sticking to the first alternative was in Barzanallana's view the cause of four long years of doing nothing to get out of the crisis. And all to avoid burdensome reforms which, truth be told, the Liberal Union did not adopt either.

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25 million pesetas for the railroad. Letters from Weisweiller and Bauer dated 30 August 1867, 3 September 1867 and 13 October 1867, ARL XI/109/92.

<sup>160</sup> Letter from Weisweiller and Bauer dated 29 September 1867 and letters from the House of Rothschild in Paris to the House in London dated 10 and 25 September 1867 and 9 October 1867, ARL XI/109/91 and 92.

<sup>161</sup> Letters dated 5 October 1867 and 9 November 1867, from Weisweiller and Bauer, and 20 October 1867 from Ettlting, ARL XI/109/92 and 93.

<sup>162</sup> Report by Mercier to the French Foreign Minister, dated 29 May 1867, AMEFF, B-31189.

It fell to a small group of intellectuals, Progressives and liberal democrats to drum up support for the reforms. They believed that the liberal survivors of the Carlist War had only gone halfway with the liberal project and had distracted the country from its aim of moving towards the triumphant policies of the leading industrial nations, which were essentially based on the liberalization of all economic sectors. The growth of these groups and the small, more radical, democrat-republicans was favoured by the atmosphere of economic crisis, the repressive attitude of the conservative government and the waning popularity of Isabel II, on account of her continuous political errors. The most important of these, although by no means the only one, had probably been the political defection of the Progressives, who had been systematically excluded from political power and decisions. This exclusion and the move away from the liberal budgetary policies of the government made it easier for the Progressives to avoid participating in official political activity and supporting the monarchy, and this was confirmed immediately after the bloody revolt at the San Gil barracks, when the Progressives joined the Ostende Pact recently signed by the main dissident groups, in August 1866. From then on, the breakaway opposition grew stronger and stronger and the repeated attempts at a military uprising by General Prim and his supporters became just a precursor to a movement that would sweep through the population as a whole.

Isabel II must by now have suspected or have been advised that the situation was nearing the point of no return and the news of O'Donnell's death on 5 November 1867 would only have heightened the crisis. His death left the Spanish political scene without its sole advocate for political consensus and finally it was torn apart altogether when the Unionists nailed their colours to the Ostende Pact and went on the offensive.

It is symptomatic that it was the day after the death of the duque de Tetuán that the Queen decided to open an account with the Rothschilds, supposedly to protect a large part of her personal wealth in the more than likely event of a downturn in the political solution. The operation was certainly a hushed-up affair, carried out by a group of recognized monarchists acting as frontmen (the marquesses de Alcañices, Miraflores and Santa Cruz), under the coordination of Manuel Cortina, the most prestigious and respected lawyer in Madrid and, curiously, a Progressive all his life. In just a few days they managed to accumulate all types of effects, and what with bills due English and Spanish consolidated bonds there was a sum of some 30 million francs,<sup>163</sup> which would remain safe at the Paris House for the next three decades.

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<sup>163</sup> Atanasio Oñate also collaborated and probably Alejandro Mon, too. The formal contract for the opening of the account was corroborated on 27 November in London, on the following day in Paris and, finally, by Weisweiller and Bauer and Manuel Cortina on 30 November 1867 in Madrid. These funds were used in subsequent years, among other things, to keep Maria Isabel Isabel II, and her husband, Prince Gaetan de Bourbon y Dos Sicilias, and Prince Alfonso in Madrid. In 1874 (8 May) Isabel II agreed with her husband,

Narváez's death the following April seemed to be almost a premonition of final demise of the Isabelline Regime. Bauer gave a bleak description of the daily sufferings of the general until his death was confirmed and with it the end of the regime:

Gentlemen. You have already learned by telegram of the death of Mariscal Narváez, whose suffering ended between seven and eight o'clock. Since yesterday, the outcome was inevitable. It appears that for the time being the Cabinet will remain as it is. It is clear that is of a provisional nature until the debate on the budget in the Senate. [He then outlines the three options for the new presidency, in which González Bravo would form an "action" Cabinet.]. There is agreement on one subject alone: that the death of Mariscal Narváez in the current state of affairs in Spain is an event whose consequences will not take long to be felt. The outlook is bleak for the railways: the Cabinet either resists or agrees to the projects prepared, although there is little likelihood that the Houses will vote to give a matter of this nature to a private administration with a prestigious head, so it seems that the issue of the railways will remain in the pipeline. Only the necessity of making money through credit might force a cabinet to give a boost to a matter made even more delicate by the circumstances of widespread poverty.<sup>164</sup>

Indeed, the new Cabinet of González Bravo, with Manuel Orovio in the Exchequer, showed signs of great weakness and a lack of political leadership. Orovio failed to close a sovereign loan on the colonies with the House of Bischoffsheim<sup>165</sup> as well as emergency loans with the Société Générale and with a group headed by Crédit Foncier, which all met with firm opposition from the French government.<sup>166</sup> After trying in vain to put pressure on the Rothschilds, the minister was finally forced to present the original aid bill in Parliament in May. The text went through, but when it reached the Senate, it was beaten back by speeches "against the company, against the Paris Exchange and those agitators who have abused and exploited public poverty". The government responded weakly to the criticism and shamefacedly withdrew the proposal, when it was incapable of achieving a quorum to

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Francisco de Asís, to pay him a fixed income of 150,000 francs from her portfolio. ARP, 132AQ 322 and letter from Weisweiller and Bauer dated 6 November 1867, ARL XI/109/93.

<sup>164</sup> Letter from Weisweiller and Bauer dated 23 April 1868, ARL XI/110/6.

<sup>165</sup> This loan was negotiated by Sánchez Ocaña. Letter from Weisweiller and Bauer dated 16 Apr, 1868, ARL XI/110/6.

<sup>166</sup> "Rouher [the French Finance Minister] held a meeting with the Société Générale and Crédit Foncier and asked them not to lend any money to the Spanish Government until the railway problem had been satisfactorily solved." Letter from Weisweiller and Bauer dated 10 April 1868, ARL XI/110/6.

push the act through. Miraflores, president of the Senate, resigned and went over to the opposition.<sup>167</sup>

Given the way the situation was going, the Rothschilds had begun to take steps in case the dark augurs for the government proved correct. They started to sell their Bank of Spain shares in March,<sup>168</sup> and, at the same time, the board of the SEMI decided to go ahead with the oft-proposed liquidation of the company, which was finalized between July and October 1868.<sup>169</sup>

Over the following months a series of circumstances which to some extent were a carbon copy of those that had taken the Progressives into power in 1854, confirmed the ruin of the Isabelline administration. The unpopular measures of the González Bravo government – which included a new law restricting the press and the exile of the Unionist military and the duke de Montpensier – and a new run of bad harvests, worsened by a steep rise in taxes, had made the situation unsustainable. September saw the generals carry out another uprising, led on this occasion by the Unionist Serrano and the Progressive Prim. A popular revolt followed which had the makings of a social revolution and which was more peaceful and widespread than its predecessor of 19–27 September 1868.<sup>170</sup>

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<sup>167</sup> Letters from Weisweiler and Bauer 6, 11, 19 and 21 May 1868, ARL XI/110/6, and Mateo del Peral (1978: 153).

<sup>168</sup> Joint account of shares of the Bank of Spain with the Paris House in 1868, ARL I/I/55–56.

<sup>169</sup> Tortella (1973: 135). The liquidation committee was not constituted until 31 December 1868, ABE, Registry file, 2nd transfer, file 553.

<sup>170</sup> Bauer sent a letter to Paris on 4 October 1868 after returning to Spain, and said: “Beloved Great Baron, I telegraphed you upon my arrival and would like to tell you that my trip developed without any setbacks: the country is calm, here everything looks *fort calme*. Everybody is alarmed, all roads of the Kingdom, all posts are occupied by the people ... I found Serrano’s speech a very “significant” event ... there is no Government yet and all administrative work has come to a halt ...”, ARL XI/109/96.

## Chapter 6

# The Great Operations of the Sexenio

As had happened in 1854, the generals behind the coup of September 1868 were not as liberal as the governments that followed them. Neither had the idea been to bring about such a sweeping transformation in the political world as that which finally occurred, and which nobody could have foreseen. Indeed, under the existing conditions it would have been more logical if the uprising had been an act to avenge the damaged economic interests of the crisis, to change the reigning dynasty and to impel some political shift towards more democratic values. But Prim, a convinced protectionist, opted to give Figuerola, one of the most emblematic figures of liberal economics in Spain, a free hand in organizing a lasting economic project for the new government. So one way or the other the changes were going to be extensive.<sup>1</sup>

Figuerola's team comprised well-known figures from the more doctrinaire faction of liberal progressivism, such as Gabriel Rodríguez, Ruiz Zorrilla, Luis María Pastor or Echegaray, none of whom wanted to squander the opportunity they had been given. The new government put forward a full-blown classically liberal programme, including a general deregulation of the economy, less State interference in the processes of production and freeing of exchange rates. One of the outcomes was the passing of a mining governance act (29 December 1868), which envisaged the State's renouncing some of its subsoil rights as well as offering more liberal concessions. Another was a new act on the constitution of finance, industrial and trading companies (19 October 1869), which no longer demanded the prescriptions of the old act of 1848. Greater freedom in foreign exchange became available with the customs duty of 4 September 1869. Finally, other long-awaited changes were made, such as the monetary reform of 23 March 1869, in which Spain adopted parity with the franc and an orthodox bimetallic system, which gave rise to the peseta.

The results of this process have been the cause of serious disagreements among historians of this period. Most<sup>2</sup> have valued the efforts of the politicians of the Sexenio, while arguing that there was nonetheless a failure to impose the fundamentals of the Progressive political agenda. The lack of coherence in the government's fiscal policy has been criticized for its failure to introduce its income tax, its ceaseless liquidation of State property, which placed in the hands of foreign investors the most important and strategic mining assets in the country,

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<sup>1</sup> Costas (1988) and Fontana (1973b).

<sup>2</sup> Artola (1986), Martín Niño (1972), Nadal (1975) and Tortella (1981), among others.

and the disastrous consequences of the scandalous accumulation of public debt and budget deficit. In contrast, other writers<sup>3</sup> have emphasized the benefits of the government's more flexible economic legislation which provided a more suitable framework for the industrial, trade and financial growth achieved during those years. For such authors it was the failure to sustain this economic framework that was a fundamental element in retarding the Spanish economy until the end of the nineteenth century.

The defence of one argument or the other is, of course, a subjective matter which can take us into deep ideological waters regarding the role of the State, the value of certain economic policies and the correct rate at which to introduce structural changes in a developing economy. While we can appreciate the possible effects that the reforms might have had in those sectors that flourished during this period, we must also evaluate the specific measures taken by the State from the moment that the Rothschilds began to be actively involved in some of its most important decisions. This will provide key data for understanding one of the most complex periods in the history of the economy of Spain.

### **The Bond Issue of 23 November 1868**

One of the basic elements of Figuerola's political project was the need to find a quick solution to the financial problems of the State inherited from the previous administration. According to the calculations, the Treasury had a deficit of 75–80 million pesetas and over 530 million in outstanding debts, including a little over 302 million in redeemable funds from the Caja de General de Depósitos, all of which was threatening to force the government to suspend payments. The minister proposed to solve the Treasury's problems in one swoop by consolidating all its debts, including those of the Caja, through consolidated debt issues. It may seem a huge contradiction for a government that favoured reducing public sector activity to the minimum to propose increasing an already excessive, unbalanced debt, but Figuerola had thought through his plan thoroughly. His view was that the State could not throw itself into sorting out the budget without first getting itself out of its financial hole. Better, he thought, to establish a six-year plan after which the level of debt and fiscal pressure could be progressively lowered.<sup>4</sup>

At that time Figuerola had two parliamentary authorizations to go ahead with his plans. The first, from 29 March 1868, empowered him to issue Treasury mortgage bills up to the amount of 125 million pesetas, while the second was the oft-delayed bond issue for 100 million pesetas which included a non-recoverable 15 per cent of the aid for the railways. After calculating his requirements he decided to pass on the first of these since it was not going to be profitable enough to settle all the outstanding accounts and to replace it with the issue of a new bond

<sup>3</sup> Costas (1984, 1988), Carreras (1999a) and Prados (1988), in the main.

<sup>4</sup> Martín Niño (1972: chs 1 and 2).

which would be known as the *Bono del Tesoro* (Treasury Bond) at 6 per cent over 20 years. This, if issued at 80 per cent of its nominal value, would raise the 500 million pesetas needed. As for the second authorization, he decided to put it into effect immediately, although not for the benefit of the railway companies, since the Progressive government was radically opposed to the former policies of subsidies and, in general, to any interventionism regarding private businesses.<sup>5</sup> It was much more an attempt to cover the short-term financing of the provisional government and to gain some leeway for future financial moves.

Figuerola waited barely a month before announcing the issue of the Treasury bonds and the bond issue for 100 million pesetas, which he put entirely in the hands of his main interlocutor of the previous years – the Rothschilds – having rejected all other offers made. In a contract signed on 23 November 1868,<sup>6</sup> the Rothschilds undertook to sell more than 320 million pesetas nominal in Paris and London, at 1 per cent commission and at the current market prices, or, put another way, almost 20 points below the price in effect when talks of the bond issue had begun. In short, Figuerola would issue at 33 per cent what Barzanallana had not wanted at over 50 per cent.

It should be noted that the Rothschilds did not take the whole issue in one go. Instead, they committed themselves to selling only 72.5 million pesetas nominal, with the option to extend this amount, if they so desired, up to the full amount of the issue (see Table 6.1). Neither did they take exactly the 33 per cent mentioned, since, along with the 1 per cent commission, there was a further 1.5 per cent to be deducted for the six-monthly interest payment which fell due. Then there was 1 per cent for the stamp tax abroad, approximately 0.6 per cent for an 8 per cent discount at 6 weeks, and 0.15 per cent commission on the advance – in total, some 4 percentage points lower than the figure quoted, which left the net value in London at around 29 per cent. Any increase on that figure would suppose a gain for the placer. From there on the amounts collected would be remitted in three monthly instalments to the Treasury, which would retain a further 15 percentage points, or some 15 million pesetas, which would then go directly into the railway funds. These, in turn, would be completed by an identical amount raised by the issue of the Treasury bonds.

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<sup>5</sup> RD of 28 October 1868, Fernández Acha (1976: 326–327) and Mateo del Peral (1978: 154).

<sup>6</sup> Agreement of 23 November 1868, ARP, 132AQ 41.



Table 6.1 Development and liquidation of the “One Hundred Million Peseta Issue” (figures in pesetas)

Contracts	Bonds handed over	Nominal sold		Contracted at 33%	Liquid amount for the Treasury
23 November 1868	72,500,000	Paris	147,050,000	48,526,500	Gross raised: 102,638,190.6 (31.82%)  Miscellaneous deductions: 8,767,411
14 January 1869	45,000,000				
19 February 1869	60,000,000				
9 March 1869	60,000,000	London	175,530,000	57,924,900	
22 March 1869	62,500,000				
16 April 1869(?)	22,580,000				
Totals	322,580,000	Totals	322,580,000	106,451,400	93,548,200 (29.1%)

Source: ARP 132AQ41 and ARL I/I/57-58 and Martín Niño (1972: 72).

Note: Exchange rates applied: 1 pound = 23.53 pesetas, 1 pound = 25.18 francs and 1 peseta = 1.0701 francs.

The business was a resounding success for the Rothschilds and the issue was sold in its entirety, despite some small hitches.<sup>7</sup> The government did not wish to wait for the operation to conclude before receiving the money, so it drew some of the amount in a series of short-term loans. These amounted to 40,876,278 million francs, which supposed a cost to the Treasury, what with interests and commissions, of a further 574,028 francs (pesetas<sup>8</sup>). With the rest of the funds raised, it paid the interests on the debt for the six months, another outstanding debt of 380,000 pounds to Barings and remitted the excess to Spain in gold through the Rothschilds.<sup>9</sup> James Rothschild was not to see the fruits of his last big Spanish deal. He died just eight days before the agreement was signed.

<sup>7</sup> Weisweiller and Bauer wrote in January that they were alarmed by the 28-point fall in value, which jeopardized margins on the operation. It was finally put down to the actions of those speculating on a fall. On the tenth of the month the price had fallen by 27½ points. Sales picked up noticeably after the elections, which gave the monarchists a majority over the republicans, something that was received favourably by the Stock Market and enabled the Rothschilds to continue selling at over 31 per cent. Letters dated 8, 10 and 19 January 1869 and 6 March 1869, ARL I/I/57–58.

<sup>8</sup> The decree creating the peseta of 19 October 1868 officially put it on a par with the franc.

<sup>9</sup> ARL I/I/57-58 and XI/109/96 and ARP, 132AQ 41. The sales of gold brought a profit of 113,046 francs for the Rothschilds. The final profit and loss account showed a

Over the following months the government's sole priority was to ensure that at least the amounts raised from the bond issue went to the railways and nowhere else and that the two large companies would not get too much of a lion's share. A parity committee was therefore set up. It comprised representatives from the companies and members of the Treasury and was to decide on the distribution criteria and the end purpose of the funds in order to prevent any possible rerouting of funds which were seen as being a public good. Figuerola was against including any companies that were not in real financial difficulty, or those that were not functioning or bankrupt beyond repair, but in the end almost every company participated, although this was no barrier to the larger companies deploying all their forces in an attempt to get the biggest pieces of the cake.<sup>10</sup>

Bauer saw to it that MZA benefited from the share-out. Despite Figuerola's resistance, the company received the largest fraction of its share directly from the bond issue funds – 97.5 per cent – and just 2.5 per cent in Treasury bonds, as opposed to the 58 per cent from the issue and the remainder in bonds made out to the bearer, which at the time of the share-out had depreciated to 55 per cent, instead of the 80 per cent in December. Overall, the MZA must have received 371 Treasury bonds, at 500 pesetas nominal, and 7,235,000 pesetas in cash from London. One is left wondering whether such a paltry amount would have been worth all the effort and conflict that emerged over the following five years.<sup>11</sup>

### **Competition from the Banque de Paris and Figuerola's First Financial Problems**

It was now that the most important Rothschild operations in Spanish public finances were to take place, although they would come at a price. Now that their efforts to reintroduce Spanish stocks had overcome the resistance of the European markets, other entities were in a position to bid for the huge debt deals that the new government was seeking to make. The Rothschilds were suddenly up against an unforeseen competitor in the form of the Banque de Paris, which would prove to be a sharp thorn in their side in the coming years. This institution had seemingly been set up with the purpose of "bringing together a group of banking houses which wanted to create some opposition to the Rothschild dominion of European

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profit of 7,663,969 francs on the operation, of which an eighth (941.362 francs) went to the agency.

<sup>10</sup> Along with its representative, the agency put four lawyers on the committee. Letters from Weisweiler and Bauer dated 30 November 1868, 19 December 1868, 31 December 1868, 23 January 1869 and 6 May 1869, ARL XI/109/96, 97 and 98 and Mateo del Peral (1978: 154).

<sup>11</sup> Letter from Weisweiler and Bauer dated 6 May 1869, ARL XI/109/98. Recall that the 24.568 per cent of the funds the government assigned to MZA was a far cry from the 45 per cent that the agency had been working with in 1867.

finances, which had been shaken by the death of James”,<sup>12</sup> that stalwart of the Paris House. The initial board was made up by the stockbroker Edmond Joubert, the Italian banker Cernuschi and another banker, Adrian Delahante, who had been on the first board of directors of the MZA and who had of late been a director of the Société Générale. For reasons that escape us this new entity targeted Spain as a priority. Its board of directors and its business sought to oust the Rothschilds,<sup>13</sup> and with this in mind they presented their credentials to the Spanish government along with a large-scale credit operation.

For Figuerola, the proposal arrived at a very opportune moment, following the total failure of the December bond issue<sup>14</sup> which had left the finances much as they were. According to the agency, the Treasury had in February paid off all the advances and once again had a deficit of at least 250 million pesetas, which would oblige it to apply for a new bond issue, unless Parliament preferred to suspend payments. The outlook was bleak and the agents showed little optimism in advising their patrons to dispose of the bonds they held as quickly as they could and so liquidate the matter of the bond issue.<sup>15</sup>

Figuerola refused to declare bankruptcy and sought authorization from Parliament for a new issue that would cover exactly the 250 million pesetas that the deficit amounted to, even though the first issue through the Rothschilds was still to be paid off. In this way, the ministry, calculating that tax revenues would fall, would be able to balance the accounts for the ongoing year. It is not known whether by this time he had reached a verbal agreement with the Sulzbach House of Frankfurt (which was acting as an associate for the Banque de Paris) regarding the conditions for it to take the bond issue,<sup>16</sup> but we do know that the relevant contracts were signed on 10 and 15 April 1869. The operation aimed to raise the said 250 million pesetas (1,000 million reales) through an issue of bonds at 3 per cent at home and abroad, which the Banque de Paris would take in a first batch of 230 million reales and the rest in four options, which it would place at various prices between 29.9 per cent and 31 per cent. Commission was set at 1 per cent, and an immediate advance of 230 million reales<sup>17</sup> was included along with a series of conditions that were, according to the Madrid House agents, “ambiguous and

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<sup>12</sup> Busssi re (1992: 23–24).

<sup>13</sup> Gille (1968: 5) and Busssi re (1992: 24–25).

<sup>14</sup> Figuerola raised barely 138.8 of the 500 million pesetas he had intended. The Treasury had to keep 179.1 million for a better occasion and to leave 293 million as a guarantee on the loans from the Caja de Dep sitos, Mart n (1980: 338), Mart n Ni o (1972: 73) and Artola (1986: 336–337).

<sup>15</sup> Letter from Weisweiller and Bauer dated 28 February 1869, ARL XI/109/97.

<sup>16</sup> Letters from Weisweiller and Bauer dated 9 February 1869, 31 March 1869 and 11 April 1869, ARL XI-109-97 and 98.

<sup>17</sup> Mart n Ni o (1972: 113–118).

not a little confusing”,<sup>18</sup> although we cannot say why there was a lack of diligence in the negotiations.

The issue, widely known as the “Thousand Million Issue”, was plagued with problems from the outset. Some could be attributed to the inexperience of the contractors and others to mistakes made by the Spanish administration. The operation was received from the outset by the markets with little enthusiasm,<sup>19</sup> although it was a bad move on the part of the Treasury itself, sowing panic on the Madrid Stock Exchange on 1 May that would ruin it completely. On the day in question, the 3 per cent bonds, which stood around 29 per cent, slumped first to 26.4, and then to 25.5 at the end of the morning, and there were no purchasers. After some enquiries it became known that the domestic bonds sold in Paris and put on the markets for sale by the *Crédit Mobilier*, Mercier, Stern and others bore a special mark distinguishing those which the government guaranteed – a small trace on the seal of the stamp with the numbers of the bonds which had indeed been published in the *Gazette* as being given in guarantee. How it was that the Banque de Paris was in possession of these bonds did not take long to be discovered: the Treasury had not had time to print the new bonds and, pressed for time, had handed over series assigned as guarantees for old loans, to a total of 230 million reales. When these bonds reached the sales halls the public came to the fatal conclusion that the Treasury had suspended payment on an operation and that some creditor or other was cashing his guarantees. Both the Banque de Paris and the Treasury sought to calm the traders and lived in the hope of a recovery that never came. For the remainder of the year the price hovered around 25.50 per cent.<sup>20</sup>

With the bonds beyond the pale, the Banque de Paris had huge difficulties in placing the rest of the issue, suffering immediate losses and entertaining few hopes of placing the whole issue. This led to several attempts in 1869 by the government and Delahante alike to rescind the issue or to pass it on to the Rothschilds. The Rothschilds closed ranks against any such possibility and against any commitment to an agreement with the Banque de Paris, which, in their view, had placed absolute control of Spanish public finances in their hands. This was a responsibility that they were not willing to assume for a country that was in the full throes of revolution

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<sup>18</sup> Letter from Weisweiler and Bauer dated 16 April 1869, ARL XI-109-98. As was habitual, the agency had a copy of the contract just hours after its having been signed, ARL XI/109/98.

<sup>19</sup> On 24 April, Weisweiler and Bauer could congratulate themselves for not having subscribed to the issue, and they related that purchase applications were so scarce that the Banque de Paris was forced to intervene through intermediaries to maintain the price, ARL XI/109/98.

<sup>20</sup> Letters from Weisweiler and Bauer dated 1 May 1869 and 16 November 1869, ARL XI-109-98 and 100.

and which had still to define its political and economic regime.<sup>21</sup> It was a role, however, that the Banque de Paris had seemed ready to assume.

The government continued to run into one problem after another throughout 1869. Following the trouble with the bond issue, which ended up being even more expensive than the previous one<sup>22</sup> and which brought credit in Madrid to a standstill, the climate grew tense with the internal disputes of the coalition government surrounding the choice of the new monarch and the escalation of the uprising in Cuba.

Prim made personal efforts in Paris to allay the fears of the Rothschilds regarding Spain's internal problems, but confessed to Alphonse and Gustave that the shortage of money would drive him to selling Cuba to America, even though Figuerola had already made contact with the directors of the Banque de Paris for them to pay the six-month foreign debt. For some months the selling of the island as a solution to the country's financial straits was mooted as a real possibility. The Rothschilds were willing to handle the financial aspects of the operation, although they discarded the idea of using Belmont, their agent in New York, as intermediary.<sup>23</sup> Finally, things fell through, though rather because of the refusal of the Cuban rebels and the scant interest shown by America. So the government began to look at other possibilities, including a humiliating reintroduction of the consumption tax, the elimination of which had been one of the rallying cries of the September revolt.<sup>24</sup>

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<sup>21</sup> Confidential letter from Weisweiler and Bauer dated 24 July 1869 and letters from Alphonse Rothschild, in Paris to Lionel dated 19 August 1869 and 27 September 1869, ARL, XI-109-99 and 100. On 20 October 1869 the Banque de Paris had to renegotiate its contract alone. This agreement can be found in Martín Niño (1972: 119–121).

<sup>22</sup> According to the calculations by Ardanaz, found in Martín Niño (1972: 72), the sovereign loan was issued 4 points below that of the 100 million, and so its real interest rose to 13 per cent per year, while that of the Rothschilds had supposed an already hefty 11.4 per cent.

<sup>23</sup> Letters from Alphonse Rothschild to the London House dated 5, 11, 14 and 28 August 1869 and 16 and 17 September 1869, ARL XI/109/99. In the letter of 19 August 1869 Alphonse told his cousins: "Today I have seen Mr Forbes [Grant's intermediary], who told us in confidence that he believes Spain would do well to make haste in finding a solution to the island of Cuba since, otherwise, it might well be too late ... that the American government had not yet considered the financial issue, that it would probably consent to guaranteeing a sum that was not in excess of 100 million piastras (500 million pesetas) ... I informed him that we would not request to intervene further in the financial matter and that he could assure the American government of our best disposition."

<sup>24</sup> Letter from Alphonse Rothschild to the London House dated 28 September 1869, ARL XI/109/99.

## The 1870 Almaden Contract

In the middle of all this turmoil, Figuerola again pleaded with the Rothschilds for a significant increase in their advances against the Almaden productions. He resorted to an option under the November 1868 agreement for an advance of 8,805,031.44 francs before March 1869. In the light of the political situation the bankers were reticent about granting the money but the minister was in such sore need of funds that he unilaterally extended the option for a further year, under the existing conditions for advances, in the hope that the Rothschilds would pick it up at some time and so assure themselves the contract through to the end of 1870 with the possibility of extending it a further three years.<sup>25</sup> The minister hammered away and, in all his meetings with Weisweiller and Bauer over the following months, pestered them to make use of the clause. However, the agents never felt any need to do so and the pressure would only stop when Figuerola left the post on 5 July.

On his return to government in November 1869 the minister managed to overcome the resistance of the Rothschilds, who had begun to consider making an advance for fear of losing the mercury business.<sup>26</sup> The contract signed on 24 November 1869 was for an advance of 8,805,031.44 francs, repayable through the sales of the mercury, and with the option of further advances up to six months later – in other words, through till 30 September 1870. In this manner the London House assured itself three more years of cost-free supply of Almaden mercury,<sup>27</sup> although this did not stop Figuerola asking for further advances the following month.

January came and with it Figuerola sought a radical change to his strategy regarding the financial problems in general and the mercury in particular. He put a series of measures before Parliament which included a bill for the unification of the debt and another for a general process covering the sales of national goods, which included the Rio Tinto and Almaden mines. This tied in with the government's idea of disposing of public sector assets and, among these, the Almaden mines continued to be one of the most liquid and profitable that the Treasury possessed. At the time the government valued its "crown jewel" at 50 million pesetas, Rio Tinto, at 30 million and other assets that together totalled 300 million pesetas of real estate which could be cashed in over the short term.<sup>28</sup>

The time had come for the Rothschilds to consider whether it might be better to purchase the mine outright or continue with their advances and risk a third party

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<sup>25</sup> Letter from Weisweiller and Bauer dated 10 June 1869, ARL XI/109/98.

<sup>26</sup> Letter from the Paris House of Rothschild to the London House dated 23 October 1869, ARL XI-109-100.

<sup>27</sup> Letters from Weisweiller and Bauer dated 20, 24 and 26 November 1869, ARL XI-109-100.

<sup>28</sup> Letter from Weisweiller and Bauer dated 19 January 1870, ARL XI/101. The possessions of the Crown are estimated to have been worth 400 million, of which the intention was to cash in half and reserve the other half for a new dynasty.

snatching the prize. The purchase option was quickly discarded since the Congress committee rejected that possibility and was only willing to consider a long-term lease of the mine. The Rothschilds' own agents advised against further advances on the mercury<sup>29</sup> while the bill was still being debated. They preferred to take no drastic measures but to declare themselves open to increasing the advances, even up to between 12.5 and 25 million pesetas and so keep the Almaden production firmly in their hands for a long period.

On this subject some authors have insisted that there was an earlier project on the part of the Rothschilds to gain control of Almaden and even that the advances made since 1866 were a strategy to force a long-term monopoly on the rights. In fact, the Treasury had received an offer from the New Almaden Mining Company to take control of the mines for 30 years in October 1867,<sup>30</sup> although it is not certain that the Rothschilds were behind this offer as supposed by Martín and claimed by Nadal,<sup>31</sup> on the basis of information provided by a Spanish engineer of the time, Lucas Aldana. The mistake lies in the belief that the Rothschilds controlled the Californian mines, which was simply not true. It is perhaps of interest, though, to recall some of the major events behind this matter and look at some information that will clarify the state of the mercury market at that time.

As we saw in Chapter 3, the agreements between the House of Rothschild and that of Barron & Forbes, the owner of the New Almaden concession, to control the world mercury market jointly at the end of the 1840s had been of a passing nature. Fierce competition had followed which had led to a series of problems in the trading and production of mercury during the 1850s.<sup>32</sup> From then on through to the end of the 1860s, the New Almaden mines went through all manner of problems which affected ownership, production and commercial competitiveness. In the case of ownership, the changes began in the immediate wake of the constitution of the state of California, when the new authorities questioned the authenticity of the documents of ownership presented by the old concession holders. This led to a drawn-out lawsuit which reached the United States Supreme Court and even forced Lincoln to intervene. The long conflict was solved in 1864 when the Quicksilver Mining Company, a New York and Pennsylvania-based company with Samuel Butterworth at its head, paid 1.17 million dollars for New Almaden. The new company was to operate thereafter until the beginning of the twentieth century in the deposits located in Santa Clara. Throughout this period the production possibilities of New Almaden underwent important changes.

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<sup>29</sup> Letters from Weisweiler and Bauer dated 11 and 21 January 1870 and 22 March 1870, ARL XI/109/101.

<sup>30</sup> Weisweiler sent the Rothschilds a copy of the contract proposed by James Eldredge, director of the New Almaden Mining Company, with the Spanish government, dated 26 October 1867, along with a report by a technician named Hawley, who had travelled to Almaden, ARL XI/110/6.

<sup>31</sup> Martín (1980: 374–375) and Nadal (1975: 111).

<sup>32</sup> Sánchez Molero (1859).

The first seam began to lose its spectacular returns of 36 per cent on average in 1850 and fell inexorably to 19 per cent in 1862, 11 per cent in 1865 and just 5.35 per cent in 1870. The decline was arrested in only 1871 when wells were drilled at great depth and important technological changes were introduced.<sup>33</sup> Almaden in the meantime had maintained its production levels, with tenors of around 5 per cent purity, but in vast quantities and of greater accessibility than those of the competition. Shipping costs, the potential of both seams and a real demand from the areas they served had combined to make the 1860s a period of relative calm between the two large producers, with two clearly defined areas of sales. New Almaden supplied the North American market, especially the Pacific coast of the United States, which was in full gold fever swing. Meanwhile, Almaden and a diminished Idria (in Slovenia) together covered the European demand. This had meant that the Rothschilds, after the 1866 agreement, were able to make reasonable profits from their sales in London and Paris, although not such spectacular ones as in the 1830s. So it was that, when the Quicksilver Mining Company was in contact with the Spanish government in 1867 regarding a long-term lease of Almaden, it was with the intention of ousting the Rothschilds from the market and imposing its own world monopoly on the mercury supply. The government turned down the offer but there is the supposition that the Rothschilds were able to impose their own rights through the succession of contracts they signed.

Returning to 1870 and the month of March, the Almaden business took a new turn when Figuerola decided to tighten the screws on the Rothschilds and try and force them into making a decision. He did this by including these mines as a mortgage guarantee for the sale of Treasury bonds that he was negotiating with the Banque de Paris. On learning of this decision, Bauer threatened the minister that the House would sever all relations with Spain and close its agency in Madrid if he transferred the contract to the Banque de Paris. The minister sought to placate the banker and insisted that the contract with the Banque de Paris left him one month in which to come to an agreement. Yet his stratagem had had the desired result and the Rothschilds came to the negotiating table with an offer of 1 million pounds (25 million pesetas), and since the minister wanted a bigger loan to cover a longer period, they finally hammered out a deal for 42 million pesetas at 8 per cent over 30 years. The contract was tied up with another for the commission-based sales of the Almaden production for an identical duration and likewise signed on 20 April, despite loud protests from the Banque de Paris.<sup>34</sup>

The Rothschilds proceeded warily for the market was not in a good situation and there was no reason why it should pick up in the next few years. They, therefore, drew up a masterstroke to minimize the risk involved in the operation. It consisted in combining the loan with a mortgage sovereign loan on the mine

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<sup>33</sup> Sánchez Molero (1859), and Samuel Purnell, "Remarks on Quicksilver", an article that appeared in the *Iron Newspaper* on 4 November 1876, published in ARL XI/109/123.

<sup>34</sup> Letters from Weisweiler and Bauer dated 18, 19 and 27 March 1869 and 5 April 1869, ARL XI/ 109/101.



itself, which would be issued to that effect. The amount of the instalments was meticulously calculated so that annual repayments on the loan were exactly the same as the yearly interests plus amortizations on the bond issue, which was further guaranteed by 60 orders of payment on the Comisión de Finanzas Española en el Extranjero, which were delivered when the agreement was finalized.<sup>35</sup> The Rothschilds did not, therefore, have to put up a single pound in an operation that was self-financing from the outset. Moreover, given that the sovereign loan was issued at 80 per cent, the first immediate profit from the agreement was the difference between the money raised by the sovereign loan and the amount of the loan – a little over 5.5 million pesetas (see Table 6.2) – regardless of any profit made from the sales on commission.

Table 6.2 Result of the combined loan and mortgage sovereign loan on the Almaden mines, according to the contract of 28 April 1870

	<b>Pounds</b>	<b>Pesetas</b>
Loan (A)	1,696,762	41,943,957
Commission 4% (B)	67,870	1,677,746
Net loan (C = A-B)	1,628,891	40,266,186
Sovereign loan (£ 2,318,100, issued at 80%) (D)	1,854,480	45,842,746
Net profit for the House of Rothschild(D-C)	225,589	5,576,560

*Source:* Contract of 28 April 1870 and ARL and I/I/ 1869, vol. 2 and 000/374 (1 pound = 24.72 pesetas).

The operation was followed by the inevitable mass sales of gold, with up to 70 million francs being traded between June and July, which accounted for almost all the loan and a part of deliveries by the Banque de Paris for those dates. This is hardly in line with what Figuerola's parliamentary opponents believed, claiming that the funds from the Banque de Paris had gone directly to the accounts of that bank in the renegotiation of the Treasury bond issue.<sup>36</sup>

Once this financial combination had been completely finalized, the agency set about assuring the mine's production levels so as to achieve a better outcome for the commercial contract. Having discarded direct management of the deposit, the decision was taken to delegate all such functions to the mining engineer, José Monasterio, a prestigious technician who enjoyed the confidence of both the government and the agency, and a person whom the Rothschilds decided to reward with an extraordinary allowance of 300 pounds a year plus expenses. Together, Bauer and Monasterio drew up a plan of technical improvements for the mine which required an order of payment on a special amount of 500,000 francs to purchase machinery. The money was put

<sup>35</sup> Martín (1980: 380).

<sup>36</sup> Martín Niño (1972: 77–78), Martín (1980: 377) and Artola (1986: 338–339).

up by the Rothschilds under the same conditions as the loan.<sup>37</sup> The result of these dealings was, among other things, that over the ensuing years the mine experienced a spectacular growth in output of more than 33 per cent in the two following decades.<sup>38</sup>

At the same time, the Rothschilds were scheming to cause a swift rise of prices in London which, although it did not last more than two years, lasted long enough, along with the rise in production, to provide a healthy increase in the Almaden profits. The details surrounding the commercial development of Almaden will be dealt with later.

### **The Operations of 1871**

The second half of 1870 brought new complications to what was already a difficult scenario for Spanish politics. There was the thorny issue of the future of the monarchy as well as the looming bankruptcy of the Exchequer. It was the first issue that made the most noise from the moment the unforeseen Franco-Prussian War broke out in July as a consequence of (or at least on the excuse of) the nomination of the candidate to the throne of Spain,<sup>39</sup> which ended patchily with Amadeo de Saboya on the throne and the assassination of Prim.

The war in France brought the businesses of the House of Rothschild to a standstill since the Paris House was isolated for almost all this time, and any dealings regarding Spain were carried out in New Court. Correspondence went via Lisbon and even payment of the MZA interest had to be transferred to London, and not without difficulties.<sup>40</sup> Operations were therefore limited to the trading of mercury and the odd bid for American tobacco. By the time the situation had returned to “normal”, Figuerola had left the ministry for good and had been replaced by the Cadiz-born Segismundo Moret, who inherited his predecessor’s legacy and a budgetary debt of 250 million pesetas and another of 500 million in the Treasury accounts.

Moret tried to sort out the mess by applying to Parliament for a series of firm legal measures to tackle the crisis. These included a new regulation to manage the floating debt, envisaging an increase in the official rate of interest to 12 per cent, which was more in line with the real situation of the operations negotiated over the recent months; an issue of 225 million pesetas in Treasury notes, and a new bond issue for consolidated debt, as well as other measures to guarantee the payment of

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<sup>37</sup> Letters from Bauer dated 15 and 26 June 1870, ARL XI/109/102.

<sup>38</sup> Specifically, the figure rose from an average of 27,716 flasks per year between 1860 and 1869 to 36,824 between 1870 and 1879 and 48,130 between 1880 and 1889. So increases were 33 and 31 per cent.

<sup>39</sup> The Rothschilds closely monitored this matter. For a summary of this, see Ferguson (1998: 706–709).

<sup>40</sup> Letters from Bauer to the London House dated 28 November 1870 and 18 December 1870, ARL XI/109/103.

the railway subsidies.<sup>41</sup> The specific measures Moret took to pay the interests on the domestic debt – some 106.9 million pesetas for the six-month period – are not known. We do know that the external debt for the same period stood at 35 million pesetas (approximately 1.4 million pounds) and that Moret directly requested a loan of 425,000 pounds from the Rothschilds to top up an operation that was being carried out by a group of bankers known as the “Madrid Syndicate”. The group was basically made up of the Urquijo y Aranzana House and it would assume unusual importance during these months and the remainder of the Sexenio.<sup>42</sup> The Treasury was to pay the House the stipulated 12 per cent interest on the operation and guaranteed repayment through bonds at 45 per cent, along with a further 1 per cent commission. All in all, this amounted to 20–22 per cent annual interest in the likely event of its having to be cashed in.<sup>43</sup>

Now that the most pressing debts had been seen to, the main concern was to sort out the knotty problem of the old contract for the sale of the Treasury bonds, which went back to the previous March and signed, as we mentioned, with the Banque de Paris. This led to a situation of near lunacy: Figuerola had agreed with the Banque de Paris the issue of the whole bond portfolio – 350 million pesetas – in several instalments, but at a rate of 66 per cent and under conditions that were almost double the interest had the Treasury kept the bonds in portfolio. The bank had sold only 147 million nominal, but under the terms of the contract the Treasury could neither renegotiate outstanding bonds nor draw on the State’s alienable wealth, which was mortgaged under the bonds. Moret renegotiated with the Banque de Paris how to terminate the contract and, after an exchange of threats, it was decided on 18 March 1871 to leave the figure at 170 million pesetas and that 20,834 bonds at 72 per cent were to be passed to the bank by way of compensation, which meant a free payment of at least 7.5 million pesetas, or even 10.47 if the nominal value was taken. Parliament rejected the agreement in all its parts, although before this occurred the Banque de Paris had, with some Spanish partners, set up the Banco de Castilla in order to make use of the 246,850 bills of 2,000 reales that it still held, trying to sell them at 82 per cent. As was to be expected, the issue brought about yet another failure.<sup>44</sup>

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<sup>41</sup> Martín Niño (1972: 55–58) and Artola (1986: 329–330).

<sup>42</sup> Urquijo y Aranzana was set up on 28 June 1870 by the nephew of Estanislao Urquijo, Juan Manuel de Urquijo y Urrutia, Benito de Aranzana y Echarri and, in its early years, Federico de Belausteguigoitia. Other later partners were Lucas de Urquijo y Urrutia and Luis de Ussia. The company was liquidated in 1879, with the withdrawal of Aranzana, giving rise to the firm Urquijo Hermanos. ABE, old register, 1st transfer, file 529.

<sup>43</sup> Letters of 8 January 1871 and 15 May 1871, ARL XI/109/104.

<sup>44</sup> Letters from Weisweiler and Bauer dated 11 and 17 April 1871 and 1 and 3 May 1871, ARL XI/109/105 and Martín Niño (1972: 75–85 and 113–143) and Artola (1986: 338–390). The matter of the bonds would be resolved in February 1872, when the minister Santiago de Angulo decided to rescind the contract, without compensation, with the acceptance of all the operations realized up to that moment.

The minister immediately decided to go ahead with the issue approved by Parliament which he intended to use to pay off the cost of terminating the contract with the Banque de Paris, along with other current demands.<sup>45</sup> He offered the issue in its entirety to the Rothschilds whose Paris House was very reticent about taking on the operation.<sup>46</sup> However, they eventually warmed to the idea as market prices continued to rise. They actually had to renegotiate the conditions of the issue with Ruiz Gómez, following Monet's rapid departure from office.

The operation consisted of placing 3 per cent consolidated bonds, which would be enough to raise 150 million pesetas in cash. They were to be placed both in Spain and abroad. On this occasion the Rothschild participation lay not so much in organizing the whole issue as in collecting and managing the funds raised from the subscriptions in Paris and London. The Treasury placed other agents for the smaller amounts to be placed in Amsterdam, Lisbon, Madrid and the provinces. The Rothschilds did, however, guarantee to sell 300 million nominal, of which at least 50 million were to be from the Madrid subscription, although they would, for the effects of the stamp, be considered as Paris issues. Commission was slightly less than that for the issue of 1868–69 – 0.75 per cent – 1 per cent if we add on the 0.25 per cent commission on money raised.<sup>47</sup>

The subscription was an unexpected success even for the Rothschilds who could never have anticipated an eightfold demand for the bonds at a time when the market appeared to be saturated by the bond issue of 2,000 million francs at 5 per cent that the House had organized with the Paribas (Banque de Paris) for the French government to pay the German government war compensation. The Treasury, as Table 6.3 shows, received 143,876,515 pesetas, of which the Rothschilds had collected between Paris and London 104,079,835, or 72.34 per cent. Again, as was becoming the custom, the government ordered the large part of the amounts collected abroad to be delivered in gold bars, including the amounts raised by the House of Hope in Amsterdam, under their part of the contract.<sup>48</sup>

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<sup>45</sup> One gets an idea of the penuriousness of the situation from a simple remark made by Weisweiler and Bauer in a letter of 3 May 1871, ARL 000/374/1, in which they state that “Neither the Bank of Spain nor the Treasury could buy gold and silver until lent the money to do so.”

<sup>46</sup> Letter from Weisweiler and Bauer dated 7 July 1871, ARL XI-109-106.

<sup>47</sup> Letters from Weisweiler and Bauer dated 24 July 1871 and 30 August 1871, ARL XI-109-106.

<sup>48</sup> Letters from Weisweiler and Bauer dated 29 and 30 July 1871 and 6 September 1871, ARL XI-109-104 and 106.

Table 6.3 Subscription and net funds raised on the issue of the sovereign loan of 27 July 1871 (figures in pesetas )

Points of sale	Nominal amount of the subscriptions presented	Nominal amount of the bonds adjudicated	Cash amount at 31%	Deduction of interests on the last term	Cash produced
Madrid	565,441,000	70,504,000	21,856,240	1,057,560	20,798,680
Provinces	125,883,000	15,999,000	4,959,690	239,985	4,719,705
Lisbon	31,861,000	4,020,000	1,246,200	60,300	1,185,900
Paris	1,384,856,000	170,275,000	52,785,250	2,554,125	50,231,125
London	1,479,949,000	182,538,000	56,586,780	2,738,070	53,848,710
Amsterdam	360,120,000	44,381,000	13,758,110	665,715	13,092,395
<b>Totals</b>	<b>3,948,110,000</b>	<b>487,717,000</b>	<b>151,192,270</b>	<b>7,315,755</b>	<b>143,876,515</b>

Source: Martín Niño (1972: 87).

Amadeo of Savoy awarded the Grand Cross of the Order of Charles III to Alphonse Rothschild and Ignacio Bauer for their collaboration in the operation, and it was then that the loyal agent wrote sardonically to Paris: “I believe that Baron Alphonse should write a letter [of thanks] to the King in the next few days, if there is a king still to write to!”<sup>49</sup> The remark alluded to the problems that the King, as having in persuading any politician of standing to take over the reins of government from Ruiz Zorrilla. Certainly, the last bond issue had done little but prolong an unsustainable political situation and any financial triumph of the government’s was short lived. Before the year was out, Ruiz Gómez had to return to the Rothschilds and the Madrid Syndicate to ask for another advance to cover the interest payment on the debt.<sup>50</sup>

### The Slump in the Progressive Economy

Moret’s proposal, which Martín Niño has called “the last serious attempt to normalize the Treasury’s debt situation”,<sup>51</sup> also spelled the breaking point for Spain’s public finances. After four years in power, the revolutionary democrats had taken the consolidated debt up to almost 3,000 million pesetas with barely any effects for the State accounts, which had accumulated annual deficits of over 200 million pesetas. The system had become so incongruent that it meant that

<sup>49</sup> Letter from Weisweiller and Bauer dated 4 October 1871, ARL XI-109-107.

<sup>50</sup> The advance on this occasion was 2.5 million pounds (some 62.5 million pesetas) and the Rothschilds’ share was 3 million pesetas. Letter of Weisweiller and Bauer dated 15 December 1871, ARL, I/1/62.

<sup>51</sup> Martín Niño (1972: 57).

income from the debt, however bad the prices, was always below interest payments for the years in question. At no time did the government manage to balance its accounts, although its debts certainly increased. In order to settle these it was driven to sell off national assets, to issue new debt and to take emergency loans. So the measures taken simply fed back into the debt in a vicious circle which generated not only higher interest rates but also took the Treasury's floating debt to levels that would have been unimaginable even during the time of the reviled *Caja de Depósitos*. On top of this were the extraordinary costs occasioned by the Third Carlist War (1872–76). The situation was made even more unreal by the fact that the Spanish debt prices remained relatively stable, although any observer would have discovered that these were sustained solely by the concatenation of bond issues and by the actions of speculators. Meanwhile, the State had to devote more than half its income to the payment of interests, and was in no position to react to the situation. It seemed only a matter of time before a formal declaration of bankruptcy would have to be made.<sup>52</sup>

In the first of his ministries – 20 February 1872 to 13 June 1872 – Camacho tried to set the situation to rights by taking some drastic measures. His plan began by setting aside any illusions about balancing the budget and insisting on finding an end to the ruinous bond issues. His idea was to reach an agreement with the public debt holders which include a voluntary sacrifice of seven or eight years in which the interest payments would be cut by half and amortizations were doubled, with the commitment to no reduction in the capital or nominal interest and no introduction of any type of tax on the interest payment.<sup>53</sup> He also tried to speed up the sale of the Rio Tinto mines, but did not finalize any measure to deal with the 185 million pesetas, in bills delivered to various banking houses, which fell due at the end of the year.<sup>54</sup> In the meantime, he was imploring the Rothschilds to grant new advances, appealing to his long-standing relationship with them and with no guarantee of repayment other than his word.<sup>55</sup>

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<sup>52</sup> The Rothschilds never really trusted in the financial recovery of the Spanish government. Indeed, at no time did they set up a portfolio with the stocks they issued.

<sup>53</sup> Camacho sent Rancis, a man who enjoyed his complete trust, to London to secretly negotiate the settlement with the Spanish debt committee. Rancis, with the support of Lionel Rothschild, persuaded the committee to accept a reduction of one-third in the interest, although the meetings could not continue because of the departure of Camacho from the ministry. Confidential letters from Bauer dated 31 March 1872 and 8 March 1872 and letter from Rancis to Lionel Rothschild dated 5 May 1872, ARL. XI-109-108.

<sup>54</sup> Reports by Weisweiller and Bauer on the Treasury accounts dated 14 and 16 August 1872, ARL XI/109/109.

<sup>55</sup> On 20 March 1872 Bauer asked for the go-ahead on a loan of 400,000 pounds, over five days (20–24 March) which was put through immediately. A further two loans followed the next month for 500,000 and 470,000 pounds, at a for that time unheard-of 6 per cent, Letter from Bauer dated 20 March 1872, ARL, XI-109-108. Apart from being a close friend of Bauer, Camacho was very involved in some of the Rothschilds' businesses in Spain. He held the post of director of the SEMI, among others.

Camacho did not last long as head of the Exchequer. His successor, Servando Ruiz Gómez, after a fleeting period in office by Elduayen, fell back into the temptation of putting off the problem to a later date, and took new advances and prepared yet another bond issue.

In barely three months Ruiz Gómez stepped up the operations of the Treasury to meet the six-monthly payment on the debt and various other outstanding payments. He returned to negotiations with the Madrid syndicate and the Rothschilds, after rejecting the proposal from the Banque de Paris, which that year had become Paribas, and that of the Castilla, which had offered to meet all the payments of the interest abroad in exchange for the monopoly of Treasury bonds. The minister admitted to Bauer that he had only 400,000 of the 1,600,000 pounds required to make the six-monthly foreign payment, and that he had agreed on 500,000 with the syndicate, which had also accepted to renew the 2.5 million pounds owed. This left a shortfall of 700,000 pounds which he sought to make up through bills at four months – until 31 October. The interest rate was a hefty 13.75 per cent, and the syndicate was willing to hand over all the bonds as guarantee to the agency in order to assure its participation, without which the operation would be suspended. The House therefore confirmed its participation of 400,000 pounds, which it then extended on its own account by 200,000, although it is certain that it would never have come in had it not been for the persuasive arguments of the Madrid agency.<sup>56</sup>

Before the six months were up, in August, Ruiz Gómez found himself overwhelmed and approached Weil, since Bauer and Weisweiller were abroad at the time, in order to update him on the seriousness of his position. According to his reports, the Treasury would, over the next three months, have to satisfy loans up to a value of 173,609,508 pesetas – some of them taken at an interest rate 22.6 per cent – and for which the guarantee provided had been 163 million pesetas in shares at 3 per cent and 66 million in bonds. However, the Treasury had no funds available to meet these at that time. He went on to explain to Weil that he was considering presenting an urgent bill to Parliament in order to meet the domestic and foreign interest coupon payments for the next five years by paying a third of its value in bonds at 3 per cent consolidated and the other two-thirds in cash guaranteed by newly created mortgaged national values. He then went on to ask Weil to pass on his wishes to his bosses that they take over the whole of the debt and, on top of that, a new bond issue for 250 million pesetas, in bonds at 3 per cent – 100 million for the domestic markets and 150 abroad – that he wished to carry out immediately.<sup>57</sup>

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<sup>56</sup> Besides insisting on the importance of the operation, Bauer also stated that: “if really you are interested in maintaining lasting relations in future with the Spanish government in [the matters] of Almaden and the railway, we believe that given all these considerations, you should commit yourselves in this matter.” Letters from Bauer dated 17, 19, 20, 23, 24 and 28 June 1871, ARL XI/109/108 and 109.

<sup>57</sup> Confidential letters from Alfredo Weil dated 14 and 16 August 1872, ARL XI/109/109.

The Rothschilds refused on both counts and Ruiz Gómez was forced to offer the bond issue to the only entity that was willing to take it – the Paribas. The latter accepted the whole operation and was even willing to make an advance of 100 million francs, but on condition that the government granted it the concession of the Banco Hipotecario, and a healthy monopoly in mortgage bonds; it was in essence the old Salamanca project, shared with the Rothschilds, that the 1864 crisis had frustrated. The agreement was signed on 12 September (see Table 6.4).<sup>58</sup>

The Rothschilds sought to stay in the wings and limited their actions to gold and silver deliveries. Eventually, though, they came in with 87.5 million pesetas nominal<sup>59</sup> and once again acted as intermediaries in getting the London Committee to give the go-ahead on the operation and the agreement to meet the Ruiz Gómez interest payments, but only after they had received the assurance that the railway sub-committee would not be taking any fiscal action against the railway companies.<sup>60</sup> The London Committee agreed and the issue went ahead in its entirety, even if the reception was lukewarm.<sup>61</sup>

Table 6.4 Proposed liquidation of the sovereign loan approved by the law of 2 December 1872 (pesetas)

Items	Income	Expenses
Cash from the sovereign loan	250,000,000	
Loan to set up the Banco Hipotecario	100,000,000	
Outstanding bills		187,500,000
Half-yearly foreign payment of the interest		37,500,000
Half-yearly domestic payment of the interest		125,000,000
<b>Total</b>	<b>350,000,000</b>	<b>350,000,000</b>

Source: Letter from Weisweiller and Bauer dated 10 December 1872, ARL XI/109/110.

<sup>58</sup> The Paribas formed a syndicate of bankers made up of Abarroa, Stern, Camondo, Guido Abogen, and the Société Générale and itself in order to guarantee the sale of 100 million francs of the sovereign loan. Copy of the contract of affiliation to the “Spanish Syndicate”, undated, ARL XI/109/111.

<sup>59</sup> Letter from Weisweiller and Bauer dated 4 December 1872, ARL XI/109/110.

<sup>60</sup> Nathaniel Rothschild presented and personally defended the project before the London Stock Exchange Committee, letters from Bauer dated 21, 22 and 24 October 1872, ARL XI-109-110. In a letter dated 20 November 1872, Bauer repeated the arguments of footnote 57 in order to take part. Practically all the dealings of these months were performed by Bauer, although it was Weisweiller who, on this occasion, would get the credit, being named Barón by Amadeo de Saboya. Letter from Weisweiller dated 28 November 1872, ARL XI/109/110.

<sup>61</sup> Initial subscriptions were received to the value of 310.5 million pesetas for the 250 offered, which was interpreted in the agency as a failure. Letter from Weisweiller and Bauer dated 4 December 1872, ARL XI/109/110.



The directors of the new Banco Hipotecario seemed to have a rosy future ahead of them, yet in a matter of weeks (February 1873) they were confronted with the arrival of the First Republic and the ensuing collapse of political and economic status quo. The Rothschilds had, as almost always, been right in their decision not to get too involved and, with the anarchy of the new regime threatening to bring economic activity to a standstill, they recalled their agents from Madrid and devoted themselves exclusively to the Almaden accounts and to a remote monitoring of their railway company.



Illustration 1 Nathan Mayer Rothschild (1777–1836)

*Source:* Rothschild Archives, London.

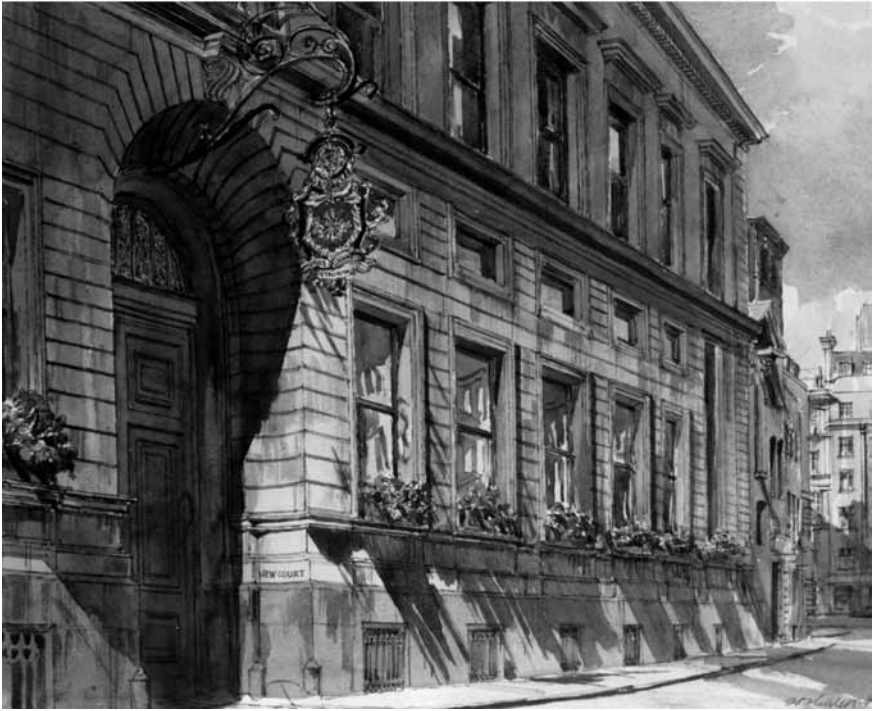


Illustration 2 New Court, Head Office of the N.M. Rothschild & Sons in London  
(building from 1865–1962)

*Source:* Rothschild Archives, London.

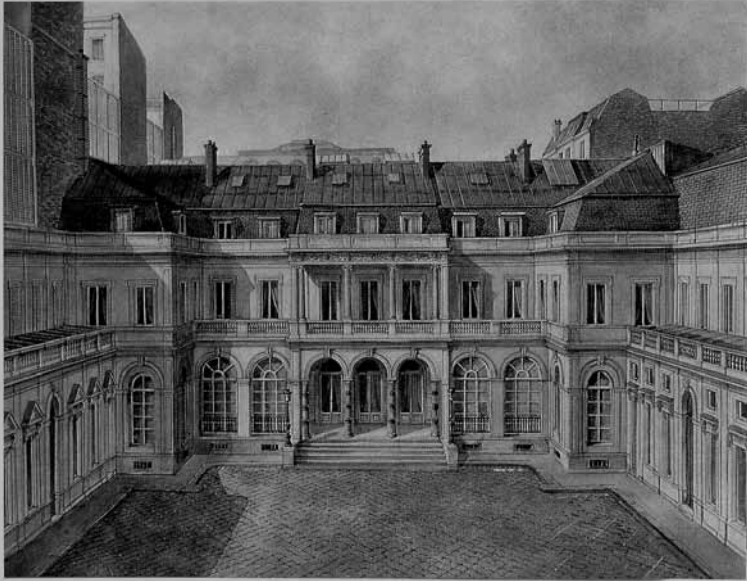


Illustration 3 The Head Office of Rothschild Frères in Paris (second half of the nineteenth century)

*Source:* Rothschild Archives, London.

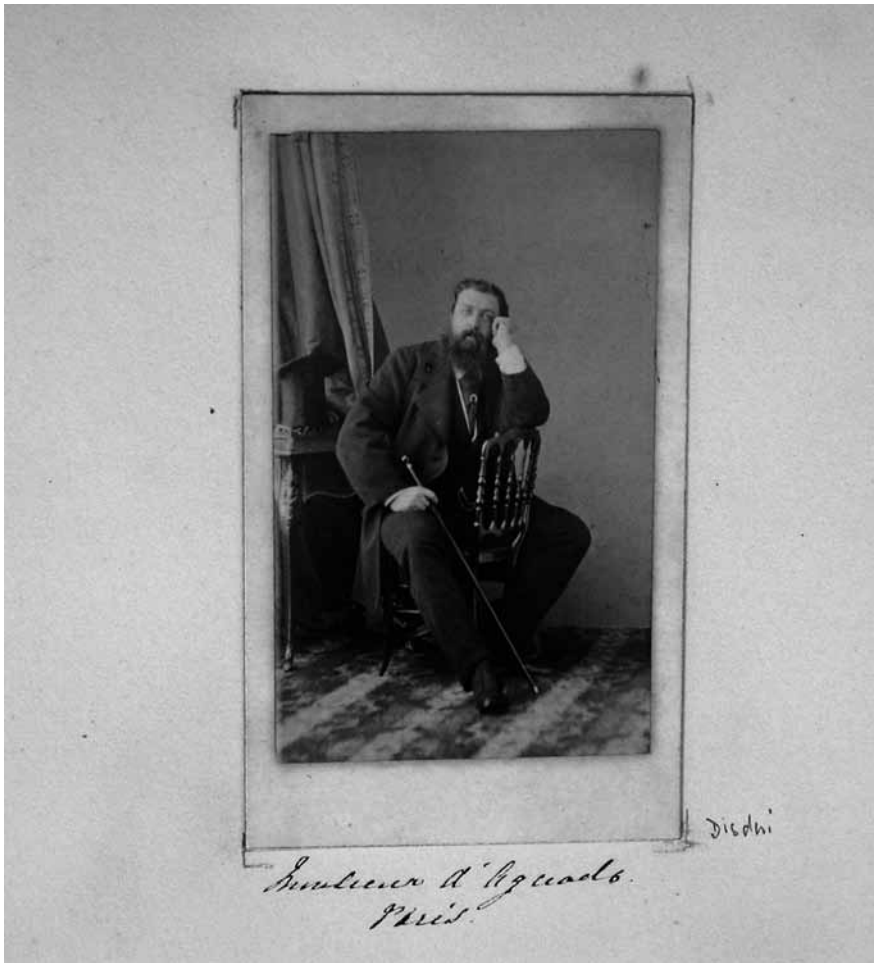


Illustration 4 Alejandro María Aguado (1784–1842)

Source: Rothschild Archives, London.

*Note:* Supposedly of Jewish birth, Alejandro María Aguado (Seville, 29 June 1784; Paris, 14 April 1842) was a renowned “Frenchified”, who had joined the Napoleonic army during the occupation. He rose to the position of Colonel and was Soult’s aide. At the end of the war he left the army and set up a banking house in Paris, which prospered rapidly. Years later, in recognition of his financial services to the Spanish Government, Ferdinand VII named him Marqués de las Marismas.



Illustration 5 Lionel Rothschild (1808–1879)

*Source:* Rothschild Archives, London.

Como Señor Gobernador del Banco Esp.<sup>o</sup> S. Fernando

Madrid 1.º de Enero de 1855.

Muy Señor nuestro: Tenemos el honor de poner en conocimiento de V.ª que hemos establecido la razón social de Weiswaller y Bauer para continuar los negocios mercantiles y la representación de las casas de Rothschild en España.

Rogamos á V.ª se sirva tomar nota de nuestras respectivas firmas, y quedarnos sus atentos y seguros servidores

G. S. M. B.

D.ª Daniel Weiswaller firmará Weiswaller y Bauer

D.ª Ignacio Bauer firmará Weiswaller y Bauer

D.ª Guillermo Etling firmará Weiswaller y Bauer

Illustration 6 Letter to the Banco de San Fernando dated 1855 for the signatures of the new “Weisweiller y Bauer” company

Source: Bank of Spain Archives.



*Daniel Weisweiler  
Madrid*

Illustration 7 Daniel Weisweiler Goldschmidt (1814–1892) in 1860  
Source: Rothschild Archives, London.





*M<sup>o</sup> Ignacio Bauer. Madrid  
1859*

Illustration 8 Ignacio Bauer Landauer (1827–1895), in 1859  
Source: Rothschild Archives, London.



Illustration 9 Rothschild Agency headquarters in Madrid until 1931

*Note:* From the 1830s, the agency was in the old Red de San Luis (today called Montera). In 1849 it moved to 2–4, Plazuela de Santa María (Otazu, 1989: 449). In 1868 it was still there, according to the *Anuario Administrativo y Estadístico de Madrid*. In the late 1870s or early 1880s the office moved to 54, Calle San Bernardo (number 44 today, in the picture), where Ignacio ordered a small palace to be built, which served as both the family home and the Head Office of Casa Weisweiler y Bauer. It would remain so until 1931.



Illustration 10 James Rothschild (1792–1868)

*Source:* Rothschild Archives, London.

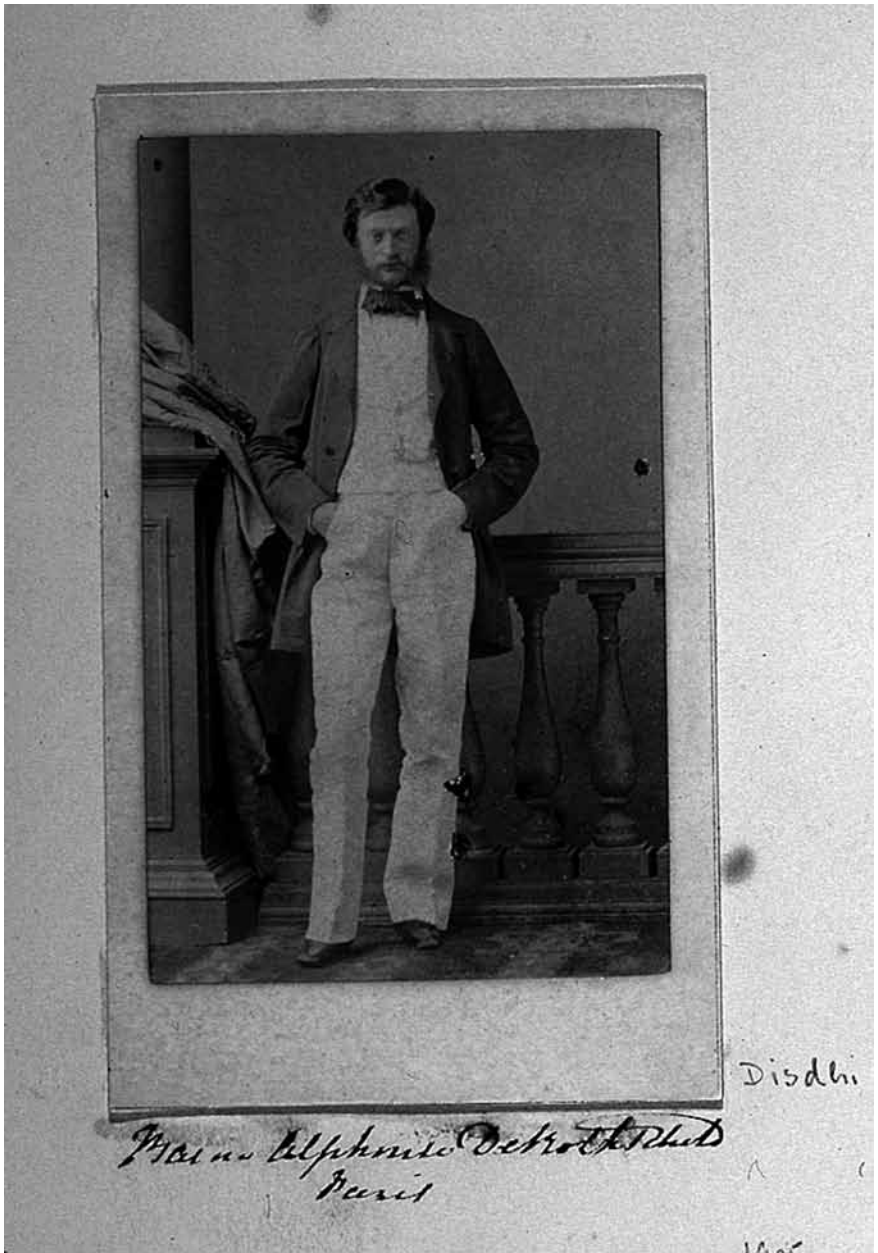


Illustration 11 Alphonse Rothschild (1827–1905)  
Source: Rothschild Archives, London.



Disdu

Baron Gustave de Rothschild  
Paris

Illustration 12 Gustave Rothschild (1829–1911)  
Source: Rothschild Archives, London.

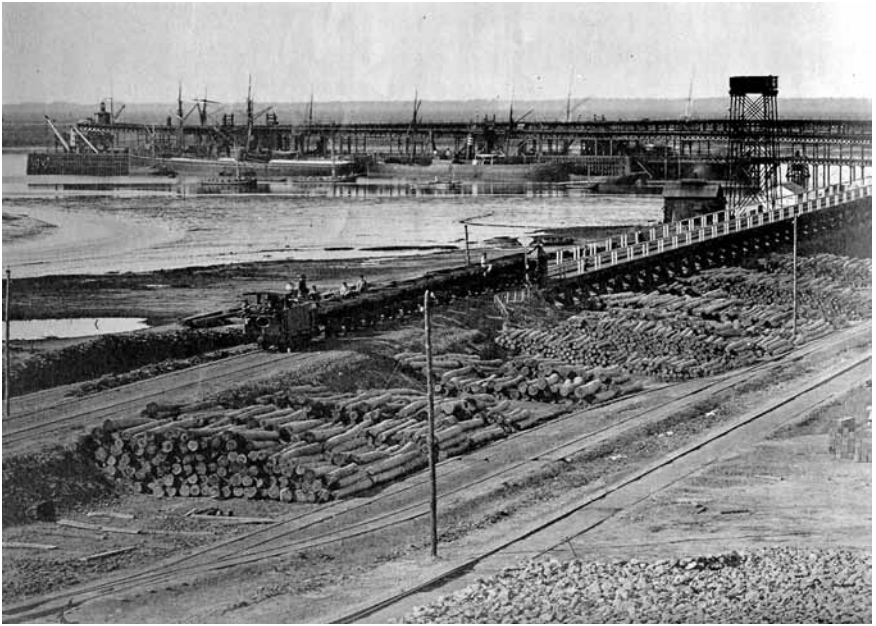


Illustration 13 Photograph of the Rio Tinto dock in the port of Huelva (early twentieth century)



Illustration 14 The Royal Mint Refinery, London. Gold refinery controlled by the Rothschilds from 1852 to 1968. Picture taken in 1930

*Source:* Rothschild Archives, London.

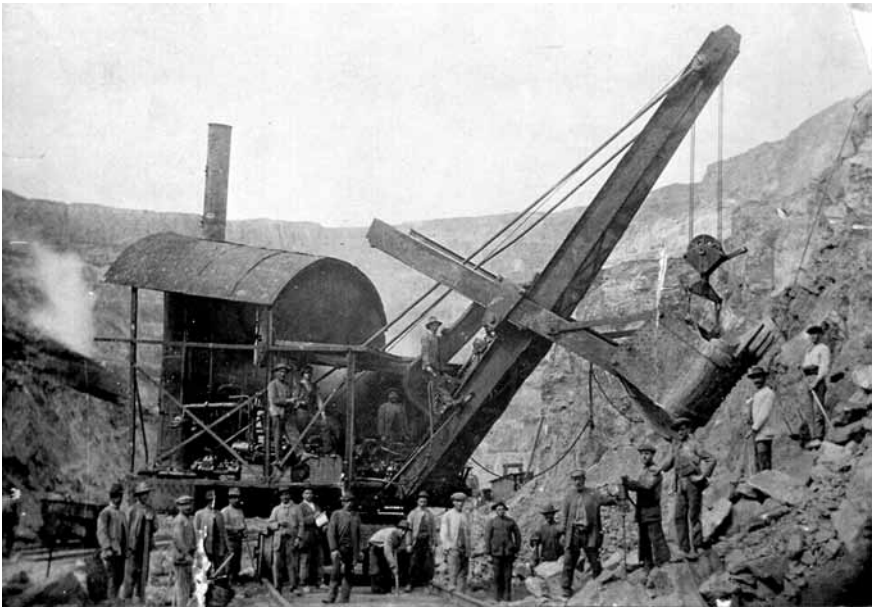


Illustration 15 A Bucyrus excavator in the Rio Tinto quarries (early twentieth century)





**D. GUSTAVO BAUER Y MORPURGO**

Illustration 16 Gustavo Bauer Morpurgo (1865–1916)  
*Source:* Biblioteca Fundación de los Ferrocarriles Españoles.



Illustration 17 Alfredo Bauer Landauer (1891–1956)

*Source:* Courtesy of Mariano Bauer.

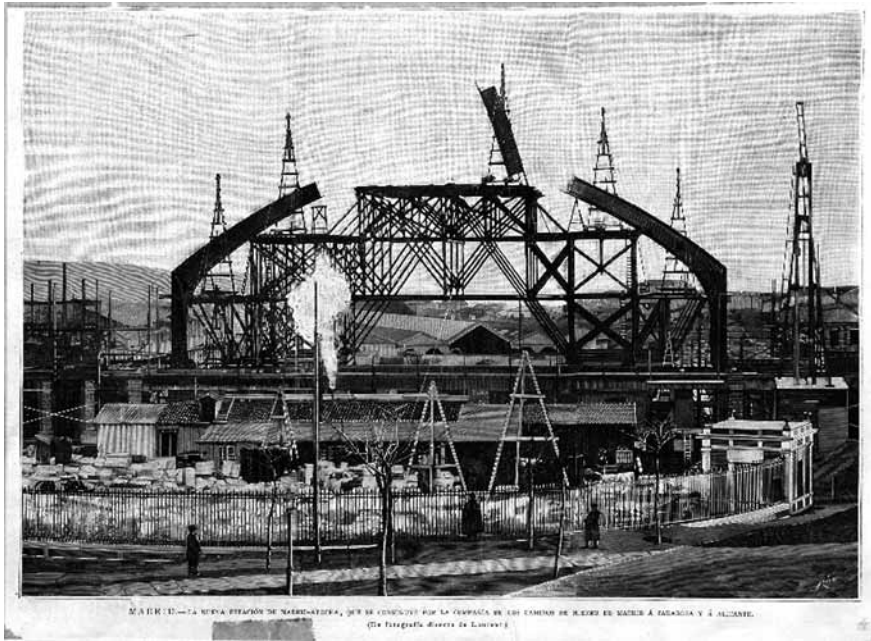


Illustration 18 Construction of the Atocha train station in Madrid, 1888–1892  
*Source:* Biblioteca Fundación de los Ferrocarriles Españoles.

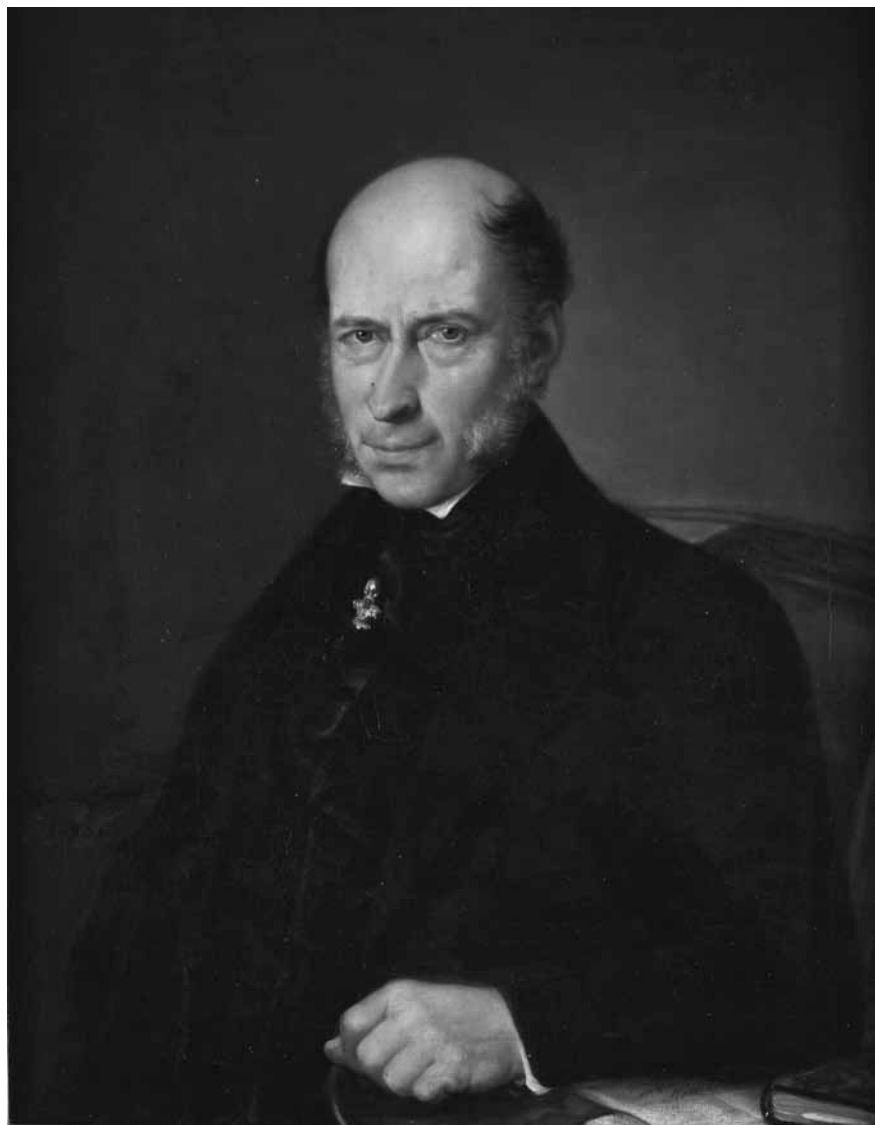


Illustration 19 Possible likeness of Manuel de Gaviria, marqués de Gaviria  
*Source:* Museo de Bellas Artes de Asturias.

... Nous vous avons déjà expliqué que  
c'est vous Messieurs qui êtes dans l'erreur; vous  
gagnerez 1% de plus, voilà tout; Et nous ne  
doutons pas que vous reviendrez sur une critique  
si peu méritée. Il a été entendu que nous  
ferions un petit Eh lors de la liquidation  
de cette opération. —

Illustration 20 Coded letter from Bauer, dated 7 December 1868

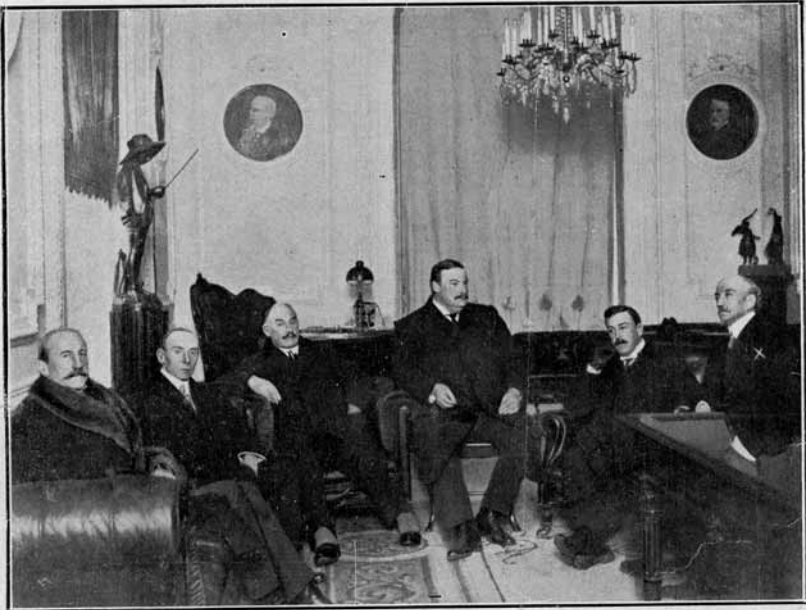
Source: ARL, XI/109/96.

Note:

“... Nous vous avons déjà expliqué que c'est vous Messieur qui êtes dans l'erreuer; Vous gagnerez 1% de plus, voila tout; Et nous ne doutons pas que vous reviendrez sur une critique si peu mérite. Il a été entendi que nous ferions un petit (coded text) lors de la liquidation de cette operation”.

“... We have already explained that it is you, Sir, who is mistaken; you will take 1% on top, and that is all; We trust you will reconsider such undeserved criticism. It is understood that we will make a small (bribe, in code) for the liquidation of this operation”.

Codes like that shown here, written in Judendeutsh (German with Hebrew characters), were common in the compromising correspondence of the Agency.



EL CONFLICTO OBRERO DE RIOTINTO  
EL PRESIDENTE DEL CONSEJO DE MINISTROS, EL DATO (X), Y LOS CONSEJEROS INGLESSES DE LAS MINAS DE RIOTINTO CELEBRAN-  
DO UNA CONFERENCIA EN LA TARDE DEL DIA 19 DEL CORRIENTE EN EL MINISTERIO DE LA GOBERNACION. (FOTOS ZEGEL)

Illustration 21 Photograph of the meeting between Dato and the Rio Tinto Board

Source: *Blanco y Negro* magazine, issue 1189 (1 March 1914).

Note: From right to left: Eduardo Dato, President of the Spanish Government; Walter Browning, Director of the mine and Charles Fielding, Chairman of Rio Tinto.



Illustration 22 Miguel Primo de Rivera at the entrance to the Medical Department during his visit to Rio Tinto, 22 April 1929

*Source:* Rio Tinto Foundation Archives.

*Note:* Various local authorities and staff appear in the photograph as do the Minister for the Spanish Navy, Mateo García de los Reyes, and the Director General of the mine, D.S. Culdrey (in profile, right of Primo).



Cal. Ep.  
de  
Mora.  
Morig.

Madrid 30 de Enero de 1892  
Excmo. Sr. Gobernador del Banco de España

Muy Señor mío Con referencia a la circular anterior vengo a poner en conocimiento de Vd. que me he hecho cargo de la liquidación de la casa Weisweiller y Bauer.

En lo sucesivo todas las operaciones a que aquella se dedicaba se llevarán bajo mi solo nombre y mi responsabilidad.

He renovado el poder conferido a mi hijo D. Gustavo Bauer juntamente con D. Pedro Rodríguez para que lleven mi firma como han venido llevando la de Weisweiller y Bauer desde el 2 de Julio de 1888 y ruego a Vd. se sirva tomar nota de las respectivas firmas.

Soy de Vd. at. S. S. D. B. S. M.

P.P. DE IGNACIO BAUER

Pedro Rodríguez

Ignacio Bauer  
a la vuelta

Illustration 23 Ketter announcing the death of Weisweiller and the dissolving of "Weisweiller & Bauer", in 1892

Source: Bank of Spain Archives.



## Chapter 7

# The Rothschilds' Waning Importance in Public Finances, 1874–1900

### Financial Anarchy at the End of the Sexenio

The House of Rothschild was not interested in staying out of Spain for any longer than necessary and in November 1873 it had its agents back in Madrid, although their mission was more to assure the House's consolidated investments than to re-establish large operations with the Exchequer.

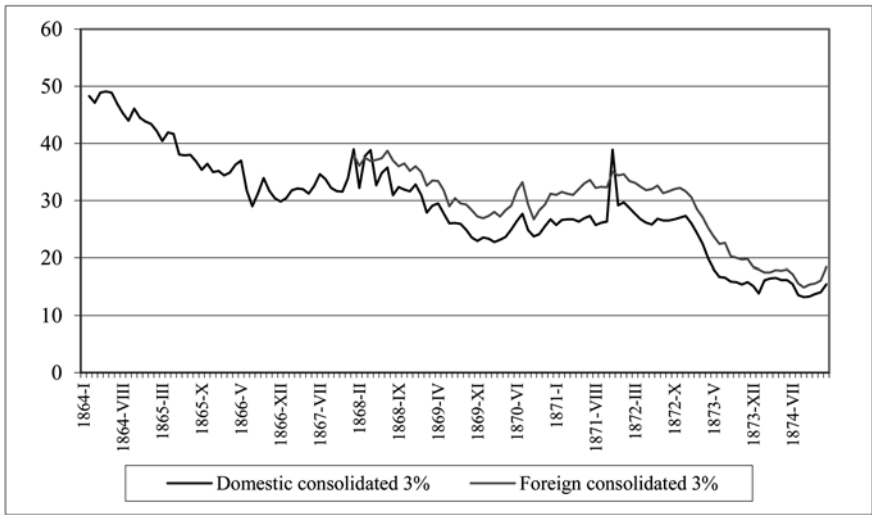


Figure 7.1 Mean monthly public debt values on the Madrid Exchange, 1864–1874 (as percentage over the nominal value of the shares)

Source: Figures kindly provided by A. Hoyo. The general indices in Hoyo (2001).

On his return, Bauer found that the system had degenerated to a surprising extent. The government had suspended payment of interests on the debt, causing values to plummet and making any further issues quite impossible (see Figure 7.1). To counteract the situation, the government had no option but to launch 150 million pesetas on to the market through the mortgage bills that still remained and to

impose an old-style forced bond issue of 175 million pesetas in bonds at 6 per cent which were guaranteed by the wealth of the Royal Household, and which was spread out among all tax payers. Otherwise, only emergency measures were taken to cover the costs of the northern campaign against the Carlists,<sup>1</sup> although some went beyond what was reasonable, ethical or economic.

Thus, for example, in April 1874, Urquijo asked Bauer to participate in a loan for 15 million francs to the government, with the possibility of doubling or tripling the amount over the next month. The surety for the operation was domestic consolidated bonds at 3 per cent to be remitted to Paris at a rate of 12 per cent. Urquijo promised a return of between 30 and 40 per cent as well as the possibility of the name of the House not figuring in the contracts.<sup>2</sup> The Rothschilds' reaction hardly matched the enthusiasm shown by Urquijo. Alphonse Rothschild wrote to his cousins in London about the matter:

We have just received another letter from Bauer regarding the matter of the Spanish debt. There seems to be no reason to review either our or your opinion, however, despite the success of Serrano, who is said to have entered Bilbao. The fall of the Carlists will be a great victory for the government. [Nevertheless], a greater victory would be the disappearance of that cancer of financiers who are devouring the country. That does not seem likely and soon there will no wealth left in Spain. It is really not in our interests to be associated with such more or less legal pillaging.<sup>3</sup>

In the knowledge of his employers' opinion, Bauer could little other than understand and accept their decision.<sup>4</sup>

Alphonse Rothschild was referring to the scandalous exchanges going on at the time around the old Madrid Customs Office, headquarters of the Exchequer, where the sharpest traders were carrying out millionaire deals at the expense of the systematic selling off of State assets in exchange for short-term loans at abusive interest rates.

The first point that the Republican government wanted to notch up in its favour was to close the sale of the Río Tinto mines, an issue dealt with in the next chapter. This was followed in March 1874 by granting the Bank of Spain, in exchange for a loan of 125 million pesetas, the monopoly on issuing banknotes, including the right to increase the bank's capital and a cap on the issue of notes. After this agreement came a proposal to handover the State stamp management, another for the tobacco monopoly and some actions to go back to an old idea of a company

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<sup>1</sup> Fernández Acha (1976: 328–329). War Ministry outgoings went from 17 to 30 per cent of the State budget between 1872 and 1873. Comín (1988: vol. 1, 340).

<sup>2</sup> Letters from Bauer of 25, 26 and 27 April 1874, ARL XI-109-115.

<sup>3</sup> Letter from Alphonse Rothschild to New Court of 2 May 1874, ARL XI-109-115.

<sup>4</sup> Letter from Bauer of 7 May 1874, ARL XI-109-115.

chaired by King Leopold of Belgium, set up in July 1870, to rent the Philippines. The last of these were done through the Rothschilds,<sup>5</sup> albeit with little success.

Salamanca, who by then had enjoyed three decades of monopoly on salt, had no wish to miss out on the opportunity to win the Stamp, but not having much money, he tried to persuade Bauer to come in on the deal using the same formula to guarantee a profit for the Rothschilds, even though their name would not officially figure in the operation. The bankers again opposed the idea and Salamanca had to desist for lack of support. The deal was won by the Castilla-Paribas Bank for 20 million francs. The bank also managed to get a draft agreement for the tobacco monopoly for 40 million francs, pending the approval of Parliament.<sup>6</sup>

On his return to the ministry in mid-May 1874, Camacho suspended all the ongoing operations of the Treasury so as to put the accounts in order. He froze the stamp and tobacco concessions, and only retained the monopoly on banknotes held by the Bank of Spain. He even went so far as to derogate most of the tax resolutions made since 1868, given that they had been a complete failure.<sup>7</sup> Yet the banker who had shown such seriousness a year earlier in trying to find some settlement for the debt was unable to find a way out of the chaos that reigned, and was forced into the same fraudulent measures of his predecessors in an attempt to raise some money. On 27 May he called together the leading capitalists of Madrid to inform them of the situation and of his own projects.<sup>8</sup> The minister confirmed his intention of balancing the accounts as soon as he could, although he would not for the moment be paying the interest coupon in the debt. Furthermore, all operations undertaken were to be used to send funds to the front. The outcome was an offer of a programme of fictitious renewable drafts of bills, 60 per cent in cash and 40 per cent in protested bills, for 25 million pesetas, which would generate a 100 per cent profit at the end of the year! Bauer remarked in private to Camacho how repugnant his employers found such operations and their adversity to participating in them. Despite repeated reminders of their friendship and long-standing relations, the minister achieved no more than a token participation of 500,000 francs and a hard-fought-for advance of 300,000 pounds on Almaden during the second half of 1874.<sup>9</sup>

Faced with this scenario, the Rothschilds opted to continue to abstain from any large-volume operations. Thus, during 1873–74 they took only two loans of

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<sup>5</sup> Confidential letter from Weil to Lionel Rothschild of 19 April 1874, ARL XI-109-115.

<sup>6</sup> After the agreement Bauer wrote: "the Bank of Paris will be left to its own free will, with no restraint on credit and financial business from this country. The most sensible thing to do is to refrain," letters of 18 and 23 May 1874, ARL XI-109-115.

<sup>7</sup> Artola (1986: 322–334).

<sup>8</sup> It should be noted that only six out of the twelve guests attended.

<sup>9</sup> Letters from Bauer of 27 May 1874, 2, 3 and 5 June 1874, 14, 20 and 22 August, 2, 15 and 24 September, 4 and 27 October and 9, 7 and 19 November 1874, ARL XI-109-115, 116 and 117.

import and another two were signed at the end of 1873; one against the promissory notes of the sale of the Rio Tinto mines, for 8 million francs, and a second one against the contract for the sales of the Almaden mercury.<sup>10</sup> All the loans were relatively safe as the guarantees came from outside the Spanish Treasury. Table 7.1 shows how the volume of the Rothschilds' operations dropped drastically during these years. Apart from those mentioned, there was nothing except for the odd gold sale. A significant increase was made to the sales of mercury, although this was in no way related to the domestic situation, but rather to the efficiency of the new Rothschild monopoly on the London market.

Table 7.1 Summary of the annual operations of the House of Rothschild in Spanish public finances, 1865–1874

Year	Short-term loans	Long-term loans	Debt operations	State income (gross) from mercury	Sales of gold and silver
1865	–	–	–	–	14,837,928
1866	29,140,000	–	–	1,578,229	4,789,979
1867	39,600,000	–	–	5,744,841	14,250,000
1868	24,903,000	–	–	5,824,354	–
1869	48,190,871	–	93,548,200	5,577,829	40,591,300
1870	4,270,440	42,419,038	–	4,631,358	78,570,000
1871	26,131,050	–	104,079,835	4,380,616	70,485,487
1872	48,905,400	–	24,937,500	2,952,327	49,892,666
1873	13,799,890	–	–	2,424,506	16,762,096
1874	7,864,000	–	–	9,859,863	13,314,175
<b>Totals</b>	<b>242,804,651</b>	<b>42,419,038</b>	<b>222,565,535</b>	<b>42,973,923</b>	<b>303,493,631</b>

Source: Appendix 1.

Note: Figures in current pesetas.

## Operations in the Shadow of the Bank of Spain

### *Cutting Losses: The “Arrangements” of 1876 and 1881*

The restoration of the monarchy marks the beginning of the end of a long cycle of economic and institutional crisis in Spain and, while it did not spell the end of the large-scale structural problems of the national economy, it did at least offer some hopes of normalizing as far as possible the political situation and of pulling the country out of its financial straits.

<sup>10</sup> Both contracts were signed on 12 December 1873, ARL XI/109/114 and ARP 132AQ 41.

There had been repeated unsuccessful attempts to stem the drain on the public coffers during the year the interim government presided by Serrano had lasted. Moret, in his post at the Spanish Embassy in London tried fruitlessly in February and March 1874 to convince Lionel Rothschild of the need to organize an arrangement to reduce the debt by half, along with some suitably scaled measure to solve the issue of Cuba. Camacho, meanwhile, reduced by decree the inland debt to a third, so bringing down the 3 per cent consolidated debt bonds to 1 per cent and all the 6 per cent bonds down to 2 per cent. The minister tried to make it look as if his decision was a response to the pressure of the moment, with the idea of gradually returning interest rates to their official value instead of continuing to suspend payments. So by the end of the year the rate was to rise from 1 to 1.25 per cent, in two years to 1.5 per cent and in five or six years to reach between 2 and 4 per cent.<sup>11</sup> It was an uncomfortable arrangement for holders of foreign debt. There was an initial attempt to offer to pay the two outstanding interest payments on condition that the holders agreed to a 50 per cent cut in future payments. The debt committees refused to bow to blackmail, and the minister could appease them only by negotiating the conversion of the three accumulated semesters in exchange for the eight outstanding Rio Tinto promissory notes and new consolidated debt bonds.<sup>12</sup>

It fell to Salaverría, who took over the Ministry of the Exchequer under the first Alfonso government, to close the agreement on the expired coupons.<sup>13</sup> An expert in public finance like him should have been aware that the solution was no more than a stopgap and that a far more definite decision would have to be taken before long that would solve the problems of the Treasury's liquidity and establish the bases for a medium-term response to the consolidated debt in circulation.

After meditating on the situation throughout 1875, Salaverría met with Bauer at the beginning of 1876 to sketch out his project. The minister's idea was to find a swift solution to the problem of the floating debt through a new issue of bonds at 6 per cent, which would be paid with the only resources available at the time – the direct taxes under the control of the Bank of Spain, which had an annual value of 180 million pesetas, and the customs duties, which returned 60 million. Salaverría proposed setting aside a reserve of 30 million pesetas for each of these items, which would enable the conversion of all 450 million pesetas of the floating debt, 200 million of which were in the hands of foreign holders and the remaining 250 in the hands of national moneylenders in bonds at 6 per cent

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<sup>11</sup> Letters from Bauer of 23 February 187, 5 May 1874, 27 May 1874, 13 October 1874, 8 November 1874, ARL XI/109/115–117.

<sup>12</sup> Letters from Bauer of 3 June 1874, 6 August 1874, 13 October 1874, and 23 November 1874, ARL XI/109/116–117. In the transaction Rio Tinto changed its promissory notes into 108,000 bonds with a value of 2,123,000 pounds, which would be accepted by creditors of the Spanish State. In this way he would have paid only 60,463,000 pesetas (2,508,440 pounds) of the famous 92,800,000 pesetas (3,850,000 pounds) for the mine. Flores (1981: 83).

<sup>13</sup> Artola (1986: 349).

paid quarterly and amortized six monthly over the following 12 years. As regards the consolidated debt, Salaverría appeared convinced that there was no other way of ending the problem than to combine a drop in interests with an inverse increase in the amortization of the bonds, for which a fixed annual amount of 100–120 million pesetas could be made available from the items mentioned. Camacho's decision to reduce interest on the debt to a third by a progressive increase in their amount until they regained the legal level was therefore confirmed, with the express prohibition of creating or issuing any bond before outstanding debts were normalized. Salaverría told Bauer that he was confident that the Rothschilds would get actively involved in the conversion and would organize the issue, the payment of the interest coupons and the amortization of the bonds abroad. He also reiterated his belief that the participating entities should have absolute priority in future government credit operations as well as in those matters regarding the railways that were also the subject of discussion at the time.<sup>14</sup>

The Rothschilds replied to the minister very diplomatically and in writing. They offered their full support, but nothing specific. Rather, they stressed that the European stock exchanges, following the recent disasters of the Turkish, Peruvian and Egyptian bond issues, had caused fierce hostility towards historically insolvent countries such as Spain. They insisted on the need to bring the war to an end before any steps could be taken and they also pointed out the importance of reaching a satisfactory agreement with the foreign debt committees.<sup>15</sup> However, Bauer had no qualms about replying to his superiors that they should soften their stance and be more forthcoming, since the war was nearing its end and there was a risk of amateur moneylenders stealing a march on them in the euphoria of peace.<sup>16</sup>

Indeed, the last Carlist War ended on the very day the letter left the agency and barely a week after the Cuban revolt, and in the full throes of widespread jubilation. Nevertheless, Salaverría gave continued signs of annoyance over the coming weeks. The minister could find no explanation for the freezing of the debt prices, which ran against his expectations, and was obstinate in his belief that there was a conspiracy against him.<sup>17</sup> Notwithstanding, he went ahead with his project.

At the end of April 1876 Salaverría presented his proposals, which included his project to sort out the floating debt and in which the reduction in interest rates was made official. The conversion of the floating debt was finally formalized through

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<sup>14</sup> There is more on this subject in Chapter 8. Letter-report by Bauer of 27 February 1876, ARL XI/109/121.

<sup>15</sup> Letter of 8 February 1876, translated from French by Bauer, ARL XI/109/121.

<sup>16</sup> The agency, should the need arise, was provided with an advance of 150,000 pounds and even offered an extra 150,000 pounds, but Salaverría insisted (in Bauer's words) that "he does not want us to get distracted by an insignificant matter of advances on mercury, he wants to us for a big deal". Letters from Bauer of 18 February 1876, 28 April 1876, 4, 14 and 23 May 1876, ARL XI/109/121 and 122.

<sup>17</sup> Letter from Bauer of 28 February 1876, among other dates, ARL XI/109/121.

two issues: one of 580 million pesetas, through the Bank of Spain, which would become known as “Bank and Treasury” bonds, and the other for 250 million taken on the Customs revenue, to be managed by the Banco Hipotecario. Thus, both institutions were kept content. The bonds could be purchased in cash or could be exchanged against former deposit slips to the bearer of the Caja de Depósitos, Treasury bonds, personnel debt, shares in roads and public works or any of the outstanding floating debt contracts, as well as the new amortizable shares.<sup>18</sup> As regards public debt, the amortizable shares were created at 2 per cent as a substitute for hitherto unpaid interests. All that remained was for the debt committees and the Treasury lenders – the holders of the floating debt – to give their approval.<sup>19</sup>

Salaverría did not wish to impose the measure and he sought to come to an understanding with the creditors, even though the conversions were in any case voluntary. The floating debt holders received the measure positively from the outset and showed their willingness to collaborate. The consolidated debt committees grudgingly accepted the amortizable shares and expressed strong opposition only to the fact that the first reduced interest coupon was to be paid in June 1877, demanding instead that it be paid at the end of 1876. Raising the 60–70 million pesetas in this way before the end of the year and from outside the accounts presented a relatively assumable sacrifice, given the magnitude of the debt that was being made legal.<sup>20</sup>

Unfortunately, on 22 June, before the special act of conversion or the agreements with the interested parties had been finalized, Salaverría became seriously ill and serious doubts were raised about the future of the operation. He was temporarily replaced by Cánovas, who tried to save the operation by calling a meeting with the Banco Hipotecario, the Bank of Spain, Urquijo, who represented the Madrid syndicate, and Bauer, in order to gauge their true willingness to go ahead with the project.

The conde de Bernar, on behalf of the Bank of Spain, expressed that they were prepared to go ahead with the issue, although only 330 million would be placed on the market and the remaining 250 million in portfolio; Alejandro Llorente, chairman of the Hipotecario, assured them that he would go ahead as long as the rights on the Customs bonds were confirmed; Urquijo, who was looking more at future loans, agreed to participate and was willing to renew his outstanding bills with the Treasury, although the interest on these, truth be told, stood at 15, 20 and 22 per cent; lastly, Bauer explained that, while the House of Rothschild had no interest at that time in the floating debt or in the shares in the debt, it was willing to give its full support on condition that the government abandoned various plans

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<sup>18</sup> Fernández Acha (1976: 332).

<sup>19</sup> Letters from Bauer of 18 and 24 April 1876, ARL XI/109/122 and Artola (1986: 349–350).

<sup>20</sup> Letters from Bauer of 18 and 25 April 1876, ARL XI/109/122.

for railway legislation and that it paid the interest coupon as requested by the committees.<sup>21</sup>

The agreement on intentions that was forthcoming enabled the final document to be produced on 30 June 1876. It was signed by José García Barzanallana, the brother of the politician whose operations between 1864 and 1867 we have already commented on.

In order to go ahead with the issue, the Bank of Spain put pressure on the Rothschilds to give it an advance of 60 million francs, a request that was flatly refused. However, an agreement was signed on 5 August under which the agency took 30 million nominal of the issue with the commitment to take a further 10 if required. As for the remainder, the bank was able to drum up the support of a group of Madrid and foreign capitalists, so ensuring beforehand that between 48 and 66 per cent of the shares were taken.<sup>22</sup>

The issue turned out to be a success. From the end of September the market for these shares was very active, with the overseas series trading at 84.25 and the domestic series at 85.5 thanks to the help of the subscribers and to the effective work carried out by the Bank of Spain's network of correspondents, while 3 per cent remained stationary and with no movements.<sup>23</sup> Only an upsurge in unrest in Cuba at the beginning of October brought about a pause in the rise, but these did not prevent the whole package from being bought. Throughout these weeks shares in the Bank of Spain were strong, around 188 per cent and rising.

Under the Act of 11 July 1877, the Banco Hipotecario was to have issued its 250 million pesetas in shares on the Customs revenue. However, in February 1878 the government, for reasons we do not know, ordered the Bank of Spain to issue 160 million of these shares, which was extended the following year with another 250 million in Treasury bonds, which had been freed following the conversion of the floating debt contracts.<sup>24</sup> The Bank of Spain took charge of these issues and made use of the opportunity to offload a proportion of its portfolio of Bank and Treasury bonds which it had left and which stood at around 70 to 80 million nominal, and which it went back to sharing with the Rothschilds.<sup>25</sup>

Apart from these operations, which were exclusively to do with the relations between the House of Rothschild and the Bank of Spain, contacts between the

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<sup>21</sup> Bauer convinced his employers of the need to participate with the. for him, typical argument: "we believe it is essential for all our businesses in Spain, so that we can continue with them as long as possible." Letters of 23 and 30 June 1876, ARL XI/109/122–123.

<sup>22</sup> Letters from Bauer dated 27 and 30 June 1876 and 5 August 1876, ARL XI/109/122–123.

<sup>23</sup> Letter from Bauer dated 29 January 1877, ARL XI/109/124.

<sup>24</sup> Tedde and Anes (1976: 46), Artola (1986: 350) and Fernández Acha (1976: 333–334).

<sup>25</sup> The Bank offered the Rothschilds 50,000 Bank and Treasury bonds from the foreign series, at 465 francs (93 per cent), with which the foreign interest coupon could be paid. The Rothschilds accepted on 30 May. Letters from Bauer of 20 February, 14 and 15 March, 31 May and 1 June 1878, ARL, XI/110/9.



agency and the conservative government, through the figures of the Exchequer ministers Barzanallana and Orovio,<sup>26</sup> were far from fluid, especially regarding monetary issues, as we will see later. In fact, with the exception of an advance of 25 million francs to the Overseas Minister,<sup>27</sup> there are no records of any important financial operations during the first Canovas governments.

The situation changed radically with the arrival in power of Sagasta. Bauer did not hide his satisfaction at the change in government, a change which also effected the Bank of Spain<sup>28</sup> and which confirmed the beginning of the strict alternation in power between the two major parties which was to characterize the rest of the Restoration.

There was no reason for any substantial modifications in economic policies under the Liberal Party, which had been born from the old Progressive Party along with the majority of the Unionists. The speed of the changes required modification, as did, to a certain extent, the attitude to negotiations. Camacho was firmly in favour of introducing improvements in the management of the Treasury resources and, above all, of finding a solution to the State debt as swiftly as possible, to reduce its outgoings and, if possible, to reduce the huge amount of shares in Treasury and State debt in circulation which were making the profile of Spanish debt ever more incomprehensible.

At the beginning of 1881 there were 12,590 million pesetas in State debt and 1,162 million in Treasury debt, which meant a payment of 315 million pesetas a year in interests and amortizations. This did not include the two outstanding items of the consolidated debt – totalling over 200 million pesetas – which were threatening to wreck future budgets. Camacho had no illusions since he was aware that he would have to defend any reform without a budget, without financial resources, without Parliament and with no possibility of convening the Houses for some time. Nevertheless, the minister decided to follow the path laid down by Salaverria as this already took into account the possibility of transforming the debt in circulation and reaching an agreement with the creditors as to how to settle the deferred interests. He also wished to take advantage of what was a relatively favourable moment for the financial markets to carry out the operation together with an earlier debt conversion project put forward by Gos-Cayón, and which had been the motivation behind the fall of the previous government.<sup>29</sup> So in April he

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<sup>26</sup> Letters from Bauer of 30 December 1877 and 3 January 1878, ARL XI/110/8 and 9.

<sup>27</sup> We know of this contract only indirectly through letter from Weil dated 4 October 1881, ARL XI/92/0 A.

<sup>28</sup> “The new governor of the Bank of Spain (Romero Ortíz, in place of Belda) – said Bauer – has been warmly welcomed by the new board: the report read in the assembly has been put to discussion: if the governor is changed, the situation will change even more.” Letters of 8 February 1881 and 5 March 1881, ARL XI/92/0A.

<sup>29</sup> Comín (1996: 164).

set about preparing a new project, while the Treasury sought to gain time and once again placed the semester payment in the hands of the Bank of Spain.<sup>30</sup>

In order to achieve his aims and at the same time respect the 1876 act, Camacho had to stick to two insurmountable premises: first, he had to come to an agreement with the Bank of Spain, not so much regarding the commitments that had already been made but more because the bank held the greater part of the Treasury debt in its portfolio – 430 million pesetas to be precise – as well as all the floating debt in circulation, which ran to 186.4 million pesetas.<sup>31</sup> The bank therefore had to be compensated by offering it both the operations, attractive commission and some future benefit. There was also the question of another agreement with the debt holders, so as to find a way of paying at the initial 3 per cent consolidated the retained interests within the current and future budgetary constraints.

After six months' work, Camacho sent the reform project to the King and to the Rothschilds at the end of September. The first stage of the conversion took in the amortizable debts as a whole, both those of the Treasury and those of the State assets, with the exception of the railway shares. The aim was to free up funds and so be in a position to increase preemptorily the payments of the consolidated debt. There was therefore to be an issue of 1,800 million pesetas in new amortizable debt, at 4 per cent, to be paid over 40 years. This could be acquired in direct exchange for the Bank and Customs bonds, or for amortizable debts at 2 per cent, which were priced at the time at 45 per cent, and recognized at 50 per cent, as well as for floating debt certificates and some small outstanding items that also came into the deal.<sup>32</sup>

There was general agreement for the proposed conditions, except for the price of 85 per cent for the new shares, which the Madrid bankers, including those at the Bank of Spain, and Bauer, referred to as being “over the top” and “madness”, along with other similar descriptions. In Parliament the criticisms were repeated by the opposition, headed by Gos-Gayón.<sup>33</sup> However, the minister did not wish to change anything that had been decided on by the committee, other than an increase in the foreign amortizable option, which rose from 50 to 54 per cent, supported by an agreement with the Bank of Spain and the foreign debt committees, with whom Camacho had been having meetings and exchanging letters since August.<sup>34</sup>

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<sup>30</sup> Payment of a total of 28 million francs was ordered between 30 June and 25 August. Payments would be made mainly through the bank account with the House of Rothschild. The bank had by then a credit balance of 21.5 million with the House. Letter from Bauer of 13 May 1881, ARL XI/92/0A.

<sup>31</sup> Tedde and Anes (1976: 49) and Fernández Acha (1976).

<sup>32</sup> Letter from Weil dated 30 September 1881, ARL XI/92/0A, Fernández Acha (1976: 711) and Comín (1996: 164–165).

<sup>33</sup> Letters from Bauer of 12, 13, 17 and 18 October 1881 and 9 November 1881, ARL XI/92/0A.

<sup>34</sup> We have evidence for direct contact with the committee, directly or through the Rothschilds, from 31 August 1881, letters from Bauer of the same dates, of 14 October and 4 November 1881, ARL XI/92/0A.

The project was formalized under the act of 9 December 1881, with no further problems.

During all the ins and outs of the operation Camacho discreetly held a series of meetings with representatives of the Bank of Spain and Bauer to see if there was any chance of reaching a quick understanding. Agreement between the parties was not a problem from the moment the conde de Bernar and Breto, vice-governor of the Bank of Spain, appeared on behalf of the bank, for they were recognized by Bauer as friends and as his direct contacts with the board of the bank. As for the understanding between Camacho and the Rothschild agent, this has already been clearly dealt with. From these conversations came the proposal for the Rothschilds' participation. This consisted of an advance to finance the payment of the foreign series of shares held by the bank and the Treasury in Paris of 50 million pesetas<sup>35</sup> and an agreement with the bank, the details of which are unknown. The trickiest and probably most important part of the agreement was that the bank accepted that all outstanding bills that it had with the Treasury – in other words, the value of the floating debt – were to be directly converted in the new amortizable debt.<sup>36</sup> It seems clear, nevertheless, that the institution was given compensation through the commissions on the operation and the assumption of future rights in the management of interests on the shares.

In the weeks leading up to the conversion, Camacho was in a very delicate position and was under continuous attack from the press and the opposition for the favouritism he was showing to the Rothschilds and for the pressure he was putting on the Bank of Spain. The politician was publicly dubbed a “Zaragocista”. Nevertheless, despite the arguments of his detractors and even those of some of his closest collaborators, the public welcomed the issue enthusiastically. Most of the Treasury bonds had been exchanged in a few months, as had all the Bank and Customs bonds and the majority of the amortizable debt. The interests immediately brought down the amount of the exchanged debts to a yearly 86.9 million pesetas, as opposed to the previous 169.5 million.<sup>37</sup>

Such favourable results allowed Camacho to consider that his original intention of extending the conversion to the consolidated debts could be undertaken with some guarantee of success, and this was duly authorized by Parliament in March 1882 under the royal decree of 20 March 1882.

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<sup>35</sup> Letters from Bauer dated 4 and 7 December 1881, ARL XI/92/0A.

<sup>36</sup> In the following years this matter was harshly criticized by the board of the Bank of Spain. Tortella (1970: 292).

<sup>37</sup> 108.2 million pesetas nominal remained unchanged in bonds at 2 per cent redeemable abroad, 1.7 million in public works, 1.4 million in roads and 4.6 million in personnel debt, which amounted to a service of 6 million pesetas more. Fernández Acha (1976: 42–43).

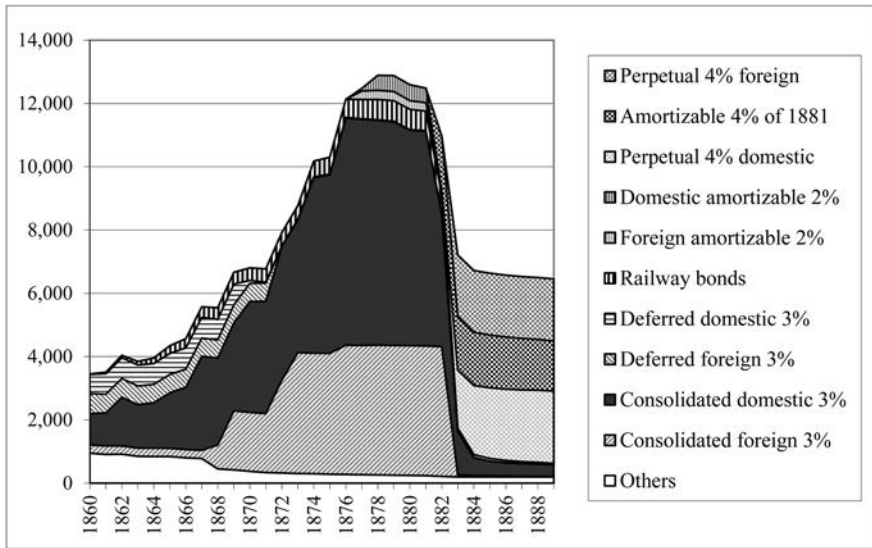


Figure 7.2 State debt in circulation, 1860–1889

Source: Fernández Acha (1976).

Note: Accumulated figures in millions of pesetas.

The offer to the holders of consolidated debt at 3 per cent and to those holding the old railway shares consisted on this occasion in transforming the nominal interests of the shares at 4 per cent, to be compensated by a proportional reduction in the capital of the shares according to whether these were at 3 or 6 per cent. Hence, holders of domestic 3 per cent waived 1.25 per cent of their legal interest on 56.25 per cent of their capital, while the shareholders did so for 2.5 and 12.5 per cent. The act of 29 May 1882 confirmed the agreement, which the London Committee did not wish to accept for the foreign debt at 3 per cent, although their resistance was finally overcome with a special commission of 0.87 per cent for those shares that were exchanged during the first two months and a payment to the committee of 50,000 pounds that was not easy to catalogue, as well as the right to collect the interests in gold and at a fixed exchange rate in pounds and francs.<sup>38</sup>

The Rothschilds, for their part, completed their contribution to the conversion with a further four loans to the Bank of Spain during 1882, totalling 121.5 million pesetas. This provided the bank with sufficient funds to pay the new interest coupon and to fill its coffers with sufficient gold and silver for a possible increase

<sup>38</sup> Fernández Acha (1976: 711–712) and Comín (1996: 165). The London Committee officially accepted on 13 June 1882. Broder (1979: 616).

of capital, which would be long in coming, given the commitments that were announced for the short term.<sup>39</sup>

In conclusion, following these measures the Treasury debt all but disappeared and the mean State debt was reduced to around 7,000 million pesetas, a figure that would remain stable until the Cuban War of Independence (1895–98) – see Figure 3.4. In turn, the annual interests on the new consolidated debt increased to 16.5 million pesetas. It should be recalled, though, that the Treasury was only paying a part of the legal interests, so there can be little doubt that this small increase more than offset the outstanding increases in interests on the old debt items. Unquestionably, though, the greatest success was that the Exchequer was once and for all pulled out of its permanent state of insolvency and persistent suspended payments.

### *Subsidiarity and Withdrawal in the Correspondent's Office*

The Bank of Spain became stronger thanks to the conversion and to a series of agreements that gave it the payment of interests on the debt and secured its long-term standing with the head of the Treasury and its position in the management of monetary policy. As a result, the bank had gained a de facto monopoly over Spanish public finances, and this would have notable effects on its balance sheet. Indeed, in the following decades it was to become the most profitable central bank in Europe.<sup>40</sup>

The Rothschilds, though, did not reap the initially expected profits from their services to the bank. During the second half of the 1870s and over the next 30 years the House would progressively lose areas of business where it had previously ruled supreme, as occurred with the short-term financing of the Treasury, the issue of bonds or the supply of bullion for minting. Indeed, in the case of the latter the House had enjoyed quasi exclusivity for two decades thanks to its relations with the bank and the Spanish Treasury.

The causes behind these changes were complicated in their origins. In the first of the cases mentioned it seems clear that it was the very stability of the Spanish accounts and the country's refusal to increase its debt now that the accounts had been made healthier. This meant that there was no longer any need for the Treasury to seek capital other than that which could be provided by ordinary financing or the Bank of Spain. In the second case, the House of Rothschild's loss of influence in one of its traditional strongholds, the sale of precious metals, was linked to the slump in the international price of silver, which spelled the end of the bimetalist systems as well as the erratic and contradictory monetary policy of the early Restoration Cabinets.<sup>41</sup> Added to this there was the inexistence of foreign debt

<sup>39</sup> Contracts in ABE, Secretary, File 734 and ARL 000/401 box: 1859–1875.

<sup>40</sup> Anes (1974a: 161) and Robledo (1988: 569–571).

<sup>41</sup> Sardá (reed. 1970: 161–163 and 166).

issues, which, as we have indicated, had sustained the purchases of gold and silver during the whole of the Sexenio.

Focusing specifically on the monetary problems, it is necessary to go back to the economic disruption that arose out of the Franco-Prussian War. Payment of the French compensation shook the markets, the more so when Germany began to exchange the silver it was given for gold on the international markets. This coincided with a period of high production from the American silver mines, causing the price to drop and to lose parity with gold after decades of stability. The slump in silver prices forced the bimetallic countries to take drastic decisions in order to avoid being flooded by excess silver from other countries and the appearance of inflationary trends. In 1873 the United States abandoned bimetalism and adopted the gold standard, while the countries of the Latin Monetary Union slowed down production of silver coins to the minimum. The Spanish government suspended all minting of gold so as to prevent rises in the price of gold setting off a massive conversion of banknotes. It also reduced the charges on silver purchases from the Mint from 222.2 to 220 pesetas per kilo. This measure served to stave off deflation for the moment but strengthened the long-term circulation of silver. More and more Spanish politicians began to push for Spain to shift to the gold standard, in line with Great Britain.<sup>42</sup>

Yet the very needs of the Bank of Spain, which under an act of March 1874 had to keep cash reserves of 25 per cent of the total number of notes in circulation led to some important operations with the Rothschilds that were clearly intended to reinforce, not monetary circulation, but the reserves of the institution. Given the market conditions it would have been more in the bank's interests to carry out all these operations in silver and secure additional profit margins. In fact, bringing silver into Spain for delivery to the Mint was becoming a business that was producing more and more profits as the minting fees in Spain fell further and further adrift of international prices. Bankers, international wholesale traders and even the argentiferous galena smelters were able to profit from the activity. At the forefront was Ignacio Figueroa,<sup>43</sup> the heir of one of the most powerful Spanish lead dynasties, who, from foundries in Marseilles and Cartagena, began to supply increasing quantities of silver at very competitive prices. The Bank of Spain fought with the Treasury so as to be allowed to exploit the situation, but the government was not willing for the bank to strengthen the predominance of the silver circulation over gold still further and so put pressure on the directors to carry out the main part, if not all, of the bank's metal purchases in gold. Following this demand, the Bank of Spain agreed in 1875 to the purchase of 18 million francs in gold from the Rothschilds as compared to just 11 million in silver, even though the prices of the bullion were at 3,472 francs per kilo of gold and

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<sup>42</sup> Eichengreen (2000: 22–28), Sardá (reed. 1970: 160–162).

<sup>43</sup> On the first Figueroa, see Chastagnaret (1992) and Moreno Luzón (1998: 28–33).

213 francs for the equivalent of silver<sup>44</sup> – a far cry from the official parities that were in force at that time in Spain.

The following year Barzanallana tried to extend these cautionary measures, so as not to lose out on the chance to stay in bullion or to incorporate Spain into the gold standard. He therefore cut the fees for silver purchases drastically from 220 to 200 pesetas per kilo of fine metal and took the decision to resume gold minting. The legal mint fee – 3,444.4 pesetas per kilo to be exact and the same as that decreed in 1868 – remained far below international market prices, but the Mint was able to remint old gold coins, with a special price being paid for Isabel II coins, which were converted into *tallas alfonsinas*. The measure proved to be an important success, the amounts collected reaching 205 million pesetas in 1877 alone.<sup>45</sup>

The monetary question reached a critical point in 1877–78. The government continued to do all in its power to sustain the rate of gold minting and wittingly or unwittingly slowed down that of silver. The Mint struck just 3 million pesetas a month of silver during this period, and this included the amounts from the Bank of Spain. The situation began to play havoc with the board of the bank, which despaired of a government that was indicating no clear future line of action regarding the monetary issue and was allowing ever greater quantities of silver to pile up in its vaults. However, the board was reluctant to let the opportunity the market was affording slip by, and gave orders to Mildred Goyeneche to take advantage of the low price of silver in London – 56 pence per ounce, equivalent to 189.5 pesetas per kilogram – and to buy silver using the 150,000 to 160,000 pounds that the bank held in its current account with that House. At the same time, it put pressure on the government to abolish the fee in force and asked for authorization to order 20 or 25 million pesetas in silver and, given the snail's pace of production in Madrid, to bring in the silver in minted form.<sup>46</sup>

The government distanced itself a rise of 8 pesetas per kilo of fine silver, but it included a condition which obliged deliveries of overseas silver to be accompanied by equivalent amounts of gold and at a ratio of 1:15.5. The rise did not seem sufficient to Bauer,<sup>47</sup> although he set up a new scale at these rates just a few weeks later.

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<sup>44</sup> Letters from Bauer of 5, 6, 7, 27, 29, and 30 May 1875 and 5 January 1875, ARL XI/109/119.

<sup>45</sup> García Patón (1903: 86), Sardà (reed. 1970: 176–180) and García Ruiz (1996: 164).

<sup>46</sup> Bauer also took part in this business move. On 9 March he wrote: “We have spoken to the president of the Board [Cánovas] again about the fine silver matter and about the nonsense of the rate of 200 francs. He repeated that he had to correct this mistake as things went along ... Right now the current rate of 200 does not allow us to do anything ... 210 would give us some margin, if the premium of 2.5 per cent is maintained for manufactured items.” Letters from Bauer dated 1, 9 and 12 March 1877, ARL XI/109/124.

<sup>47</sup> Letter from Bauer of 17 March 1877, ARL XI/109/124, and Sardà (reed. 1970: 182). In letter of 24 January 1878 (ARL XI/110/9), Bauer stressed: “little can be done with regard to the rate of 3,444 francs and 208 francs, which we find absurd ... except Figueroa.”

This operation served to highlight the lack of administrative control and the lack of clarity in government policy. Initially, the bank was unofficially informed that it would be authorized to purchase 5 million pesetas of silver at the new rate, but with the obligation to bring in a further 15 million in gold. The bank changed the figure off its own back in a proposal to Bauer for 7.5 million in gold and 7.5 million in silver, which it rapidly brought down to 10 million in total in equal portions. The Rothschilds refused to sell more than 5 million at the price in force and at the interest demanded by the bank. The deal was finally closed on 4 May, but exclusively for silver.<sup>48</sup> The surprising thing here was that in the middle of July, the Mint had still not produced this amount, to the despair of Bauer and the Bank of Spain, which refused to make further purchases of silver, however profitable they might appear, if there was no short-term use to be gained.<sup>49</sup>

The government, however, ploughed ahead just the same. Official rates were not only maintained, but in March 1878 three entries of silver from individuals for minting were suspended in an attempt to better control the influx of the metal and to prevent an all-out invasion. Shortly afterwards, an auction system was brought in to supply the Mint with bullion.<sup>50</sup> A week after the publication of this measure, Figueroa, as recently appointed senator, proposed to the House that the Mint should not strike any silver other than Spanish silver in future. Bauer was surprised by this for he had proof that a large part of the silver sold by the marqués de Villamejor for coining was smuggled, and he complained that the Minister of the Treasury had not been present to reply to Figueroa. Nevertheless, on 28 March Bauer wrote to the Rothschilds saying “the Minister of the Treasury [Orovio], intimidated by Sr. Figueroa, seems willing to suspend the entry of fine silver from abroad, which would mean a clear return to the Figueroa monopoly.” Yet it was not this that would lead the Rothschilds to withdraw from these operations.<sup>51</sup>

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<sup>48</sup> Letters from Bauer of 20, 22, 23, 26 and 31 March, 3, 6, 8, 10, 13 and 19 April, and 4 and 5 March 1877.

<sup>49</sup> On 7 September the Bank confirmed to the agency that it was willing to bring in silver, while the 10 million in ingots that the Mint had just been sent for coining were not struck. In 1878 there were no purchases or sales of gold or silver. ARL XI/109/125 and VII/10/4.

<sup>50</sup> Sardà (reed. 1970: 182–183).

<sup>51</sup> Letters from Bauer of 15 and 28 March 1877, ARL XI/110/9.



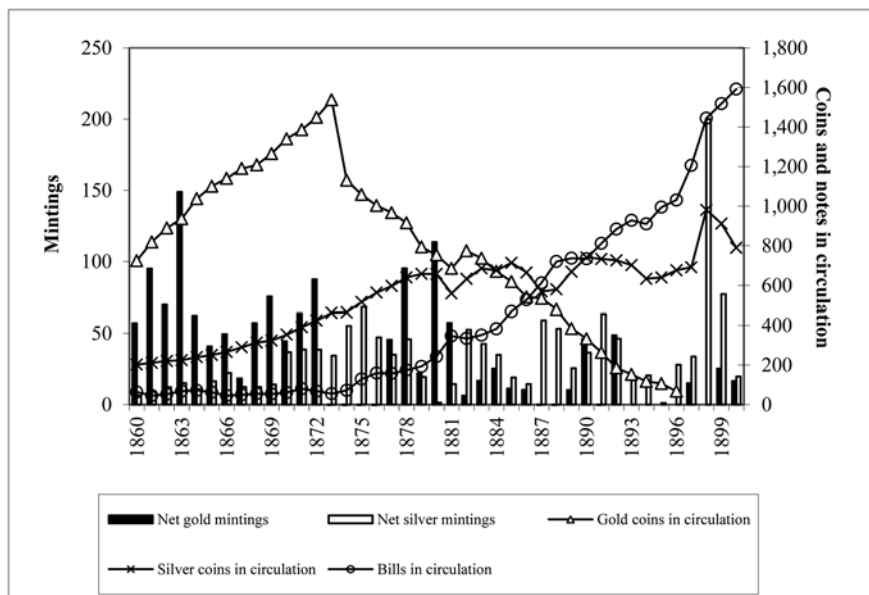


Figure 7.3 Minting and monetary circulation in Spain, 1860–1900

Source: Gold mintings 1860–1873 Sardá (1970), 1874–1900 in Tortella (1974a) and corrected with the later remintings gathered by García Patón (1903). Circulation in Tortella (1974).

Note: Figures in millions of pesetas.

The auction system proved highly effective and convenient for the Mint, which was to gradually reduce the price of its supplies. It also served Figueroa well, for he won the first auctions with significantly lower prices than those managed by the Rothschilds, and initially pushed aside even the Bank of Spain, along with other Spanish bankers and silver smelters. Yet this monopoly on sales by Figueroa must have dwindled slowly as the Bank of Spain took over towards the end of the century, given that the bank chalked up a very tidy profit of 49 million pesetas through the difference in cost of the silver it purchased and the prices being paid by the Mints during this period.<sup>52</sup>

Gold went in quite the opposite direction to silver. From the end of the 1870s its price on the international markets went so wild as to make it quite impossible

<sup>52</sup> Anes (1974a: 145). For the record, in the auction of June 1882 the Bank of Spain obtained a contract for 30,000 kilograms. Until 1898 Peñarroya had sold silver, accounting at the time for more than half of the national total, to the Bank of Spain through the agency. ARP, 132AQ 6210 and ArMetaleurop, PYA Juridique, 257, PVSCA session of 28 July 1898.

for individuals and bankers to hand in bullion or old coins for minting at the prices being offered by the Mint. Almost inevitably, following the tenets of Gresham's law, this only served to further encourage the mass exodus of gold from Spain.<sup>53</sup> The government tried to counter the situation by ordering the Bank of Spain, under a royal order of 4 March 1879, to make a purchase of 4,000 kilograms of gold. Of these, about half came from sales by the Rothschilds. However, in spite of the good intentions, it would in the end be the government that did most to expel the gold from the country when the promise made by Camacho to pay the interest coupon of the new foreign 4 per cent bond in gold came into effect. Therefore, the sales by the Rothschilds to the Bank of Spain in 1882 and 1883 were not linked, as earlier ones had been, to increasing the circulation in Spain, nor to filling the bank's reserves. Indeed, in the sales records of the London House there is no mention of the shipments to Spain, as on previous occasions, so it is to be supposed that they remained in London and Paris to cover the six-monthly interest payment on the debt. The outstanding amount on the interests must have been put up directly by the bank using its own reserves, which were very low at the time.<sup>54</sup>

The continuous outflows of metal, the low amounts of gold being minted and the more than likely negative accounts of those years took the Spanish economy into a dead end, and led, inevitably, to the definitive suspension of the compulsory conversion of notes into gold in 1883. This decision by the Spanish government meant a radical break from its policy to access the gold standard. The metal finally disappeared from circulation and the Bank of Spain was able to make free use of its gold reserves to pay the interests on the bond issues or to renegotiate its metal holdings purely in terms of banknote issues.<sup>55</sup> It was at that moment that the deficit phenomenon began to set in, through which the bank paid out in notes the amounts it lent the government to cover its running expenses. As a consequence, the number of notes in circulation grew noticeably until the end of the century, while the minting of silver was reduced to the minimum necessary to maintain levels of cash circulation.<sup>56</sup> A fiduciary system therefore took hold in Spain, although it was hardly due to any innovativeness on the part of the authorities, who usual were as ever at the mercy of events.

During the remaining years of the century the Bank of Spain required no further metal than that to cover the minimum reserves demanded by law, and operations with the Rothschilds were restricted to two specific situations in 1891

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<sup>53</sup> The progressive expulsion of gold from Spain as of 1873 was studied in depth by Tortella (1974a). Facal (2001) makes an interesting contribution about the participation of local banks in the process.

<sup>54</sup> ARL VII/10/4 and Anes (1974b: 114).

<sup>55</sup> Anes (1974a: 142) collects the words of several authors who confirm that during that time the little gold available in Spain was to be found in the tills of the Bank of Spain and its branches.

<sup>56</sup> Tortella (1974a), Anes (1974b) and Comín (1996: 169).

and 1898–99 when the bank had to make an extraordinary increase in its capital and reserves, with the agreement of the Exchequer.

The first coincided with an international financial crisis brought about by the collapse of investments in Argentina, which were closely linked to Barings, which was subsequently brought to the brink of extinction. In reality, however, the joint operations of the bank and Treasury of 1891 were motivated by strictly domestic imbalances whose origins lay many years in the past.

As a result of its continuous loans to the Exchequer during the 1880s, the Bank of Spain had increased the number of banknotes in circulation to the point that it threatened to exceed the legal maximum. Faced with the possibility of a paralysed bank, the government agreed with the directors to authorize a spectacular increase in the legal limit of notes in circulation, which went from 750 million to 1,500 million pesetas, in exchange for an interest-free “loan” of 150 million to be repaid in 1921.<sup>57</sup>

When setting up this operation, there was talk of a special loan from the House of Rothschild to the Treasury and even of its direct participation in a special issue of 250 million pesetas in amortizable Treasury shares.<sup>58</sup> Details were established but it was not, like previous ones, supervised and supported in the main by the House. The agency committed itself to subscribing to only 20 million pesetas, so the real deal for the Rothschilds here was a loan of 50 million pesetas to the bank,<sup>59</sup> which very possibly was the first stage of a loan of 150 million to the Treasury, which would be completed in various subsequent agreements to purchase bullion.<sup>60</sup>

No other operations of any relevance between the Rothschilds and the Bank of Spain are recorded with the exception of the well-known participation of the House in the creation of the *Compañía Arrendataria de Tabacos*, in 1887,<sup>61</sup> which was reduced considerably once the omnipresent Camacho had ceased to direct the entity.<sup>62</sup> The Rothschilds and its agency limited their activities to maintaining the bank's original offices in Paris and London, although even here the quasi monopoly system fell into decline over the years since the Bank of Spain extended the number of correspondents on its payroll all over Europe and was therefore

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<sup>57</sup> Tedde and Anes (1974: 131).

<sup>58</sup> Letters from the French ambassador in Madrid to the French Minister for Foreign Affairs dated 1 September 1891, 19 December 1891 and 30 December 1891, AMEFF B-31186.

<sup>59</sup> ARL XI-109-121; ABE, Secretary's Office, Files 734 and 736 and Operations, File 61; Tedde and Anes (1974: 135).

<sup>60</sup> These contracts amounted to a total of 83,186,890 pesetas in gold and silver.

<sup>61</sup> The House of Rothschild contributed to 6 of the 60 million pesetas of the company capital, situating it as second shareholder after the Bank of Spain. Torres (1996) and Comín and Martín Aceña (1998 and 1999).

<sup>62</sup> Camacho, first president of the *Compañía Arrendataria de Tabacos*, resigned after only a few months due to disagreements with members of the company board. Letter from Weil dated 12 October 1887, ARL XI/109/126.

in a position to make certain demands in terms of levels of competence when negotiating advances or handling foreign payments and accounts.<sup>63</sup>

### **The Failed Financing of the Cuban War<sup>64</sup>**

It was not until the end of the century, when a colonial war seemed to reawaken the ghosts of the Sexenio in Spain, that the last great Rothschild deal of the era looked set to be finalized.

At the beginning of 1896 Spanish State finances were once more in serious trouble. The wars in Cuba and the Philippines against the forces struggling for independence which were openly supported by the United States were to prove a sore test for the Exchequer that was still reeling from the crisis of the early 1890s. The Cuban Exchequer, which had borne most of the costs of the previous revolt, was soon unable to meet the costs of the war on its own. Canovas stated his belief that the only quick solution to the war lay in his government being able to find help abroad swiftly by means of a considerable bond issue. The conservative government approached the Rothschilds that spring for them to take charge of the issue, which from the outset he sought to tie in with an extraordinary grant for the railways which were suffering huge problems in paying out the interests on their bonds due to the devaluation of the peseta, just as they had in 1864–68.

Meanwhile, the Minister for the Treasury, Navarro Reverter, was negotiating with the Rothschilds over the renewal of the Almadén agreement, using a similar loan to that of 1870. After lengthy conversations, they began to make headway with an agreement under which the bankers would lend the Spanish Treasury 3,562,000 pounds to be repaid in 34 yearly payments of 220,000 pounds (7,480,000 pounds in total, the equivalent of 227,317,200 pesetas, at the average exchange rate for the year). The Rothschilds would thus secure the monopoly of sales from the Almadén production for the period in question. The government project came in for heavy criticism from the press and the opposition, and Canovas only managed to win the approval of the Houses on 30 June after threatening to resign.<sup>65</sup>

For a while it seemed that the Rothschilds were set to recover their old relationship with Spain's public finances, but in the summer the bankers suddenly

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<sup>63</sup> In July 1889, for instance, the governor of the bank wrote to all his foreign correspondents asking them for information on the credit conditions they could offer him in the face of financial turmoil. Offers from correspondents in London, Paris and Berlin were received, including those from the House of Rothschild in Paris and London, but the latter were rejected. ABE, Secretary's Office, File 736.

<sup>64</sup> Roldán (1997) covers in detail the intervention of the House of Rothschild in Spain during those years, and so we will here only mention the most outstanding events and contributions.

<sup>65</sup> Roldán (1997: 625).

backed out when all that remained to be done was to sign the contracts.<sup>66</sup> The government put pressure on the Rothschilds to go ahead with the issue. The exact figures in play were an issue of 500 or 600 million pesetas in Paris and London,<sup>67</sup> but a rise in interest rates and the markets' distrust of the Spanish government's credit in the middle of a war made it all impossible. Despite the pleas of the Spanish government and those of Gustavo Bauer, who feared a government backlash against MZA, the Rothschilds persisted in their refusal to continue the negotiations, and all that came out of it was a couple of metal sales.<sup>68</sup>

Drawing on national savings, the Exchequer had to pay the costs of the war on its own, so beginning a trend that would last for the next 60 years. Whether this voluntary renouncement of foreign capital was the best option in terms of growth over the coming years remained to be seen, but clearly from now on the framework of Spanish public finances would have little in common with its earlier manifestations in the nineteenth century.

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<sup>66</sup> The reasons for the withdrawal given by the House of Rothschild were: "First, the price of mercury has fallen to such a low level that it seems unlikely that the 220,000 pounds of the yearly repayments are covered by the deliveries that the Spanish government may make in the future; second, severe losses caused by the disturbances in Cuba and the Philippines; third, the seemingly hostile attitude of the American nation and the danger of war with the United States." ARL, XI-111-151.

<sup>67</sup> Letters from the French business manager in Spain of 30 October 1896 and from the French ambassador in Madrid of 23 November 1896 to the French Minister of Foreign Affairs and letters from him to his counterpart in the Ministry of Finance, of 3 and 6 February 1897, AMEFF, B-31186.

<sup>68</sup> The House of Rothschild ended up taking, virtually out of a sense of obligation, 2,640 public subscription bonds, Roldán (1997: 625–626 and 631).

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## Chapter 8

# The Industrial Investments, 1874–1913

Amid the main financial operations of the 1870s there was a turning point in the Rothschild investments in Spain when the family opted to move into medium- and long-term investment in industry.

Many factors lay behind this move but the most important was probably the arrival of a new generation. The death of James in 1869, followed 10 years later by that of Lionel, who had been the second director of the London House, came at a time when the family's position in European state financing was on the wane. The heirs had to reconsider the situation and their conclusion was that the moment had come to use the family's reserves to branch out into other fields of financing. Their eyes fell on the mining industry, an area in which they had hitherto limited their activities to the transformation and commercialization of mercury and precious metals. They now decided to move into copper and lead, metals with which they had been dealing sporadically since the mid-nineteenth century. Strictly speaking, these initial investments cannot be seen as business initiatives but more as an attempt to open up new lines of business and to adjust to the new economic concept of modern industry and world markets. Yet the move can also be seen as the culmination of a learning process by which the family had moved on from pure business activity to reaping the advantages of controlling the bases of production together with the increase in profits to be gleaned from speculation on the metal markets, for this was time of massive increases in international demand for raw materials.

The situation was slightly different for MZA in the railway business, since there the family had actual control of a business that it had conceived, financed and organized itself. However, while the family had until now focused on the profits – albeit speculative ones – to be made from building railway lines, changing circumstances brought about by the new demand to manage the completed network meant it now faced new competition. Bauer believed that the nature and origin of the situation was clear enough. After the economic vicissitudes of the 1860s and the Sexenio, the economy of Spain had been split into two major politico-business lobbies which were to be locked in a power struggle in the new regime. On the one hand, there was the group formed by the Paribas and its filial banks (the Banco de Castilla and the Hipotecario), whose allies included the Andaluces, the Badajoz Company and, on occasions the Norte. This group had the undisguised support of Cánovas (a board member of the Hipotecario) and his Conservative Party. Against these was the group comprising the Bank of Spain, the Rothschilds – its main correspondents in London and Paris – MZA, the Madrid group of financiers led by Urquijo and a few prominent Liberals like Camacho. In the midst of this struggle

the Rothschilds allowed their arm to be twisted in a large number of public finance deals, so keeping well clear of the struggle between the Bank of Spain and the Hipotecario for predominance in Treasury deals. However, they drew the line when it came to letting go of their hegemony in the railway business. It was now that the company decided to begin an aggressive campaign to extend its lines in an attempt to hold on to its privileged position on the Spanish railway map.

It should be noted that, although this shift towards investment in production was a gradual one as of 1875, it was nevertheless a *fait accompli* just five years later. There was some overlap between the first large industrial projects and the House's long history in public finances, but the process may be considered as irreversible by 1880–81.

### **MZA Ploughs Ahead: The Integration of the Spanish Railway Network and Finalizing the North–South Axis**

#### *The Recovery of MZA after the Crisis*

As indicated in Chapter 6, the period of crisis in the 1860s, the death of James Rothschild<sup>1</sup> and the years of revolution brought about a relative halt to MZA's activities which stopped any extension to the railway lines dead in its tracks pending the arrival of better economic times.

This period of transition, however, did allow some of the structural problems to be overcome, and at the same time move on from the depression trends of the mid-1860s. As well as wiping away some of its liabilities from the subsidies from the 1868–69 issue, MZA also made a series of substantial improvements in income from its lines thanks to a gradual increase in traffic, which grew continuously from 1864 on – see Figure 8.1. The outcome was that by November 1871 Bauer considered that, barring any drastic change in the situation, the MZA accounts were in order and he even considered resuming the payment of dividends.<sup>2</sup> Furthermore, the company barely suffered from the destruction of material that the Norte Company was subjected to on the Carlist front.<sup>3</sup> All of this, along with the progressive amortization of the first investment and the extraordinary profits motivated by the massive transport of troops and the acceleration of the economy, enabled MZA to move out of the red and to begin to make profits – a dynamic that would continue for the next two decades.

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<sup>1</sup> As of then Gustave Rothschild took over all the railway concerns of the family even though it was Alphonse, as first-born and head of the Paris House, who signed the official letters related to MZA and the other companies it controlled.

<sup>2</sup> ARL, XI/109/107. MZA started to pay out dividends again as of 1873.

<sup>3</sup> The only damage suffered by MZA was to its lines in Saragossa and Cartagena between May and October 1874, at the hands of a Carlist band led by a certain Lozano, Letters from Bauer 7, 10 and 13 October 1874, ARL XI/109/117.



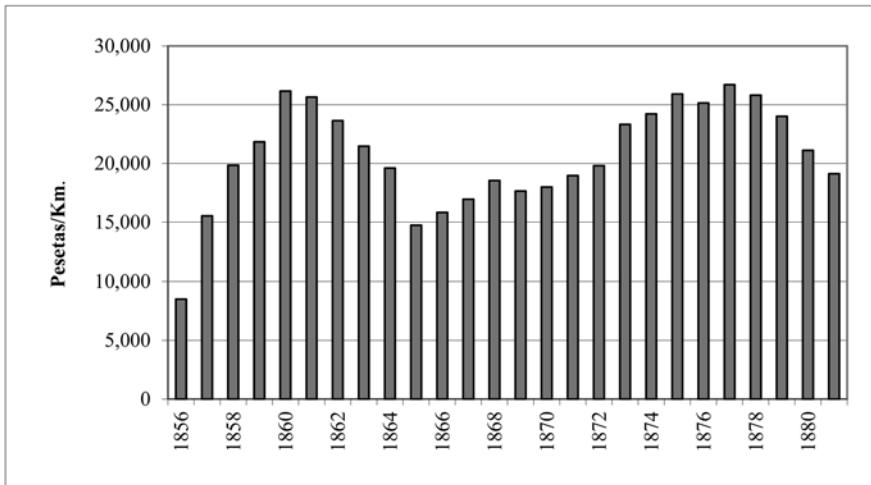


Figure 8.1 Average income per kilometre of the MZA network, 1856–1881

Source: Anes (1978: 487–490) and Gómez Mendoza (1989: 288–289).

### *The Battle for Supremacy in the South*

The relative calm in the Rothschilds' railway businesses was broken when, in 1875, the government awarded the Badajoz Company a direct route to Madrid, running parallel to the MZA one<sup>4</sup> – a measure that the MZA board saw as a direct attack on its natural sphere of influence.

Until then the Ciudad Real–Badajoz Railway Company had offered no threat to MZA. Founded in 1861, the company sought to make a profit out of the direct trade between Portugal and the south of Extremadura and the Meseta, as an alternative to the slower routes via Cáceres or Salamanca. Among the promoters were the original holders of the concession for the line, José Forns, the French diplomat Glücksberg, the politician Claudio Moyano, chairman of the company, the engineer José Canalejas,<sup>5</sup> Jean Linmandu, and François Lavaurs and Eugene Blin who represented the construction company Parent & Schaken, which assumed the predominant role in the company with the financial support of the French Crédit Industriel et Commercial (CIC). The share capital was 18 million francs, to which could be added the 25.5 million subsidy and 21 million more in shares.<sup>6</sup>

<sup>4</sup> The Fomento section of the Council of State voted 31 to 6 against MZA, so supporting the claims of the Badajoz. Letter from Bauer, 5 December 1875, ARL XI/109/121.

<sup>5</sup> José Canalejas y Casas was the father of José Canalejas y Méndez, who would become an important political figure at the beginning of the twentieth century and who was secretary of the Badajoz Company in 1878. Mateo del Peral (1974: 35).

<sup>6</sup> Tedde (1978b: 62), Teresa Tortella (2000: 113–114) and Broder (1979: 990–991).

The Badajoz Company had been able to extend its lines in 1864 through the purchase of the rights of the Almorchón–Bélmez line. This transaction enabled the French partners of the company to create the *Compagnie Houillère et Métallurgique de Bélmez* (hereinafter CHMB), which was founded on 16 June 1865 as a co-provider of 3,500,000 francs capital in order to take advantage of various mining concessions in Bélmez-Peñarroya. The company, which was not a filial of the Badajoz Company, even though there was a majority presence of shareholders from Parent & Schaken and the CIC,<sup>7</sup> was a medium- to long-term project to get cheap coal from the coalfield known as El Terrible, in the mining area of Bélmez, for use on the railways and the sale of the excess to Madrid, not to mention the possible exploitation of the lead seams of Cordoba y Badajoz.

In the immediate years following its founding, the plans of the Badajoz Company underwent important changes as a result of the economic crisis. In financial terms the company was hit by the rejection of its shares on the Paris market and it was obliged to modify its liabilities on several occasions in order to keep going. This led to sweeping changes among the shareholders. Parent & Schaken ceased to exist as such between 1865 and 1868, when it became Fives et Lille. Financial support for the firm was initially forthcoming from the *Société Générale*, which provided a series of emergency loans in exchange for a large number of the shares that had not been sold on the Stock Exchange. By 1871 the utterly disastrous situation of the company, which included liabilities of 176 million francs what with unpaid loans and shares that had been used as guarantees, forced a reconversion of the debt into new shares. The board, however, remained much as it was, although it was reduced from 19 to 13 members. The old Spanish partners disappeared, with the exception of Canalejas, who continued as general director, while new partners came in, including, for example, Martín Belda, duque de Cabra, a heavyweight of the Conservative Party, and who would take over the chairmanship of the company. Surprisingly, the CIC was able to hold on to its influence on the board without having to make any other large efforts.<sup>8</sup>

The CHMB, for its part, converted into a public limited company on 1 January 1869, with a capital of 5 million francs and a board that was four-sevenths Parent & Schaken and three-sevenths *Société Générale*. Of the first issue of 10,000 shares, the *Société Générale* took 2,000, Parent & Schaken kept 7,000 in exchange for its contributions to the firm, leaving the remaining 1,000 for its chosen subscribers.<sup>9</sup>

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<sup>7</sup> ArMetaleurop, PYA, Titres divers, 94. No documents remain of the early joint ownership, although there are specific references in the report to its conversion into a public limited company in 1869.

<sup>8</sup> Gille (1968: 58–59), Broder (1979: 992–993 and 997–999) and Tedde (1978b: 62).

<sup>9</sup> Except for 210, which were given to the former owners of the “Bella Carlota” mine, ArMetaleurop, PYA – Titres divers, 94.

Later on the CIC, the Mirabaud & Puerari Bank and the Cahen d'Anvers would all buy into the company to a total share value of 1.5 million.<sup>10</sup>

Changes were also taking place in the construction and running of the Badajoz Company lines on account of the lack of funds and the excessive cost of the construction of the line. José Barbería, the second largest shareholder and the actual track constructor (Parent & Schaken were in charge of the machinery and the telegraph), opted not to continue laying the lines in 1865 and was compensated in company shares for the work he had carried out.<sup>11</sup> Joaquín de la Gándara, who, it will be recalled, was also on the MZA board, took over the building of the line, although he was obliged to seek a loan of 1 million francs from the Rothschilds on behalf of the Badajoz Company to lay down the few remaining kilometres of line.<sup>12</sup> Bauer was in favour of loaning the money but the Rothschilds were not, thus preventing any possible participation on the part of MZA. It would be the Société Générale that would put up the necessary capital and so enable the Badajoz Company to close its main branch line to the public in June, the Almorchón–Bélmez line in April 1868. However, the company continued to rely on the MZA line for access to the Madrid markets and connection with the Norte, unless, as was finally to occur, the government granted it direct access to the capital.

The problem worsened for the MZA from the moment the plans of the Badajoz came up against those of Jorge Loring Oyarzabal, who in 1874 had launched an ambitious project to create an Andalusian network that would link up all the regional capitals. He enjoyed the help of Joaquín de la Gándara, and the full backing of Tomás Heredia and Manuel Larios, not to mention firm ties in Madrid which would soon bear fruits. The partners in this business were hardly starting from zero since Loring and Gándara, either on their own or in association with Heredia or Larios, were the owners of the Jerez–Sanlúcar–Bonanza and Osuna–Roda lines, major shareholders of the Málaga–Córdoba and Bobadilla–La Roda lines, as well as being involved in the building of the Córdoba–Bélmez line. They had also taken over the Seville–Jerez–Cadiz line in 1874, through a skilful operation in the face of competition for the Seville–Córdoba line from the Pereires, and with the purchase of the Utrera–Morón–Seville line from Crawley & Ross.<sup>13</sup>

Loring and Gándara's deals were profitable at the beginning for the MZA, leading to the purchase of the Seville–Córdoba line in July 1875.<sup>14</sup> Yet the situation

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<sup>10</sup> Chastagnaret (2000: 515). According to a letter from Bauer dated 8 September 1865 (ARP 132AQ6182), Cahen d'Anvers had also granted advances to Parent & Schaken against bonds from the Badajoz. There was also the possibility of paying back the debt in CHMB shares. Something similar must have occurred with the Société Générale, although there is no confirmation of a like occurrence for Mirabaud.

<sup>11</sup> Broder (1981: 992–993).

<sup>12</sup> Letter from Bauer dated 8 September 1865, ARP 132AQ 6182.

<sup>13</sup> Tedde (1978a and 1980) and Morilla (1984).

<sup>14</sup> Since expansion into the sea was impossible and the north depended on MZA, the shareholders ceded the line in exchange for 38,000 shares and 34,000 bonds, plus

was awkward for the MZA. In a matter of months, Loring and his partners were threatening to join up with the Badajoz lines. With the Cordoba–Almorchón–Bélmez link, the two networks would form a new connection between Madrid and the south, in detriment to the MZA. A worrying situation indeed, since the MZA could see its growth in the south frustrated just as it was about to finish its merger with the Barcelona–Pamplona line, so closing once again a possible route into France.

This hypothetical association was hardly speculative. It should be remembered that Loring, at that time, shared a seat on the board of the Banco Hipotecario with Cánovas, president of the Cabinet, and José Canalejas, general director of the Badajoz. In fact, they had been among its founder members, along with the Paribas and the Société Générale, itself one of the most interested parties in the Badajoz.<sup>15</sup> Neither should it be forgotten that the Banco Hipotecario, united with the Paribas, was a strong rival to the Rothschilds in the sphere of public financing, a rivalry that could at any time spill over into the world of the railway.

Nevertheless, the concession of the Ciudad Real–Madrid line was not automatic. After a first ruling from the Fomento section of the Council of State, in favour of the Badajoz Company, on the basis that there was no reason for the MZA to hold a monopoly on the routes southwards out of Madrid, the same commission then refused the proposal to extend the line to Madrid. The press took up the subject and MZA presented a formal protest to the Ministry of Economic Development, with the written support of other railway companies, which wished to avoid parallel lines being laid alongside their own. Seeing the proportions the issue was taking, the conde de Toreno, the minister in question, delegated the decision to the Cabinet, so putting the ball in the government's court,<sup>16</sup> obliging it to take a decision regarding MZA just when the Rothschilds were negotiating how to sort out the debt with Salaverriá. Bauer had no doubts that Cánovas "would give the Madrid service to the Badajoz, to Loring, Belda, Gándara and their associates" (deliberately citing them together), with just days to go before the Cortes met. At the same time, he related that there was already an explicit agreement to set up a huge railway company that would take in the Badajoz and the Loring lines under the chairmanship of Cánovas; the presence of Loring and Gándara assured the participation of the Paribas and the Frémy group – read *Crédit Foncier* – and this also meant that the government's public debt needs were covered. All this was discussed at the Cabinet meeting, where the tense discussions between those in favour of the project and those who were averse produced no definitive agreement. The proposal was finally put on ice, before going to the Cortes, where, in December 1876, the Badajoz Company was awarded the link to Madrid, as well

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900,000 francs for the La Reunión mine. Letters from Bauer dated 22 October 1875 and 24 November 1875, ARL XI/109/121, Tedde (1978b: 82) and Tomás (1991).

<sup>15</sup> Lacomba and Ruiz (1990: 51–52).

<sup>16</sup> Letters from Bauer dated 20 and 22 December 1875 and 11, 12 and 21 January 1876, ARL XI/109/121.

as the Aljucén–Cáceres branch line, which gave it another access to the north that was independent of MZA.<sup>17</sup>

In the meantime the conde de Toreno was preparing a railway bill which, while not modifying the bases of the 1855 act, envisaged a series of crisscrossing lines, rather than the radial system of the early concessions. Many of these affected the large companies directly while others followed the lines of the Loring and associates project in Andalusia. Gándara and Loring, in the meantime, were working in the Ministry of Economic Development to get the Puente Genil–Linares project up and running, with a subsidy of 60,000 francs.<sup>18</sup> This would directly link up the lines of their group with Jaén, a provincial capital and the cradle of the emerging Linares–La Carolina mining district. The idea was to get control of most of the galenas and leads coming out of the area, not to mention the competition they would give MZA in the transport of vegetable oils in what was their main area of production.

In response to the Badajoz, the following months saw MZA moving onto the counterattack in an attempt to regain the initiative now that the financial environment was relatively good.<sup>19</sup> First, the management set itself the target of purchasing the Seville–Huelva concession, and so ensure itself another port, apart from those of Cadiz and Malaga, which were controlled by Loring and his partners. This line, which was still at project stage, belonged to the engineer Wilhelm Sundheim, the same who, together with Heinrich Doetsch, had persuaded Matheson to buy the Rio Tinto mines. MZA sent Leon Say to Huelva to negotiate. He was accompanied by the company engineers, Montesinos, Levi Álvarez and Gil. At first, Sundheim tried, not very successfully, to argue that Loring, the Paribas and their partners were making a counter-offer, although it was not difficult to reach an agreement. Indeed, the Rio Tinto was ready to concede a monthly credit of 250,000 francs in order to get the construction under way.<sup>20</sup> Elsewhere, MZA had made contact with Hilarion Roux, the owner of a recently discovered coal deposit in Puertollano, with an explicit offer to rent or buy the deposit or the production. The conditions were similar to those being

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<sup>17</sup> Letters from Bauer dated 13 January 1876, 5 February 1876 and 1 December 1876 ARL XI/109/121 and 123.

<sup>18</sup> Letter from Bauer 14 February 1876, ARL XI/109/121 and Mateo del Peral (1978: 127–131).

<sup>19</sup> At this time MZA had 5.5 million francs in cash and 2 million in Treasury bonds and the only outstanding expense was the 900,000 francs of the mines of La Reunión, Letter from Bauer dated 23 December 1875, ARL XI/109/121.

<sup>20</sup> Finally it was agreed to give Sundheim 8,000 shares and 16,000 new MZA bonds for the rights to the line, which in turn would be financed by a further 20,000 shares and 40,000 bonds. The MZA board passed the measure on 6 October 1877. Tedde (1978b: 54–55) and letters from Bauer of 31 October 1876, 1 December 1876, 27 January 1877, 26 July 1877, 31 August 1877, 9 October 1877 and 2 November 1877, ARL XI/109/123, 124 and 125.

negotiated with him by the Rothschild agency regarding the lead from his mines in Murcia (see below). The aim of this operation was to reduce the profits of the CHMB's and Badajoz Company's coal traffic. The company could not have real aspirations regarding Linares or Madrid if the reports of the engineers on the possibilities of Puertollano were confirmed. Bauer was in favour of applying as soon as possible for a concession on the line that would join Puertollano to the Cordoba railway line, near Santa Cruz, entailing some 40 or 50 kilometres of very easy construction.<sup>21</sup>

Loring and Gándara responded to MZA by speeding up the creation of the *Compañía de los Ferrocarriles Andaluces*, which officially came onto being on 30 May 1877 with the signatures of Loring and Gándara and the main partners of the Paribas, Stern, and the Camondo and Duclerc brothers. The board of administrators also comprised Edmond Joubert and Villars, of the Paribas, along with other illustrious Spanish politicians such as Segismundo Moret, General José de La Gándara, Francisco Silvela and Cánovas himself, who would take over as chairman as soon as he had left the leadership of the Cabinet. The new company had a capital of 10 million pesetas and would take in the Jerez–Sanlúcar–Bonanza and Osuna–La Roda lines and, before they year was out, those of Seville–Cadiz, Utrera–Osuna, Granada–Bobadilla, Cordoba–Malaga and, to all extents, the Cordoba–Bélmez.<sup>22</sup> In total, they had a network of over 700 kilometres, which would be increased on 18 July 1877, with the concession of the Linares–Puente Genilline. On learning that the government had all but decreed the concession of this line, Bauer let of steam and referred to the operation as “an instance of scandalous abuse, a clumsy illegality. The day will come in which Parliament and the public will be appraised of all that is going on behind this matter!”<sup>23</sup>

The tension surrounding the events reached its climax in 1878, when new elements complicated the control of the southern railways even further. To start with, Gándara decided to join up with Moret to boost the project for the line from the Portuguese border to Cáceres and the phosphate mines in that province. These mines actually belonged to Joubert and Villars, the Paribas men mentioned earlier, and the politician was sitting at that time on the board of the *Compañía del Tajo*, which was in negotiations with the *Companhia Real dos Caminhos de Ferro Portugueses* to open up a new Lisbon–Madrid line.

<sup>21</sup> Letters from Bauer of 8 May 1877 and 29 June 1877, ARL XI/109/124.

<sup>22</sup> Tedde (1978a and 1980). According to Morilla (1984: 102), the *Sociedad del Ferrocarril de Córdoba–Espiel–Bélmez*, the owner of this line, suspended payments on 18 May 1875, with the principal creditors being the constructors, Heredia, Larios and Loring. Owing to disagreements, the line was not auctioned until 10 January 1880, when the Andaluces seized the chance to purchase it through a certain Antonio Reyna.

<sup>23</sup> Letter from Bauer dated 18 July 1877, ARL XI/109/125.

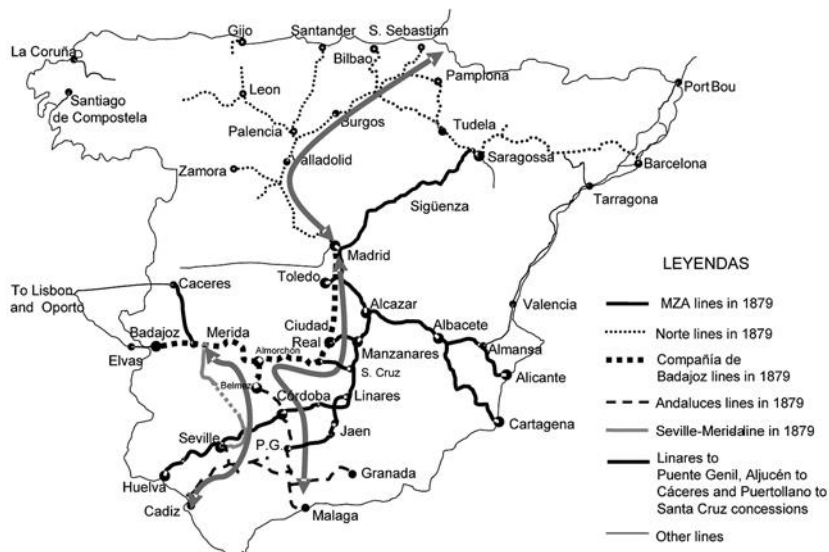


Figure 8.2 Ownership of the Spanish railway network, 1875–1879

So the decision set a part of the Andalusian group in direct competition with the Badajoz, whose main asset was the exclusivity of its link with Portugal.<sup>24</sup> Elsewhere, Manuel Pastor, owner of the Merida–Seville concession made a formal offer to MZA to transfer to it the line under construction, whose value had increased following the concession of the Aljucén–Caceres line.<sup>25</sup>

As things stood, MZA and its rivals had a wealth of strategic options open to them. First there was the possibility that at any moment the Badajoz, the Andaluces and the Compañía de Cáceres might iron out their differences and take the decision to connect up all their lines to create a huge network which would be an enormous boost for the Almorchón–Talavera link envisaged under the 1877 act. Another way out of the problem for MZA would be to ally itself with the Badajoz and connect up its networks to the south with a line from Bélmez to Seville, thus ensuring that the company would not have to depend on the Andaluces. The company could also hold out for a time with its current network, with the sole expense of the Merida–Seville line, so making full use of the Huelva–Seville line. Finally, MZA and the Rothschilds had the most extreme option of purchasing all the Andaluces

<sup>24</sup> Letter from Bauer dated 2 November 1877, ARL XI/109/125 and Broder (1979: 1286).

<sup>25</sup> Pastor asked for 18 million francs to complete the work and a commitment to cede the line after five years for no less than 150,000 francs per kilometre. Letter from Bauer 2 June 1878, ARL XI/110/9.

and the Badajoz networks – over 1,500 kilometres of railway. Bauer, however, was extremely wary of the last of these options. He considered himself responsible for the purchase of the Cordoba and Huelva lines and saw how speculation by intermediaries and the competition could seriously endanger the profitability of the whole Rothschild railway project in Spain.<sup>26</sup>

Yet things did not get out of hand for, before the year was out, the Badajoz threw in the towel and offered its complete network to the Rothschilds. The directors had banked on winning the Merida line and had also believed that they were negotiating the purchase with Pastor exclusively, when in fact the latter had been in talks with everyone involved.<sup>27</sup> On seeing itself left out of all the agreements, the board of the Badajoz cannot have been at all convinced that once the Madrid branch line was open there would be enough traffic to make it profitable and to be able to compete with MZA.<sup>28</sup> The Badajoz sat down for talks at the beginning of 1879, and on 23 April of that year it accepted a provisional sharing of the traffic with MZA for a period of five years, before finally agreeing to a definitive integration with MZA in May 1880 in exchange for 50,000 shares, 100,000 bonds and 5.5 million francs in cash.<sup>29</sup>

The matter of the Merida–Seville line ceased to be a priority but it was still of interest, insofar as it served as a defence for the company against the incursions of the Cáceres company and the Andaluces, not to mention the *Compañía de Zafra-Huelva*, which was up for tender, although six long years would pass before it was constructed.<sup>30</sup> MZA reached an agreement with Pastor to pay him 71,300 of their own bonds and 665,000 pesetas as a surcharge. However, the contract was invalidated because Pastor had completely mortgaged the line before the sale. A company made up of his main creditors, the *Compañía de los Ferrocarriles Extremeños*, demanded the guarantees to be paid. MZA had to return to the negotiating table and had to increase the number of bonds to 87,522, plus 580,834 pesetas to compensate the various local administrations and individuals who had

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<sup>26</sup> Letters from Bauer 9 and 20 June 1878 and 18 October 1878, ARL XI/110/9.

<sup>27</sup> Bauer informed the Rothschilds: “Canalejas is indignant because he has been played with. He speaks to us unctuously! If the fact is indeed true – which it may well be – one can but recognize that Sr. Pastor has become a master of his art! *C’est l’école du jour.*” According to Bauer, Pastor also had meetings with the Paribas. Letters from 8 and 12 June 1878, ARL XI/110/9.

<sup>28</sup> Letter from Bauer 27 December 1878, ARL XI/110/10.

<sup>29</sup> MZA report 1880. The merger process was held up by discrepancies regarding the price. According to Broder (1979: 1,003), the Cordoba–Puertollano branch was awarded to the Badajoz while negotiations were in process, which meant that it had more arguments in its negotiations with MZA.

<sup>30</sup> Letter from Bauer dated 4 May 1881, ARL XI/92/A.



put up funds for Pastor in the form of bonds.<sup>31</sup> The agreement was signed on 27 June 1881.

From then on, the areas of influence of MZA and the Andaluces were clearly defined and the war for the networks of the south of Spain was practically decided. Over the following decades MZA consolidated its control of the Guadalquivir Valley traffic and that of the lead and coal reserves of Extremadura, La Mancha and northern Andalusia, which, as we shall see later, was important for the birth of Peñarroya. All of which meant that it was able to concentrate its efforts until the end of the nineteenth century on the competition with the Norte line. Loring, Gándara and partners, for their part, concentrated on developing the Andalusian lines. The unanswered question after all this is clear: Why didn't the Andaluces and the Paribas bid for the Badajoz?

### *The Competition in the North and the Link to France*

MZA's fight to open up in the north of the peninsula and consolidate a connection with France was in some ways similar to what had been going on in the south, although it took longer to solve and it had just one adversary in Los Caminos de Hierro del Norte de España. In this case we do have detailed knowledge of how events developed thanks to the work done by Tedde and Pascual,<sup>32</sup> so we will attend here solely to the most outstanding operations and elements.

In 1863 MZA had sought a quick takeover of the Compañía Zaragoza–Barcelona, which was in financial straits, by raising the transport costs on the line and drumming up support among the shareholders. The Rothschild ploy backfired as it unwittingly sparked the merger of the line with that of José Salamanca's Zaragoza–Pamplona, which gave rise in 1865 to the birth of the Compañía de Ferrocarriles Zaragoza–Pamplona–Barcelona (hereinafter, ZPB).<sup>33</sup> Thus, for three long decades MZA saw its progress in the north blocked by an unbreachable wall in Saragossa.

In 1874 the Norte company tried to steal a further march on MZA and proposed a merger with ZPB or the rent of its lines for the next 12 years. Bauer was of the opinion that the agreement was indeed a complicated affair: the predominantly Catalan members of the ZPB board rejected the merger, as did Ros Olano and Llorente, who were also board members of MZA, which would make any merger impossible, regardless of the position adopted by Salamanca, the chairman of the company, or other interested parties such as Adrien Delahante. The banker was not far off the mark, as ZPB offered a high enough price for the Norte to turn

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<sup>31</sup> *Historia Financiera de MZA.*, AFFE, MZA, Secretary's Office, box 215 and Tedde (1978b: 64–65).

<sup>32</sup> Tedde (1978b) and Pascual (1999).

<sup>33</sup> Pascual (1999: 274–279).

down the offer, the more so given the state of affairs in the north of the peninsula, where the war threatened to continue for several more years.<sup>34</sup>

When the Carlist War ended, the Norte continued to insist with even greater zeal on a merger, which had been at a standstill on account of the arguments outlined above. Yet, in 1878, a sudden agreement with MZA, very probably made in exchange for the non-intervention of the Pereire company in the south, enabled the merger between the Norte and ZPB, which was formalized on 13 February.<sup>35</sup>

So it was that the Norte enjoyed a kind of natural monopoly on all the inland railway traffic of the north-east of Spain and, especially, on the transportation of key produce between the northern Meseta and Catalonia, such as bread cereals.

In the mid-1880s the main independent company in Catalonia, which ran the railways from Tarragona to Barcelona and France (the product of the mergers of more than 10 small outlying Barcelona companies, including the Barcelona–Mataró), took the decision to merge with the Ferrocarriles Directos de Madrid y Zaragoza y Barcelona company with the aim of breaking the commercial monopoly of the Norte to the south of the Ebro with Catalonia. The new company, which would be called Nueva Compañía de los Ferrocarriles de Tarragona a Barcelona y Francia (hereinafter TBF), was the only large railway company in Spain with a majority of national capital, even though there had been financial turmoil among the firms comprising it. Nevertheless, in 1888 the company set about finishing the link to Saragossa, before running into serious financial and technical problems with the construction of the section between Reus and Caspe, which in around 1890 forced it to negotiate with the Norte if it was not to declare bankruptcy.<sup>36</sup>

The Norte saw the way to incorporate the company into its network and initiated a plan to purchase all the lines that could link up directly with the TBF network in the south – the Almansa–Valencia–Tarragona, which the successors of José Campo had put up for sale, and the concession of the Valladolid–Ariza, which it acquired from the Comptoir d'Escompte and the Crédito Mobiliario,<sup>37</sup> the main partner of the Norte, on 25 October 1890. The latter was connected with MZA, but it was no surprise that the Norte soon applied for a direct link with Catalonia or eastern Spain, which would to encircle even more the only MZA line in the north – the Madrid–Saragossa railway.

Alarmed by the direction that events were taking, the MZA board made a proposal with the Norte under which they would cede the Saragossa line in exchange for the purchasing rights of the Almansa–Tarragona and TBF. The Norte refused, preferring to go ahead in its negotiations to merge the remaining lines of Catalonia. This was the moment that MZA decided to risk everything in one throw of the dice. They came up with a second offer at the TBF shareholders'

<sup>34</sup> Letters from Bauer 6, 9 and 21 August 1874, ARL XI/109/116 and Tedde (1978b: 83).

<sup>35</sup> Cameron (1971: 253).

<sup>36</sup> Pascual (1999: 439–455).

<sup>37</sup> Tedde (1978b: 69).

meeting which had the backing of a group of shareholders. The outcome was the seemingly incomprehensible sale of the Valladolid–Ariza line to MZA on 2 May 1891, by the partners of the Norte, just days before the said meeting. With this line, MZA now had a direct connection to the largest wheat-producing area in Spain and was in a position to make a strong counteroffer for the Catalan company. The specific offer to the TBF shareholders consisted of facilities to convert all their devalued shares in circulation into new shares, a commitment to finish the Valladolid–Ariza line in less than three years, a loan of 30 million pesetas at 4 per cent so that TBF could finish the work on the Saragossa connection and the willingness to allow the Catalan committee some degree of independence in the management of the TBF network in the case of a takeover by MZA. There was little the outgoing board could do to defend the original proposals – especially in the light of the high fees applied to wheat transportation by the Norte in the previous years, and the manifestly more favourable conditions offered by the alternative. All of this served to pave the way for the triumph of the MZA option.<sup>38</sup>

A few months before MZA and TBF concluded the work on the lines already underway (the Saragossa connection in July 1894 and the Valladolid–Ariza on New Year’s Day 1895), the Norte responded by beginning a price war for products transported from Castile to Catalonia. The war went on for two years and finally required direct intermediation by Cánovas for the parties to reach an agreement on sharing out profits and traffic that lasted until 1907.<sup>39</sup>

During these years of competition the TBF income did not increase enough for the Catalan company to pay back the loan of 30 million or the 7 million in interests to MZA. The situation obliged TBF to suspend payments and enabled MZA to lower the economic conditions of the 1891 agreement before finally closing the takeover of TBF on New Year’s Day 1898.<sup>40</sup>

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<sup>38</sup> Tedde (1978b: 72) and Pascual (1999: 454–458).

<sup>39</sup> Letter from the French Foreign Minister to the Minister for Finance dated 9 January 1896, AMEFF B-31194, GM of 4 July 1896 and Tedde (1978b: 74–77).

<sup>40</sup> Pascual (1999: 461–478).

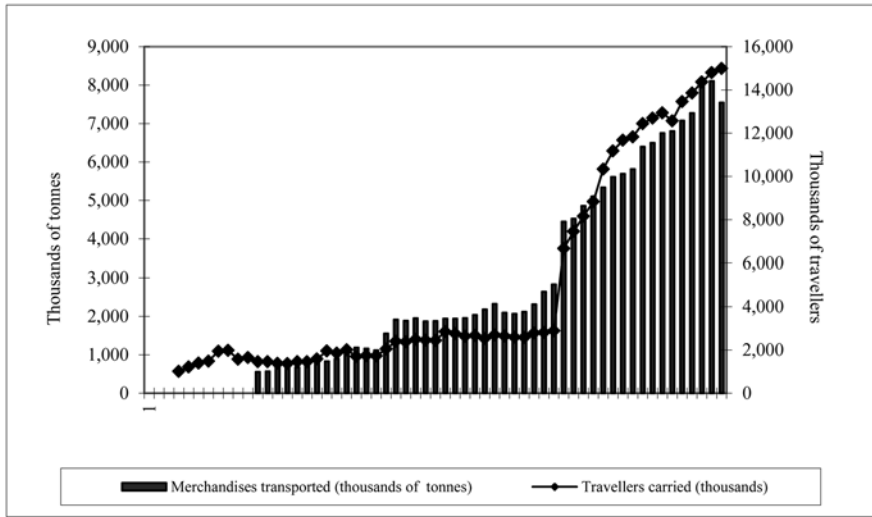


Figure 8.3 Goods and passenger transport in the MZA network  
*Source:* Anes (1978).

With the definitive merging of the Catalan network, as the MZA had begun to call the old TBF, the Rothschilds finally, 36 years after the Alduides failure, had a direct connection with France and could complete their project for the north-south Iberian Peninsula axis after 42 years of activity. The cost and profitability of the small operations were not always apparent. The Huelva line, for example, was a complete disaster, for all the talk pushed out by Sundheim, who attempted to sell it as the panacea for the development of the province and the MZA accounts,<sup>41</sup> when the truth was that the vast majority of the minerals mined from the Huelva deposits were transported by the Huelva-Zafra Company, which just happened to belong to Sundheim, or by the private railways of Rio Tinto Co., Tharsis and Buitrón. The purchase was more of a strategic acquisition, like that of the Badajoz-Ciudad Real-Madrid, which was making losses before it was purchased and whose income was always way below the mean for the rest of the company's lines. The same could not be said, however, of the takeover of TBF, which gave the company a new dimension thanks to a spectacular increase in the number of travellers and goods (see Figure 8.3).

<sup>41</sup> Letter from Weil dated 16 July 1878 and letter from Bauer dated 2 June 1878, ARL XI/109/9.

## ORIGINAL NETWORK (2,929 Km.)

## CATALAN NETWORK (721 Km.)

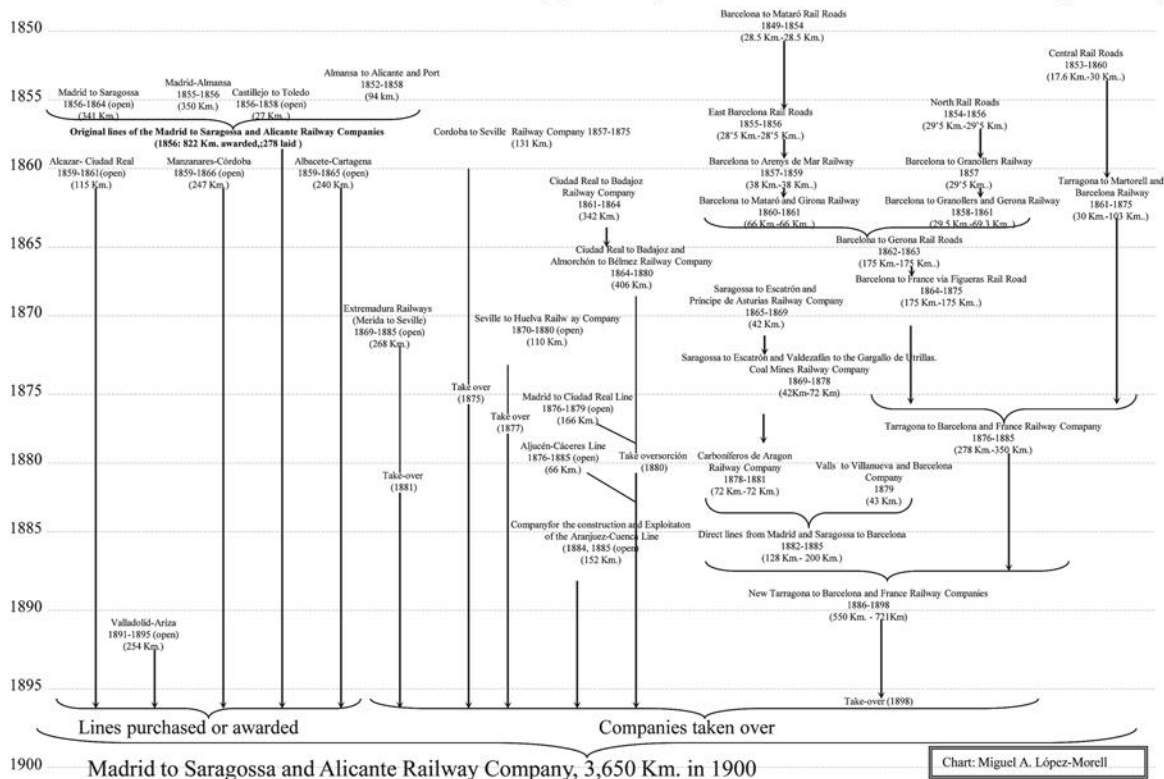


Figure 8.4 Integration of MZA lines, 1856–1900

Cameron<sup>42</sup> has insisted that the MZA strategy was flawed, especially in the south of the country, arguing that the company should have allowed other business ventures to build the lines and then take them over as they went bankrupt. The final outcome was, in his opinion, excessive debt, which had a negative effect on the balance sheet and left the company unable to pay dividends of more than 5 per cent, except in 1877. However, it was more than acceptable result for the Rothschilds, as at no time did they lose their lucrative financial control of what was the biggest railway business in the country, apart from its competitor, the Norte, with a network of 3,650 kilometres of railways which joined 17 provincial capitals and which by 1900 was employing over 15,000 people.<sup>43</sup> It was one of the most extensive railways of Europe and it suffered no losses until well into the twentieth century – quite an achievement given the initially bleak outlook for Spanish railways in the nineteenth century.

### **Expansion in Mining: From Commercial Activity to Controlling the Supply**

#### *Peñarroya: Profiting from Control of the Area*

The Rothschilds' participation in creating what was to be the huge Peñarroya lead emporium was the result of a series of events, some of which they actively sought and others that were thrust upon them. However, background events also played an important role in how things were to pan out.

As we saw in Chapter 3, the Rothschilds' involvement in Spanish lead went back to the 1840s. By 1860 the Paris House was already handling a respectable 11,641 tonnes of lead, valued at 7 million francs,<sup>44</sup> although admittedly this marked the high point of a cycle, as the figures dropped over the next decade on account of the fierce price war waged by the British producers. The staff at the Paris House did not allow themselves to be discouraged by the downturn in the situation and set about a thorough reform of their activity in this field. The House's refinery in Le Havre was completely modernized and the company opted to sign long-term contracts for amounts in excess of 500 tonnes a month, which enabled them to ensure a low-cost scale production.<sup>45</sup> Contracts were signed in 1877 with Jorquera & Walker and the Sociedad Escombreras Bleyberg, of Hilarion Roux, both of which committed themselves to deliver no fewer than 500 tonnes of molten lead a month over the following five years.<sup>46</sup>

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<sup>42</sup> Cameron (1971: 253).

<sup>43</sup> According to the studies by Tomás Martínez Vara and Esmeralda Ballesteros.

<sup>44</sup> Gille (1967: 548–551).

<sup>45</sup> Mckay (1989: 109–110).

<sup>46</sup> The contract with Jorquera (27 June 1877) established two Rothschild loans, worth 300,000 pesetas together, plus the Escombreras one (1 August 1877) for 500,000 francs.

These deals were completed by some purchases from the Bonaplata<sup>47</sup> and others made under a mortgage contract with Carlos Huelin, from Malaga, who guaranteed a minimum of 7,200 tonnes of lead and 70 ounces of silver each.<sup>48</sup> With Huelin, Roux and Jorquera in the hands of the Rothschilds, and with Heredia pulling out of the business, the bankers were almost the only rivals of the Figueroas for Spanish lead exports to France by the dawn of the 1880s.

The new decade saw the situation change dramatically. Let us recall that in December 1879 the partners of the *Compañía de Badajoz* had thrown in the towel and sold the line to MZA, including the Almorchón–Belmez link. On top of that, in the summer of 1881 Huelin had defaulted on the mineral delivery dates agreed on with the Rothschilds and had had to sign two new contracts under which, as compensation for the delay, it ceded the bankers the rights to the “La Consecuencia” and “San Antonio” groups of mines until 1910. The two groups made up just about all of the Huelin mining interests in La Mancha and the lead deposits of Berlanga and Peñarroya<sup>49</sup> and bordered on the territories of the previously mentioned CHMB.

In barely two years the Rothschilds found they had an asset that had to be turned into profit so they began negotiations with their old rivals at the Badajoz, in order to link their mining interests. After losing control of their railway line, the partners of CHMB were left with little alternative but to seek a friendly agreement, at the risk of being isolated in the north or of putting themselves in the hands of the Andaluces. Faced with the two options, the board plumped for the more powerful of its competitors.

It was decided to maintain the identity of the CHMB as a coal company and to set up a twin company that would be devoted solely to lead, under the initials SMMP (*Société Minière et Metallurgique Peñarroya*). La Hullera ceded its lead mining interests, including its rented and owned mines and the lead foundry it had in Peñarroya.<sup>50</sup> The Rothschilds, for their part, put up only their contracts with Huelin and even demanded 37 per cent of the net profits of these concessions

The contract with Jorquera was later extended until 1883 and that of Roux until 1885. ARP 132AQ116 and letter from Weil dated 14 November 1879, ARP 132AQ 6208.

<sup>47</sup> Letter from Weil to the Paris Rothschilds, 2 January 1879, ARP, 132AQ 6208.

<sup>48</sup> Under a contract of August 1880 Huelin received a loan of 2 million pesetas from the Paris House, with a mortgage on 70 mines and concessions and the commitment to hand over all the leads produced in his mines, ARP, 132AQ 116.

<sup>49</sup> Huelin’s debt was met by the *Compañía d’Aguilas*, to which he also ceded the contract for the deliveries of the mineral. Contracts in ARP, 132AQ 354 and letters from the Madrid agency between September and November 1881, ARL, 132AQ 6514. Despite the accounts given in Nadal (1975: 104–105) and Pérez de Perceval Verde and Sánchez Picón (2000: 42), the Rothschilds did not participate in the *Compañía d’Aguilas*. This was not the case for Lavaurs and the CIC, to which Chastagnaret (2000: 549) does associate them.

<sup>50</sup> *ArMetaleurop*, PYA-Juridique, 257, P.V.S.C.A. Book 1, session 19 October 1881 and SMMP Report 1882.

and exclusive sales rights. The first shareholders' meeting, on 12 October 1881, authorized a capital of 5 million francs, which would be used to pay the first rent instalments to the Rothschilds and the contributions of the CHMB.<sup>51</sup> At the same meeting the Rothschilds and the Mirabaud-Puerari bank were recognized as the major shareholders, and the two would quickly join up in other mining businesses such as the Boleo and Le Nickel companies.<sup>52</sup> An initial board of eight members was appointed, Four of the members were Rothschild representatives – Ferdinand Duval, Cornelis de Witt, Alfredo Weil and the Marqués de Lau –while the other members came from the CHMB, and represented each of the financial entities that had supported the coal company since its beginnings – Charles Herpin, for the Société Générale, of which he was the delegated board member; Raymond Lavaurs, from CIC; Paul Mirabaud, for the Mirabaud bank, Paccard, Puerari et Cie., and Louis Cahend'Anvers, representing himself.<sup>53</sup> The last of these was appointed chairman of the company; the position of vice-chairman went to Cornelis de Witt; Raymond Lavaurs was the delegated board member and Charles Ledoux was named director, the same post as he occupied at CHMB.<sup>54</sup>

Table 8.1 Initial share distribution of the SMMP

<b>Private or entity shareholders</b>	<b>Number of shares at 500 francs</b>
Rothschild Frères	3,800
Mirabaud Pacard Puerari et Cie	1,644
Louis Cahen d'Anvers	1,000
Count Pillet Hill	250
Countess de Mongermont (born Parent)	250
Adolphe Ledoux	200
Gaston Bartholoni	200
Others	2.656
<b>Total</b>	<b>10.000</b>

*Source:* ArMetaleurop, PYA Titres divers, n° 94.

<sup>51</sup> Minutes of the 1st and 2nd Constituent Assembly, Company Articles and the contract of 17 June 1881, ArMetaleurop, PYA Titres divers, 94 and contracts of 23 November 1881 and 7 March 1882, ARP, 132AQ 354. The metal mines and the foundry were valued at 3,070,422 francs. SMMP Report 1882.

<sup>52</sup> McKay (1989) and Bouvier (1967).

<sup>53</sup> Minutes of the 1st and 2nd Assembly and Company Articles, ArMetaleurop, PYA Titres divers, 94.

<sup>54</sup> *Ibid.* The Assembly authorized Herpin, Lavaurs, Cahen d'Anvers and Mirabaud to hold seats on the SHMB and the SMMP boards simultaneously.



Shortly afterwards, Jules Aron,<sup>55</sup> a technician at the House of Rothschild, also joined the board as engineering advisor to the board, as the Rothschilds had insisted on in the initial agreements.

The energy problem of Peñarroya was solved thanks to the implicit alliance with the CHMB, which supplied sufficient coal for there to be more than acceptable volumes of smelting of the minerals from the Extremadura and Ciudad Real deposits. In 1882 the blast furnaces could process 3,000 tonnes of high-grade mineral, with a tenor of 72 per cent lead and 500 grams per tonne of silver, and 500 tonnes of medium-grade mineral, with 45 per cent lead purity and 480 grammes per tonne of silver.<sup>56</sup> Nevertheless, in 1885 the company sought to increase its refining capacity and extend its influence to the Mediterranean through a series of contracts with the *Compañía d'Águilas* and the *Compañía Metalúrgica del Levante* so as to share the Cartagena, Garrucha and Almería foundries.<sup>57</sup> These agreements spelled the first failure for the company, which ran into difficulties caused by the small suppliers of the south-east, and the attempts were abandoned between 1886 and 1887. It was a different story for the Peñarroya foundry, which saw a spectacular increase in production following a string of technical improvements which included the recommendations for obtaining silver proposed by the staff at the Rothschilds' Le Havre factory, who visited the installations in 1887.<sup>58</sup> As a result, its lead production tripled between 1885 and 1889, reaching the point where the factory could no longer cope with all the minerals it was receiving, and the decision was taken to extend the refinery.

The next step was to optimize the supply so that it could match the refinery's new capacity. The directors opted to build their own railway line from Fuente del Arco to Peñarroya, passing through the mines of Azuaga and Fuenteovejuna before connecting up to the port of Seville, where the Peñarroya lead could be collected by the Rothschilds' customers. The draft was, logically, entrusted to the *Compagnie Fives-Lille*, and contacts were made with MZA for the execution and use of the planned line. Initially, MZA came in on the project but, finally, pulled out and the company had to take on the 69 kilometres of railway works itself, which it carried out in stages.<sup>59</sup>

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<sup>55</sup> *ArMetaleurop*, PYA-Juridique, 257. PVSCA Book 1, session of 19 October 1881. At the board meeting of 24 November, Alfredo Weil was requested to take charge of representing of the company in Spain. He refused but showed himself willing to cooperate. Evidently, Peñarroya was not yet a priority. Finally, the job fell to Auguste Lavaurs.

<sup>56</sup> Production reached some 1,500 tonnes of lead in the first smelting, with some 1,500 kilos of silver, and 615 tonnes of lead in the second smelting, with 240 kilos of silver content. *ArMetaleurop* PYA-Juridique, 257. PVSCA Book 1, session of 22 March 1882.

<sup>57</sup> These contracts, or at least the second of them, were probably provided by the Rothschilds.

<sup>58</sup> *ArMetaleurop*, PYA-Juridique, 257. PVSCA Book 2, session of 12 October 1887.

<sup>59</sup> The first stretch, between Peñarroya and the Triunfo mine, was finished on 23 June 1895 and the remaining stretches were finished between 1896 and 1897, *ArMetaleurop*

Once all the projects had been set in motion by the directors, regardless of whether they were from La Hullera, they began to consider the drawbacks of maintaining two separate entities that had so many interests in common, albeit with divergent trajectories. The CHMB was providing Peñarroya with increasingly larger amounts of its production while competing with the Andaluces mines for the rest of the market. This meant a standstill in terms of growth, even as Peñarroya had seen its production, and its expectations, grow.<sup>60</sup> The financial market had reacted to Peñarroya's potential – the company had, in 1892, smelted 20 tonnes of lead and had paid out a healthy 14 per cent dividend; its share value had doubled and was touching 1,200 francs, after six years of below-par trading.<sup>61</sup> The conclusion to be drawn was obvious and, after brief talks, the two companies decided to merge in 1893 in order to take better advantage of their synergies and reinforce their metallurgic business.

The superiority of the Peñarroya shares over those of La Hullera were taken into account in the merger, at a ratio of 2:1, even though the capitals were identical. So in the first place the share capital of the former was doubled, standing at 10 million francs, with 6,667 allotted to the existing shareholders in exchange for the total assets of La Hullera. The 3,333 outstanding shares were distributed among the Peñarroya shareholders at one new share per three old ones. The Peñarroya board took on four members from La Hullera: Eugène Puerari, Ludovic Sinçay, the marqués Des Rois and José Canalejas y Casas, whose arrival spelled the departure of his son, José, who had been on the Peñarroya board since the death of Alfredo Weil in 1888. Another arrival was that of the economist Paul Leroy-Beaulieu, representing the Rothschilds, who were compensated for the loss of their majority on the new board. Changes in the directorship were, however, minimal. Charles Ledoux continued, but now as general director; Paul Gal moved from deputy director of the CHBM and the SMMP to manager (director) in Spain, and a few months later, to assistant general director, while Jules Aron stayed on as engineering advisor.<sup>62</sup>

After the takeover, Peñarroya was able to boost its refining capacity with an ambitious expansion project which involved purchasing deposits and signing new contracts for supplies. One such agreement was signed with the Compañía del Horcajo to smelt galena, and it was followed by other similar agreements with the Demetrio, San Rafael and Terreras mines, which together brought in 18,000 tonnes per year. In 1896 Peñarroya acquired the Llerense mine, close to its existing properties in Azuaga, and negotiated the purchase of the Ciudad Real deposits<sup>63</sup>

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PYA-Juridique. Num. 257. PVSCA Book 2, sessions de 18 March 1891, 19 October 1892 and 23 November 1892 and SMMP reports from 1891 to 1897.

<sup>60</sup> ArMetaleurop PYA-Juridique, 257. PVSCA Book 2, session of 21 December 1891.

<sup>61</sup> García (1979: 555).

<sup>62</sup> ArMetaleurop PYA-Juridique, 257. PVSCA Book 2, session of 22 June 1893.

<sup>63</sup> The Sociedad Victoria sold the San Froilán and La Victoria mines. ArMetaleurop PYA-Juridique, 257. PVSCA Book 2, sessions of 23 April 1896, 22 October 1896,

which it rented or jointly owned, including the acquisition from the Rothschilds of their rights to the Consecuencia and San Antonio concessions.<sup>64</sup>

This consolidation of their assets in La Mancha encouraged the directors of Peñarroya to build a second railway line in the north, from Puertollano to the Grupo San Quintín mines. The 25-kilometre line would begin operating in 1899. Thus, by the turn of the century Peñarroya had all its deposits and installations connected by railway.<sup>65</sup> At the same time, the firm negotiated some special contracts with the MZA in order to get its lead out through Seville. MZA provided part of the material necessary for the transport, and even an engineer to organize the traffic.<sup>66</sup> For its part, Peñarroya offered preferential coal contracts to MZA, even underpricing what it offered to its own subsidiaries. In 1898 Peñarroya continued to respect its contract with MZA when it decided to increase its coal prices by 50 per cent for all its customers.<sup>67</sup> MZA was therefore left in a better position than ever compared to the other inland foundries in terms of the supply and distribution of its products.

Hence, by 1900, the SMMP was already a firm of exceptional importance in the mining industry of southern Spain. Since its merger with La Hullera, it had doubled its refining capacity, establishing itself as the number-one lead producer of Badajoz and the second largest in Ciudad Real.<sup>68</sup> The growth of the company was all the more spectacular in that it occurred at a time of continuous falls in prices and in the face of ever increasing competition from North American lead producers. Even so, its greatest moment of growth was still to come.

The first huge development came in 1900 when, in a matter of months, Peñarroya gained the major coal deposit of its rival, Bélmez. January witnessed an agreement with Cristino Martos for the purchase of eight mines bordering on its El Terrible deposit for 2.7 million pesetas.<sup>69</sup> The acquisition of the Antolín shaft would soon prove to be one of the most important in the area, but was small compared to that of the Santa Elisa, Ana and Pequeña mines controlled by the Andaluces through the Sociedad Carbonera Española. According to Nadal,<sup>70</sup> the Ferrocarriles Andaluces decided to get rid of their mining assets due to the costs of its network, so, following the assurance by Peñarroya for future supplies, a price of 12 million pesetas was agreed on for all its assets.<sup>71</sup> After these operations, Peñarroya gradually went about incorporating the remaining concessions of

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29 December 1898, 11 and 12 November 1899, 24 December 1896, 28 January 1897 and 11 February 1897.

<sup>64</sup> Agreement of 16 March 1897, ARP 132AQ 354.

<sup>65</sup> Reports SMMP from 1898 to 1900.

<sup>66</sup> AFFE, MZA, Board Secretary's Office, file 016-03 and ArMetaleurop PYA-Juridique, 257. PVSCA Book 3, session of 24 October 1895.

<sup>67</sup> ArMetaleurop PYA-Juridique, 257. PVSCA Book 3, session of 26 May 1898.

<sup>68</sup> Pérez de Pérez de Perceval Verde and Sánchez Picón (1999).

<sup>69</sup> García (1979: 544–547).

<sup>70</sup> Nadal (1992: 245).

<sup>71</sup> The operation was financed through an issue of 16,000 new shares at 1,150 francs.

El Guadiato, based on the argument that it was convenient to reduce costs by economies of scale.<sup>72</sup>

Following this huge leap in energy capacity, the directors of Peñarroya threw themselves into the task of increasing supplies to match the company's growing smelting capacity. The route chosen on this occasion was to combine the acquisition of new mines with the conversion of their traditional suppliers into subsidiaries, since these were companies that, individually, lacked the capital and technology that Peñarroya could boast.

The first instance arose in 1902 after a new agreement with the Compañía del Horcajo, which had applied to Peñarroya for financial support in exploiting the latest its concessions – La Salvadora. Peñarroya agreed to set up a company to this effect, with a capital of 1,300,000 pesetas, under which El Horcajo provided the concession, the lands and material – a total value of 600,000 pesetas – while the SMMP was to cover the rest in shares. The ensuing company was known as Nueva Sociedad de Minas del Horcajo and would return healthy profits until 1911. The following year saw an agreement with the Sociedad Escombreras Bleyberg to set up the Sociedad Minera de Villanueva del Duque, with a capital of 1,600,000 pesetas, to exploit jointly La Pepita – a concession which in the following years would become famous for the seam known as El Soldado, the most profitable ever in Spain. In much the same vein, Peñarroya purchased from the Figueroas the Coto Bonaplata, in Bailén, which included the El Correo mine. With all these assets, the Compañía Industrial Minera de Linares was set up in 1907, with 4 million pesetas share capital, put up equally the Sociedad de Antiguos Establecimientos Sopwith, which provided the mine called La Tortilla.<sup>73</sup> A similar agreement led to the creation of the Compañía Minera de Villagutiérrez, following a pact with La Mancha Syndicated Ltd. The company had a capital of 2,400,000 pesetas and, as in the previous case, both partners put up active mining properties: the British firm provided the Villagutiérrez mine and Peñarroya La Victoria.<sup>74</sup>

All these new acquisitions were connected to the railway network through the extension of the railway line towards the east.<sup>75</sup> So it was that, once this period of growth had come to an end, Peñarroya reached a position where its installations

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<sup>72</sup> Between 1903 and 1914 a total of 84 deposits in the area were purchased. García (1979: 544–547), Nadal (1992: 240–245), ArMetaleurop, PYA-Juridique, 257. PVSCA Book 4, sessions of 27 September 1900 and 16 October 1900 and SMMP Report of 1903.

<sup>73</sup> ArMetaleurop, PYA-Juridique, 257. PVSCA Books 4 and 5, sessions of 24 July 1902, 29 January 1903, 26 February 1903, 31 May 1906 and 30 May 1907.

<sup>74</sup> SMMP report from 1906 and *Anuario de Minería, Metalurgia, Electricidad e Industrias Químicas de 1912*, 202.

<sup>75</sup> With the exception of that of Linares, which was already connected by rail. The stretches of Santa Elisa–Cabeza de Vaca (7 km); Peñarroya–Pozoblanco (53 km) and Pozoblanco–Conquista (40 km) were finished in 1901, 1905 and 1907, as was the stretch to El Horcajo, except for the part to Puertollano, which was finished in the early 1920s, SMMP Reports 1901–1920.

could process a far greater amount of galena than its own mines were producing. The strategy was to prioritize the metallurgical activity and take full use of the coal deposits. The figures speak for themselves: 57,950 tonnes of pure lead in 1908 (30.8 per cent of the total national production), which made it the number-one Spanish producer of the metal.

Moreover, the SMMP engineers were able to optimize the technical aspects by extending the traditional lead and silver production to include new by-products, thereby enhancing the value of the Peñarroya factory.

From 1908 it was possible to recover enough zinc from the San Froilán mine that the management decided to create a specific area to obtain the metal during the smelting. The project led the engineers to propose that sulphuric acid might also be obtained from the rich sulphurous acids given off during the sphalerite roasting. The zinc-roasting workshop would produce more sulphuric acid than was domestically consumed (some 1,500 tonnes per year), so the outstanding amount could be used to make superphosphates, for which there was high demand among local farmers. The studies for the construction of a new factory capable of an annual production of 7,500 tonnes of acid and 10–12,000 tonnes of superphosphates were finished in 1909, but such was the demand for these products that even before the factory was opened in 1911, it was already being upgraded for a production of 40,000 tonnes.<sup>76</sup>

The success and excellent prospects afforded by these activities led to the creation of two further subsidiaries: the Sociedad de Piritas de Sevilla and the Sociedad Española de Tejidos Industriales. The first came into being as a means to assure the sulphur supply for the superphosphates now that expectations had gone way beyond the possibilities afforded by sphalerite gases.<sup>77</sup> In the case of the second, Peñarroya was able to further exploit its production by coming to an agreement with the Cie International de Brevets Textilose for the manufacture of “textilose”, a paper and cotton-based material that was highly suitable for sacks used in the shipment of chemical products. Their low cost left margins for profit.<sup>78</sup>

In the wake of the boost provided by these new agreements, Peñarroya undertook a third expansion plan with the takeover, in 1912, of the Sociedad

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<sup>76</sup> ArMetaleurop, PYA-Juridique, 258. PVSCA Books 5 and 6, sessions of 18 June 1908, 28 January 1909, 27 July 1911, 30 November 1911, 7 May 1912 and 28 November 1912. The coke furnaces were also prepared to recover ammonium sulphate and factories were built to copper sulphate and to treat zinc sulphate.

<sup>77</sup> With the Sociedad de Piritas, Peñarroya set up a subsidiary with 1,300,000 pesetas capital, which would guarantee it 30,000 tonnes a year of pyrite. ArMetaleurop, PYA-Juridique, 258. PVSCA Book 5, session of 26 September 1912.

<sup>78</sup> The factory was installed in Peñarroya and was founded with a capital of 2,800,000 pesetas. It was to prove a success. After a year the plant also began to function as a paper mill and increased its capital by 2,100,000 francs. ArMetaleurop, PYA-Juridique, 258. PVSCA Books 5–6, sessions of 31 October 1912 and 2 and 6 November 1914.

Escombreras Bleyberg.<sup>79</sup> In one swoop, Peñarroya got itself a foundry in Cartagena, the Bleyberg zinc factory in Belgium, 42 mines in Cartagena and Mazarrón (10 of which were in operation) and 62 holdings in other mines, including Puertollano – the deposit that MZA had renounced after taking over the Ciudad Real–Badajoz line and which was producing the rest of the coal in the south of Spain that was not already under Peñarroya’s control.<sup>80</sup> It was a key step forward for the company in terms of its industrial capacity, although the following year it would surpass itself, when it acquired the Société des Produits Chimiques de Marseille L’Estaque,<sup>81</sup> which owned a chemical factory and a lead foundry in Marseilles, as well as all the assets of the Figueroa family, consisting of the San Luis factory in Linares, capable of producing 20,000 tonnes of pure lead, that of San Ignacio, in the Santa Lucía quarter of Cartagena, able to produce 10,000 tonnes of lead and to desilver 5,000 tonnes, three lead-processing plants in Marseilles, Barcelona and Lisbon and a large package of Charbonnages shares.<sup>82</sup>

All these takeovers brought about various increases in the capital of Peñarroya, which handed over shares of its own to the owners of the affiliated companies by way of compensation: Escombreras Bleyberg received 15,000 shares; the Figueroa 4,250; l’Estaque 2,500, with a further 3,500 going to the remaining Charbonnages de Puertollano shareholders, after its merger with Peñarroya just before the outbreak of World War I.<sup>83</sup> After the exchange of shares and a few extraordinary issues to raise funds, the share capital stood at 24,375,000 francs.<sup>84</sup>

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<sup>79</sup> This merger was arranged during a meeting between the delegated board member, Charles Ledoux, and Pernolet, chairman of Escombreras, who was seeking an agreement to bring in SMMP personnel to work in his shafts. Ledoux took the occasion to propose the merger and Pernolet accepted, ArMetaleurop, PYA-Juridique, 258. PVSCA Book 5, session of 20 February 1912.

<sup>80</sup> “Informe sobre Peñarroya, 1913”, AMEFF B-31193 and ArMetaleurop, PYA-Juridique, Num. 258. PVSCA Book 5, 20 February 1912.

<sup>81</sup> This time it was F. Ledoux who seized the initiative. When in Marseilles, he made contact with the directors of L’Estaque. They agreed that there were advantages to be had in connecting the lead metallurgy and the chemical production of L’Estaque, and that a merger offered the best way to go about it. ArMetaleurop, PYA-Juridique, 258. PVSCA Book 6, session de 24 July 1913 and SMMP Reports from 1913 and 1914.

<sup>82</sup> These assets were incorporated through Alvaro and Gonzalo Figueroa, conde de Romanones and marqués de Villamejor respectively, who joined the Peñarroya board. “Informe sobre Peñarroya, 1913”, AMEFF B-31.193 and ArMetaleurop, PYA-Juridique, 258. PVSCA Book 5, 28 November 1912.

<sup>83</sup> The proposal came from the Figueroa, who sat on both boards, ArMetaleurop, PYA-Juridique, Num. 258, PVSCA. Book 6, session of 26 December 1913 and PYA-Titres divers, num. 117.

<sup>84</sup> The figures include the Compañía Minera de Badajoz and the Compagnie Internationale Industrielle et Minière, subsidiaries since 1913, ArMetaleurop, PYA-Juridique, 258. PVSCA Books 5–6, sessions of 7 March 1912 and 24 July 1913.

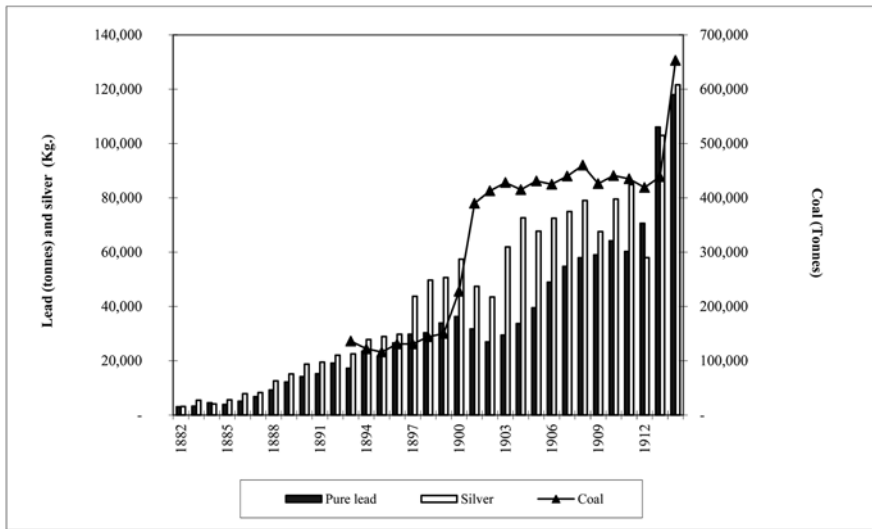


Figure 8.5 Lead, silver and coal production of the SMMP, 1882–1914

Source: Company records.

Why all these companies accepted to merge with the new lead giant can only be put down to internal exhaustion and to the new needs of the sector, which continuously demanded larger-scale production so as to be able to compete internationally. For Peñarroya, though, the aim was very clear: a broad, consolidated industrial base and an extensive network of suppliers meant that, on the eve of World War I, it was the largest pure lead producer in the world (118,017 tonnes in 1914) and in a healthy position to undertake new projects that went a long way beyond the small concessions with which it had started.

### *Rio Tinto: The Rescue of a Huge Business Failure*

Prior to the 1860s any serious attempt to break into the Spanish copper market was severely hampered by technical hitches and lack of investments in the sector. This was especially true for Rio Tinto, without doubt the largest and most accessible of all the copper pyrite deposits in the world at that time – encompassing an estimated 200 to 400 million tonnes of mineral – but which neither the Spanish state nor any of its contractors had been able to make profitable since the reopening of the mine in 1725.

The Rothschilds were no different in this aspect. Apart from a fleeting participation in the Tharsis mine in 1854 – a mine that in later years would be

Rio Tinto's perpetual rival to be the leader in the pyrite market<sup>85</sup> – the family seemed little inclined towards any real involvement in the mine, despite the occasional proposals from the Madrid agency.<sup>86</sup>

Faced with this clear problem of how to make Rio Tinto profitable, the Spanish government considered selling it on several occasions, and not without a fair amount of pressure from the British Committee for Spanish Debt, which saw the operation as a way paying off a part of the existing Spanish Treasury debt. The Spanish Treasury's problems did the rest, and the political crisis of 1872 and the renewal of the Carlist War saw the government take the decision to sell. From then on there was intense parliamentary debate as to how to proceed. The more prudent members succeeded in having the process envisaged under a special law and that under no circumstances was the deposit to be sold without its being valued first by an expert committee. This committee was duly set up: it estimated the wealth of the mine and its installations, and calculated the costs of modernizing the exploitation and providing a railway line, the profits for treating and exporting half a million tonnes of pyrites a year and the amortization of the mine. The final figure was 104,357,769 pesetas.<sup>87</sup>

Nobody in the European financial world expected anyone to come up with such an exorbitant figure for a mine that, until then, had been scarcely profitable<sup>88</sup> and, logically enough, there were no bidders at the auction in May 1871.

The government had to revise its expectations and, after fresh consultations, it reduced the price by 10 per cent (to 92,756,592 pesetas). It also held a new auction in January 1873. Stifled by the desperate financial situation and highly sceptical about the potential of the auction, the minister Ruiz Gómez offered to sell the Rothschilds the mine at a significantly reduced price and without their name even having to appear. Advised by the engineer Monasterio that the mine's estimated value was not so wildly exaggerated as it seemed, the bankers proved willing to stump up 60 million for the mine.<sup>89</sup>

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<sup>85</sup> The Paris House lent 500,000 francs to the duc de Glücksberg to open the copper mines that the engineer Deligny had just discovered near Alosno, in Huelva. The French venture in Tharsis would fail and the business was transferred to a Scottish group under the directorship of Tennant, in 1866. Checkland (1967) and Flores Caballero (1983: 136).

<sup>86</sup> Letter from Weisweiller and Bauer dated 12 July 1867, ARL XI/109/92.

<sup>87</sup> Avery (1985) and Flores Caballero (1981: 3 and 4).

<sup>88</sup> Bauer was among those who expressed their astonishment. He wrote to the Rothschilds: "In these laughable conditions nobody, of course, would pay such a price; the government may well also announce a new auction at six months with a 10 per cent discount, although this would suppose two drawbacks: that even at 93 million francs there would be no buyers forthcoming and that six months more would have been lost." Letter of 30 April 1872, ARL XI/109/108.

<sup>89</sup> Letters from Weisweiller and Bauer between 18 November 1872 and 2 December 1872, ARL, XI/109/110 and 111.



Yet, just when it seemed that everything was about to go ahead, an international consortium headed by the British financier Hugo Matheson offered the original 92.7 million. The operation marked the birth of the legendary Rio Tinto Company Limited (hereinafter Rio Tinto).<sup>90</sup> There is, however, no documentary reference whatsoever pointing to any relation of the Rothschilds with the creation of the company.

The plan of Matheson and his colleagues was to convert the Rio Tinto into a huge copper and sulphur mining business. It was without doubt a valiant endeavour, but it was immediately beset by the problems and bad luck that seemed always to have surrounded the deposit. Despite the intense promotion of the project and the evident solvency of the partners who had purchased the mine, the share issue was a complete disaster. The few shares offered traded at barely 30 per cent of the nominal value. Public distrust was international, and when Matheson attempted to sell shares in Paris, the *Crédit Lyonnais* announced that the company was not in a position to shoulder its debt. The result of these unfortunate beginnings was that the company had to get deep into debt to meet its financial obligations.<sup>91</sup>

On top of this, there were market problems. The appearance of Rio Tinto shook the pyrites market, until then controlled by Tharsis and by Mason & Barry, located in Portugal close to the border. The three firms signed a series of precarious agreements that did little to calm down the competition for sulphur sales, and meanwhile the threat from the North American copper producers, Montana, continued to grow. The situation reached such dire straits that in the mid-1880s the Rio Tinto shareholders received a proposal for a merger with other two companies to form a single firm with a capital of 15 million pounds which would spell the end of the futile competition and ensure profitability once and for all.<sup>92</sup>

Faced with this scenario it is understandable why the Rothschilds opted not to invest in Rio Tinto during its first 15 years of existence. They did go for other, safer, investments in the world of copper mining, though, like the *Compagnie du Boleo*,<sup>93</sup> a firm associated, as we have mentioned, with the Mirabaud. However, at the end of the 1880s, the Rothschilds were presented with an easy opportunity to gain control of the company – via an operation conducted by the famous Secretan world copper monopoly.

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<sup>90</sup> Avery (1985: 141). The consortium comprised the British firm Clark, Punchard & Co, the *Deutsche National Bank of Bremen*, the London insurance group Smith, Payne and Smith, the industrial bank Arthur Heywood, Sons & Co, of Liverpool, and the aforementioned Sundhein and Doesth.

<sup>91</sup> Coll (1983: 410–411), Avery (1985: 145–146) and Broder (1981: 1471 and 1474).

<sup>92</sup> The value of the shares of Tharsis, Mason & Barry and Rio Tinto had fallen to just 5.5 million pounds in 1887 from the 18 million in 1882. Harvey (1981: 71).

<sup>93</sup> Boleo was a medium-sized Mexican mine that produced some 10,000 tonnes a year of copper up until the 1930s. Its initial capital was 12 million francs, of which the Rothschilds held 37.5 per cent, which was sufficient to control the company. ARP 132AQ 107 and 335, Mckay (1989) and Stevens (1906: 263–264).

Hyacinth Secretan was the director of the Société Industrielle et Commerciale des Métaux, a huge French industrial group set up in 1881 through the merger of Leveisseire et fils and Secretan's Société Métallurgique du Cuivre. At first sight, it was one of the healthiest industrial companies in France. It had 11 modern factories devoted to the production of bronze, no known debts, and was one of the biggest purchasers of copper in the world.<sup>94</sup> Yet, there is no doubt that, in spite of its size, it could not plan to operate outside its sphere of influence without arousing the ire of the Swansea smelters or that of the rest of the British manufacturers. On top of this, Secretan, like all copper purchasers, was vulnerable to the whims of the London Metal Exchange (LME) and of the speculators.

Nevertheless, a series of successful speculations on the LME in August 1887 encouraged Secretan to consider a direct agreement with the mines and to establish an effective monopoly on the world copper supply. The company took just two months to carry out discreet negotiations with the big producers, starting at the top, with Rio Tinto., which agreed to lower production and to sell Secretan all its production for the next three years, at a price significantly higher than the market price at the time. It achieved 80 per cent of world production and, on that basis, went about convincing Denfert-Rochereau, director of the Comptoir d'Escompte, the second most important bank in France, to back its project.<sup>95</sup>

Simultaneously, Secretan began to buy up shares in the same mining companies with which it already had contracts. Obviously, the aim was to assure itself the expected medium-term profits of the mining companies, as well as those that were already being generated from controlling the market. The business was all but assured due to the extremely low prices of mining shares at that moment. Those of Rio Tinto had been continually losing value, for the reasons outlined above. In 1882 they had stood at 32 pounds per share (over a nominal 10 pounds per share). The process worsened following a poor dividend of just 3 per cent. The value fell that year to seven and a half pounds and, immediately prior to the contract with Secretan, it was hovering around the same figure.<sup>96</sup>

At the time the major shareholders of the Société de Métaux comprised the Paris Rothschilds, Secretan and Lecuyer, each with some 4,000–5,500 (of a total 50,000), followed by Lavaisseire and the Paribas, with 1,500 each.<sup>97</sup> These were the only institutions that were aware of the operations from the outset and were, therefore, in a position to choose the right moment to buy cheap shares. This inner circle, which became known in financial spheres as the "French Copper Syndicate", acquired the majority of the shares of Rio Tinto, Tharsis, Mason & Barry, Vignaes

<sup>94</sup> Legal report for the liquidation of the Société des Métaux, 21 March 1889, pp. 2–4. ARP, 132AQ 117. Prior to 1887 the Société de Métaux consumed 30,000 tonnes of copper per year. Abrams (1932: 413).

<sup>95</sup> Avery (1985: 157) and Abrams (1932: 415–416).

<sup>96</sup> RM, Commercial Section from 1 October 1887 to 24 October 1887 and Abrams (1932: 412).

<sup>97</sup> Abrams (1932: 418).

and Panulcillo through a series of purchases. In this way it bought up more than 70 per cent of Rio Tinto shares and three-quarters of those of Tharsis.<sup>98</sup> It is, unfortunately, difficult to determine just what percentage corresponded to the Rothschilds, although, to judge by events, they may well have accumulated more shares than anyone else.

The prospects for the business seemed rosy. Yet at the end of 1887 payments rocketed and Secretan determined to seek more financial support, beginning with his own associates. He personally approached the most important banking houses of Paris and London, asking for 70 million francs in loans at 5 per cent to be guaranteed by the Comptoir. All the bankers approached agreed to grant the loans except three: the *Crédit Industriel*, the *Société Générale* and *Rothschild Frères*.<sup>99</sup> Alphonse Rothschild must have decided at the last moment not to accept the guarantees offered by Secretan. Two readings of this decision are possible: it was a simple act of prudence in the face of the dangerous manoeuvres that were going on, or it was a case of exploiting the exceptional situation of the *Société des Métaux* to the utmost to obtain all the privileged information but without the risk. Whatever the case, on 23 January 1888 Secretan wrote to Denfert-Rochereau informing him that the Rothschilds had just purchased 9,608 Rio Tinto shares<sup>100</sup> – which seems to confirm their decision to get their slice from the syndicate's actions.

In any case, with these funds Secretan managed to pay the contracts with the mining companies and purchase the LME excesses. If things turned out as expected, by holding on to his commodities for a short period, the price would continue to rise sufficiently for the contracts to be self-financing and provide substantial returns. Indeed, the copper syndicate worked perfectly well at the beginning. Since mid-October 1887, the price had risen continuously, from 39 pounds, 12 shillings and sixpence to 85 pounds on the first day of 1888.<sup>101</sup> After barely two months of operations, the *Société des Métaux* syndicate announced net profits of 16.9 million francs at its general meeting of 10 March 1888.<sup>102</sup>

However, the fact remained that setting up a monopoly on a basic industrial product like copper, was a highly risky affair. In the first place, if the syndicate were successful in keeping the demand moderately high, it could make a lot of money in the short or even medium term. If it insisted on keeping prices high, though, there would soon be mines under its control which had until then been closed because they could not cope with the running costs at the old prices. If the idea was to offset the influence of the new producers by purchasing their productions at market price, they would merely be encouraged to produce more,

<sup>98</sup> Abrams (1932: 416 and 424) and Checkland (1967: 141).

<sup>99</sup> Report from the legally appointed liquidator of the *Société de Métaux*, dated 21 March 1889, ARP 132AQ 117.

<sup>100</sup> Letter from Secretan to Denfert-Rochereau dated 23 January 1888, ARP 132AQ 117.

<sup>101</sup> RM, Commercial Sections from 1 October 1887 and 1 January 1888.

<sup>102</sup> Abrams (1932: 417).

which would be an incentive for the associated mines to decide not to renew their agreements, so as to take advantage of these earnings. The problem would be enhanced if acceptable levels of demand were not maintained, as the price would have to be held while storing stocks and purchasing even more on the free market, so increasing financial charges without limit. In short, it was a question determining the capacity of the market's response and the right level of prices for the syndicate, the copper manufacturers and the miners.

Secretan did not think that the demand for copper could fall, firmly believing that the situation at the time was ideal for his project. The new technologies brought by electricity were in full swing, the new laws in England on domestic wiring had sent the sector's expectations soaring, and British dynamo manufacturers could not keep up with the demand. Installing electricity in London and Paris alone accounted for 150,000 tonnes of the 220,000 tonnes of annual copper production.<sup>103</sup> There was, therefore, speculation as to how long the British manufacturers' stocks would last before they stopped producing or were forced to accept the syndicate's conditions.

Not everybody in France was in favour of the operation. There was a core of public opposition from the outset, led by the Georges Clemenceau's newspaper, *Justice*, and by *L'Economiste Français*, which accused Secretan of putting the future of the war industry at grave risk and of artificially fostering market speculation.<sup>104</sup> Meanwhile, in Spain the rumours of a purchase of Rio Tinto shares were seen not so much as a battle between English and French shareholders as "the arrival in Madrid of important overseas financiers [a clear reference to the Rothschilds] [who] were interested in both Rio Tinto and Almadén."<sup>105</sup> It seems they were not far off the mark.

In February 1888 the syndicate had 30,000 tonnes of copper in stock and had stabilized the price at 80 pounds per tonne,<sup>106</sup> despite the protests of British businesses and the operations of the old intermediaries, who would periodically bring in cheap copper bars from Chile in an attempt to pull down the price. But the situation was maintained and the price remained steady throughout 1888 (see Figure 8.6). Rio Tinto and other mining shares followed the market trend, showing a hitherto unknown robustness.<sup>107</sup>

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<sup>103</sup> RM 16 August 1889, p. 360 and 1 December 1888, p. 360.

<sup>104</sup> Abrams (1932: 419).

<sup>105</sup> RM 16 April 1888, p. 120.

<sup>106</sup> RM 8 February 1888, p. 48.

<sup>107</sup> Rio Tinto shares rose 148 per cent, those of Tharsis 113 per cent, Cappe Copper 100 per cent, Copiapo 111 per cent and Panulcillo 300 per cent. Abrams (1932: 416).

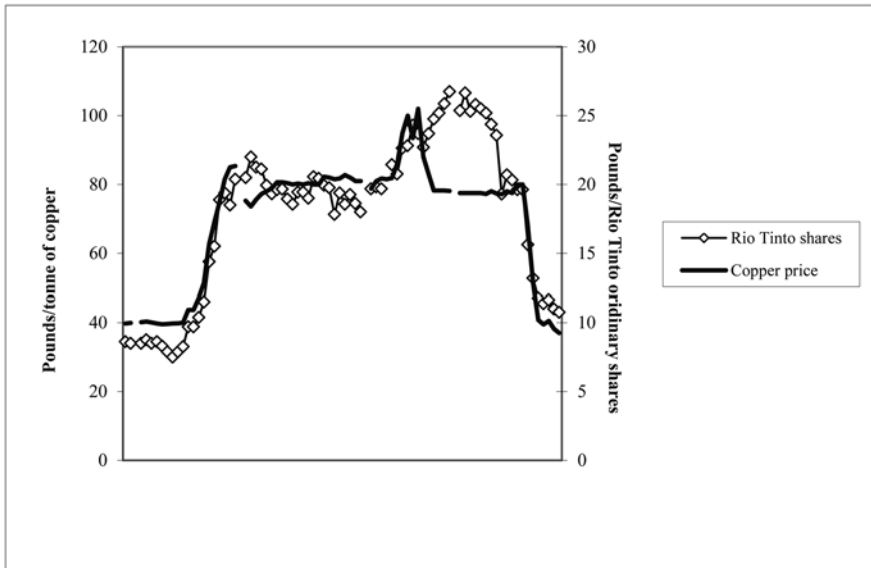


Figure 8.6 Weekly evolution of copper prices and the value of Rio Tinto shares from August 1887 to April 1889

Source: Commercial Section of the RM.

However, the tower began to wobble in August 1888, with the news that world copper production had surpassed consumption. This triggered off hostilities on the London Metal Exchange. Surprisingly, the syndicate confused everyone by putting up the price to over 100 pounds. It seems to have been a clear case of punishing those betting on a downturn, taking into account that at the same time the syndicate brokers were contracting sales at three months at 78 pounds and purchasing at market price. These counterattacked by selling copper to the syndicate but were beaten back by losses of up to 25 pounds the tonne. Despite this token victory, the syndicate was being bled, sales did not increase and it was forever seeking advances from the Comptoir, which was in turn obliged to keep up payments to the associated mining companies. The question buzzing around the financial circles was what Secretan was going to do with the 150,000 tonnes he held in stock when the contracts with the mines expired.<sup>108</sup>

It was a highly delicate situation for the operation and it required a drastic cut in world copper production. Despite the fall in price to a more moderate 78 pounds, it remained difficult to find buyers because of the savings policies adopted by the manufacturers. To give an example: in the previous months the leading English

<sup>108</sup> RM 24 August 1888, p. 256, 8 September 1888, p. 272, 16 September 1888, 24 September 1888, p. 288 and 8 October 1888, p. 307.

locomotive manufacturers had managed to reduce the amount of copper they used from 3,000 to 300 kilos per unit, by the growing use of steel instead.<sup>109</sup> This and the growing productivity of the non-affiliated mines meant that by 31 December there were 104,105 tonnes of copper on the market, double the amount of the previous end-of-year figure. Secretan needed to buy time in whatever way he could, but also needed money to do so. That was far from easy given that he had received only 34,881,760 francs of the 63,375,000 he had been given in loans. He started to crack under the pressure, taking extreme measures such as applying for loans with his own copper stocks acting as surety;<sup>110</sup> he tried to renegotiate the agreements with the mines but, as far as it is known, he made significant deals only with Rio Tinto and Anaconda;<sup>111</sup> in a last-ditch, fruitless effort, he sought to sell the business to a new English company. In an attempt to remedy the failure, on 6 February 1889, he set up the Cie. Auxiliare de Méaux (with 40 million francs' capital) to handle sales and obtain new funds.<sup>112</sup> All to no avail because the Comptoir was no longer able to meet Secretan's debts, what with all the copper stocks tied up. The huge amount of the unsold metal in London meant a slump in prices and the suspension of payments by the Société des Métaux. On 4 March alone, Secretan sold 35,000 Rio Tinto shares and the scandal was immediate. Denfert-Rochereau committed suicide the following day, when the Russian government demanded its funds were returned. There was a run on the bank with 115 million francs being withdrawn in the space of three days. The Comptoir d'Escompte, as such, ceased to exist, with net losses of 78 million francs, in spite of a rescue attempt by the Bank of France.<sup>113</sup> The shares of the Société de Métaux, which had once peaked at 1,220 francs, were now trading at 27. In Paris, the Commercial Court opened an enquiry into what had happened in an attempt to liquidate the company's responsibilities. It owed over 210 million francs to more than 20 creditors, who were paid with 171,835 tons of copper. Apart from the Comptoir, the Rothschilds were the major creditors, having lent Secretan 37,114,943 francs in the last months of his suicidal venture. The bankers received a total of 30,783 tonnes of copper

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<sup>109</sup> RM 24 December 1888, p. 388.

<sup>110</sup> Report by the legally appointed liquidator of the Société de Métaux, ARP132AQ 117.

<sup>111</sup> Rio Tinto extended it by 12 years, at a higher price. Anaconda obtained a premium of 16 pounds for each tonne of copper that was not produced. RM, 16 November 1888, p. 350 and 24 December 1888, p. 388.

<sup>112</sup> Report by the legally appointed liquidator of the Société de Métaux, ARP 132AQ 117 and RM 16 January 1889, p. 24 and 1 March 1889, p. 72.

<sup>113</sup> Abrams (1932: 424), Avery (1985: 158) *Rapport à l'Assemblée Générale des actionnaires de Comptoir d'Escompte*, of 29 April 1889, p. 28, ARP 132AQ 117. The Bank of France injected 50 million francs into the Comptoir, but it did not recognize its debts. The Comptoir officially disappeared, only to reappear as the Comptoir National d'Escompte.

at a loss of 15 pounds per tonne.<sup>114</sup> Alphonse Rothschild, though, had not missed out on the opportunity to obtain thousands of very cheap Rio Tinto shares during the collapse of the syndicate, and there was little doubt as to who were now the company's major shareholders.

The London and Paris Rothschilds moved swiftly and skilfully to make the most out of this supposed loss. The English branch took advantage of the chaos reigning in London. Everybody was fearful that the entry of the copper as guarantees on the 1888–67 loans would cause the market to sink even further. In response to the refusal of the syndicate brokers to purchase, Tharsis dropped the price to 35 pounds, proof that the large mines were willing to lower prices with pawned copper in order to thwart the bankers who sought to recover their investment. Amidst all this confusion, the London Rothschilds and Barings were amassing cheap copper for the Exploration Co., a subsidiary of the London House, which initiated an unheard-of programme of expansion. Starting from a small capital of 10,000 pounds, the firm redoubled its mining promotion and exchange activities and by October 1889 the figure had soared to 300,000 pounds and forged on to 1.2 million by the end of the year. By then, the Exploration Co. was without a shadow of a doubt the largest firm of its type in the world.<sup>115</sup>

In Paris the French Rothschilds sought to use their influence in the financial world to get an agreement that would be satisfactory to all. By 1890 the copper price seemed to have stabilized at around 50 pounds, although Anaconda and Calumet & Hecla were threatening to sink the market if the Europeans did not cease selling. After discarding a quota system, in 1891 Alphonse managed to get Rio Tinto and the Americans around the same table, though Tharsis quickly put an end to the meeting by refusing to accept any type of market control.<sup>116</sup> Three years would go by and prices would slump to 39.8 pounds per tonne before the Rothschilds took the initiative and sorted things out once and for all in their own way.

It was then that the bankers went to the American market where, making use of the Exploration Co., they were able after some hitches to become one of the principal shareholders of Anaconda, which at the time was preparing to re-found the company. In June 1895 the new Anaconda increased its capital to 30 million dollars (6 million pounds) in 1.2 million shares of 25 dollars. The Exploration Co. offered 30 dollars (6 pounds) for each new share and it quickly amassed the 300,000 shares it was after.<sup>117</sup> It had been no chance manoeuvre. With 25 per cent of the production, Anaconda was the cornerstone of North American copper mining, and the Rothschilds were well aware of it. They had known what they were doing in 1894 when they sent E. Cumenge to inspect the Montana mines.

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<sup>114</sup> ARP, 132AQ 117 and RM 24 March 1889, p. 96. The role of the Rothschilds in the syndicate could never be proved, despite the widespread opinion that they had been.

<sup>115</sup> RM 1 April 1889, p. 104 and Turrel and Van-Helten (1986: 189 and 195).

<sup>116</sup> Harvey (1981: 73–74) and Checkland (1967: 142).

<sup>117</sup> Turrel and Van-Helten (1986: 194).

The prestigious engineer was the discoverer of the Boleo mines, the writer of one of the best reports on Rio Tinto, and a leading expert on US copper mining.<sup>118</sup>

Now the Rothschilds had the Anaconda shares in their pocket, a rumour “casually” spread on the London Stock Exchange that a world agreement on copper had finally been reached under which the Americans were going to cut back exports by 60,000 tons if the European producers reduced their production by 7.5 per cent. The price of mining shares rocketed, only to plummet after the Americans issued an official statement in which they denied having agreed to anything of the sort. Tharsis read the situation clearly: “There seems to have been a controlled movement of the market aimed at shifting the value of the Rio Tinto shares and at making a packet.”<sup>119</sup> Maybe they did not know that the Rothschilds had just sold all their Anaconda shares at 35 dollars (7 pounds) in London, and then, once they had fallen, start to buy back 10 million dollars of shares, although naturally at a much lower rate.<sup>120</sup>

Leonard Lewisohn, an old rival of Anaconda and owner of almost all the Michigan mines as well as the rest of those in Montana,<sup>121</sup> contacted the Rothschilds, the new owners of Anaconda, with a proposal to set up a new copper syndicate, and they took it up. Through the agents Brandeis, Goldschmidt & Co., the syndicate pushed the price of copper up to 50 pounds,<sup>122</sup> buying lots of 6,000 tonnes, while the Exploration Co. put pressure on the remaining American producers to bring down their production. In September 1895 Lewisohn wrote with enthusiasm to the Rothschilds: “Every increase of a pound per tonne [in the price of copper] helps Rio Tinto, Anaconda and Boleo ... which means that every extra 100,000 tonnes of production is 100,000 pounds of extraordinary profit.”<sup>123</sup>

The specialist press watched the Rothschild operation with admiration and celebrated the new stability in the price rises.<sup>124</sup> For the first time in many years the rises in production and prices went hand in hand and a new period of confidence was dawning.

The Anaconda–Rothschild association, however, lasted little more than two years. In February 1898 Cumenge informed the Rothschilds that he had received a confidential report on the last sounding of the depth of the mine, according to which

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<sup>118</sup> Report on the Montana copper industry (9 December 1894). ARP 132AQ 117, 2nd File.

<sup>119</sup> Checkland (1967: 142–143).

<sup>120</sup> Turrel and Van-Helten (1986: 194) and RM, 16 December 1896, p. 407.

<sup>121</sup> Report on the Montana copper industry (9 December 1894). ARP 132AQ 117, 2nd File.

<sup>122</sup> According to Cumenge (*ibid.*), this was the best price for a good profit without encouraging the opening of hundreds of small mines around the world, as had occurred in the time of Secretan.

<sup>123</sup> Turrel and Van-Helten (1986: 195).

<sup>124</sup> RM, 16 December 1896, p. 407.



the Anaconda copper reserves would drop rapidly in the next two years.<sup>125</sup> The engineer warned of the imminent decline of the mine's profitability and advised a shift in investments to other deposits with better prospects, such as the United Verde, in Arizona.<sup>126</sup> The Rothschilds cut down their shareholdings in the mine, although we have no record of their investing heavily in any North American mine over the following years.

With the market problems solved, the Rothschilds reassessed their relations with the Rio Tinto from a new, privileged position, with the overriding aim of making their investment in the firm profitable. This first involved sorting out the serious financial problems of the company,<sup>127</sup> whose solvency, investment capacity and share profitability were seriously compromised. There was also a need to bring in sweeping reforms in the mine's production system, which was running very slowly compared to other deposits.

On the financial side, N.M. Rothschild & Sons took up the reins as the official bankers of the company. Their activities began in 1895 with an issue of 3,600,000 pounds in bonds at 4 per cent, which they sold on a par,<sup>128</sup> probably due to the confidence produced by the Rothschilds' presence in the operation. The operation enabled them to pay off all the debts and reduce the annual interest payments to just 74,000 pounds a year, although this did not stop the House of Rothschild pocketing a tidy commission of 110,500 pounds from the deal. As planned, the following year saw an offer to the Rio Tinto shareholders to change their 10-pound shares for one ordinary 5-pound share and another preferential share, also at 5 pounds, which guaranteed 5 per cent annual interest. Given that the price of the shares was maintained, thanks to the renewed copper activity, the move was a masterstroke for the big shareholders, who ensured control of the company, achieved greater profitability if the profits rose and could sell their preferential shares at a good price. Finally, to avoid future troubles, the Rothschilds set up the first reserve fund in the history of the company – a discreet 100,000 pounds that would grow to half a million pounds by 1905.<sup>129</sup>

The operations directed by the Rothschilds rather showed up the old board of directors, but the family was in no hurry to take full control. In fact, they did not even form part of the board, which might be seen as a prudent measure to

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<sup>125</sup> Cumenge, "Confidential report on the future of some American copper mines" (18 February 1898). ARP, 132AQ 117.

<sup>126</sup> Cumenge was not wrong. While Anaconda continued to be the largest American producer, the United Verde, at just a third of the capacity, overtook it in just a few years in terms of profitability. Stevens (1906: 1102–1103).

<sup>127</sup> In 1879 the costs of managing the company's debt were 247,000 pounds and accounted for 54 per cent of the profit and loss account. The debt had to be renegotiated with new issues in 1880, 1883 and 1885. Coll (1983: 412), Broder (1981: 1471–1477) and Harvey (1981: 104 and 105).

<sup>128</sup> None of the above issues was sold at par. ARL, 000/401 (box 1894–1898).

<sup>129</sup> Harvey (1981: 105–107) and Coll (1983: 413).

avoid upstaging old Matheson. Securing control was simply a matter of time or, put another way, of having the patience to wait for the old founders to disappear. Clearly, apart from what Harvey calls their “low business efficiency”, in some cases the presence of certain board members had been a millstone for the firm’s productivity and trade. One has only to mention the deficiencies in the firm’s commercial management, which had been ceded to the Matheson Bank, or the negative effects on the mine’s productivity caused by the contract signed in 1885 with the vice-chairman Doetsch, whom the company paid £60,000 a year as a *royalty* for a system that had never been proven effective<sup>130</sup> and to which it was bound to adhere until his death in 1894.

The disappearance of Doetsch was followed in 1898 by that of Matheson, who was succeeded as chairman by John Keswick, an overcautious man who continued in the same vein as his predecessor, and who was not up to the demands of the post. His work at the head of the company focused on administrative improvements and a better connection between London and Huelva, although he did not introduce anything that was essentially new and actually frustrated the initiatives of more than one of his top employees. Keswick would not last long in the post on account of his delicate health, which forced him to give up many of his responsibilities from 1903 on. The Rothschilds already had a replacement in mind, since in 1900 they had brought in one of their employees, Charles Fielding, as a representative on the board. He was a man who knew the company well, having worked in it between 1880 and 1890, when he had made his way up from the lowest administrative posts to that of assistant manager of the Cwm Avon foundry. He must have made a fair impression, for the Rothschilds contracted him to work in their own offices over the next 10 years. When, in the spring of 1904, Keswick relinquished the chairmanship, the Rothschilds brought in Fielding, who was immediately nominated for the post<sup>131</sup> and charged with putting into effect the necessary technical reforms.

Production in Rio Tinto was organized into three areas of work: mining, dry mineral processing and smelting. The company had copied, albeit on a much bigger scale, the industrial processes employed by the marqués de Remisa during the years he held the concession of the mines of enlarging the works and making use of the advantages offered by the railway. The plan did not run against the aims of the company, which planned to export most of the production and to use the installations at the mine to process just a small quantity of the mineral.

While the *in situ* work process was laborious, it can be summarized quite simply. The mineral was extracted from the seams using one of two systems: the traditional room-and-pillar galleries and opencast mining. The first produced swifter results but only allowed 20 to 30 per cent of the seam to be mined, while opencast exploitation yielded all of the mineral but with the drawback that the preparatory work of removing all the worthless material could take years.

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<sup>130</sup> Harvey (1979: 3–22).

<sup>131</sup> Avery (1985: 252).

Most of the mineral obtained was crushed and piled up into enormous heaps, mixed with wood, which were then burnt to remove all the sulphur content. The *teleras*, as these smoking heaps were known, would burn for months, emanating sulphur into the air (some 300 tons of gasified sulphurous dioxide a day), rendering the area around the mine and indeed most of the region all but uninhabitable. The calcined mineral resulting from the combustion was moved to huge water tanks where the copper content was precipitated in large blocks and in twisted scrap iron at a ratio of 2 tonnes for every tonne of copper recovered. The process yielded a copper shell of 60 per cent purity.<sup>132</sup> In order to prevent the number of *teleras* from becoming excessive, from 1885 to 1894 the Doetsch process was introduced on a large scale. The system aimed to be an alternative to burning the pyrites and supposedly improved its treatment.<sup>133</sup> Despite its relative ineffectiveness, by 1884 there were 600,000 tons of pyrites being treated each year using the system. The rest of the untreated raw mineral was sent to conventional furnaces, where a black copper matte of approximately 30 per cent purity was obtained. In such an important year as 1888, the copper production rose to 5,792 tons in matte and 12,730 tons of precipitated copper slag,<sup>134</sup> which were sent to the British refineries.

In short, until 1898 the Rio Tinto sold, along with its sulphur, between 30 and 40 per cent of its raw pyrites to manufacturers of sulphuric acid, who then offered the copper residues to the smelters (a profit that the company would only partially receive); the remainder was treated in the mine, where only a part of the copper was used and sold in its raw state. So the company wasted between 60 and 70 per cent of its sulphur and did not make use of most of the copper industrial processes. A technical study revealed that in 1883 Rio Tinto lost 7 pounds for each ton of copper slag that it did not refine, while having its own refinery would cost it just £4.50 per ton. In consequence, the board opted to rent the Cwm Avon refinery in Wales, with a production capacity of 20,000 tons of copper blister the year. There was no interest at the time in building a refinery in Rio Tinto because the process required three tons of carbon for each ton of copper and it was worthwhile for the company to send the metal to Britain.<sup>135</sup>

The lack of vision in taking advantage of the mineral during the company's first 25 years is the clearest example of the negative effects of the excessive weight of the bankers in the initial management. This is borne out by the fact that the majority of the important technological reforms were carried out after 1898 and, especially, under the chairmanship of Fielding.

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<sup>132</sup> Nadal (1981: 452) and Avery (1985: 172).

<sup>133</sup> Harvey (1981: 95). The Doetsch process was based on burning raw pyrites with other mixed calcines, mixed with 1 per cent salt and 0.25 per cent of manganese. A technical report of 1887 showed that the use of manganese and salt did not help in the least. It seems that Doetsch and Sundheim created the process in order to sell the company the manganese from their mines. Avery (1985: 175–176).

<sup>134</sup> Harvey (1981: 84) and Salkied (1987: 69–70 and 102).

<sup>135</sup> Harvey (1981: 149–151).

The big step forward in the quality of the production was the transformation of the systems used to extract the copper. The general director of the mine, William Rich, had put forward a plan in 1895 to process the pyrites of lower metal tenor – those which had around 1 per cent copper – with a natural case hardening system.<sup>136</sup> The process consisted of preparing large areas for washing equipped with drainage, internal ventilation ducts and chimneys. There raw pyrites were amassed in piles of 90,000 tons and the water was run over them. The high temperatures generated by the oxidation of the pyrites were regulated by the chimneys which maintained a temperature that was sufficiently high to accelerate the oxidation process yet without their catching fire. After the oxidation, more water was run through, which took away most of the copper by lixiviation, leaving just 0.3 per cent.<sup>137</sup> In this way, the copper was recovered, but without the need to burn the pyrites, and a new product was formed – washed pyrite, which, while purged of its copper, had all its sulphur intact, and this could be sold directly to the chemical industry. Over the following years the production of washed pyrites continued to grow until it reached 977,812 tons in 1912 and became one of the biggest sources of income for the Rio Tinto. The process slowly replaced the *teleras*, much to the liking of the local residents. The last mill burnt down in 1907.<sup>138</sup>

Fielding's interest in the technological aspects of production led him to continue with the reforms. In 1901 he ordered a new metallurgical complex to be built to treat the pyrites with more copper. It comprised two blast furnaces and six Bessemer converters to replace the old Huerta Romana foundry and produced some 7,500 tons of copper of 98 per cent purity. He also changed the mining process, moving away from the traditional system of tunnels and supports towards the more effective method of cutting and unloading, as well as increasing the number of opencast areas. The openings of Cortas Sur and Masa San Dionisio in 1880 and Norte in 1883 were followed by those of Cortadel Lago (1903), Atalaya (1904) and LaDehesa (1906). The modernization process was completed in 1907 with the reform of the pyrite smelting furnaces, which by 1913 were processing 260,688 tons of copper pyrites every year, which gave a matte of 45,328 tons of copper of 21.51 per cent purity (approximately 9,750 tons of pure copper). Yet it would be a mistake to interpret these technological reforms as an attempt to develop the productive fabric of the area. It was, rather, an immediate consequence of the customs tariff reform of 1900, which raised the tax on copper-related products, so making it better to export them after maximum processing. The company continued to import almost all of its machinery and basic supplies, so it had little benefit for the local economy.<sup>139</sup>

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<sup>136</sup> Salkied (1987: 70–71 and annex 10).

<sup>137</sup> Avery (1985: 177). Avery states that the process was already in use in Tharsis from 1889.

<sup>138</sup> *Ibid.*

<sup>139</sup> Salkied (1987: 63–64 and 102–104), Harvey (1981: 89 and 97) and Coll (1983: 410).

Once all the reforms had been made, the whole world began to admire the new capacity Rio Tinto was showing. In 1906 the company was producing copper at 23 pounds per ton, a figure that few mines in the world could equal.<sup>140</sup> The difference between that figure and the market price was pure profit, so at £90.80 the ton for standard copper, the company was making a pre-tax profit of £67.80 per ton.

If that were not enough, the new century had bought with it a boom in the chemical fertilizer industry. The demand for superphosphates rose at an unprecedented speed from a world production in 1872 of 400,000 tons to 2,275,000 in 1891 and 10,453,000 in 1911.<sup>141</sup> The growth was in the main due to the Iberian pyrites and it served to increase the profitability of sulphuric acid by-products. Hence, the great interest shown by the company in the production and sale of the new washed pyrites.

Fielding was always quick to see fresh potential for business and, while still a board member, proposed that the company should look at taking advantage of the nearby phosphate deposits of the Maghreb and combine their transformation with a part of the mine's production. This task was given to W. Nash – chief engineer at Rio Tinto – in 1903. Nash did some research into the state of the fertilizer market in Spain and discovered that Spanish farmers had known for some time about the advances that had been made in chemical fertilizers. The market had grown enormously in recent years and imports had shot from 25,000 to 198,000 tons between 1898 and 1903. It was a rise in demand that some small, badly equipped, factories all over Spain were trying to cash in on. As a result, the board took the decision in April 1904 to build, at Rio Tinto, the most modern superphosphate factory in Europe. The plant had a capacity to process 50,000 tons, a capacity it had reached by 1906. It would prove to be a success story in the trading of superphosphates until the outbreak of the World War I thanks to a solid distribution system in the south of Spain where it controlled half of the market.<sup>142</sup>

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<sup>140</sup> *The Mineral Industry*, vol. 16, 1907, p. 327.

<sup>141</sup> Harvey (1981: 76–77).

<sup>142</sup> The subsidiary Productos Químicos de Huelva, S.A. was set up with a capital of 1,000,000 pesetas. In order to supply it the Tocqueville mine (in Algeria) was rented from the Union des Phosphates de Rhras et Tocqueville, thus creating the Compagnie Algérienne des Phosphates. Nadal (1992: 300–301), Anuario Financiero y de Sociedades Anónimas de 1924, p. 862 and Harvey (1981: 159–161).

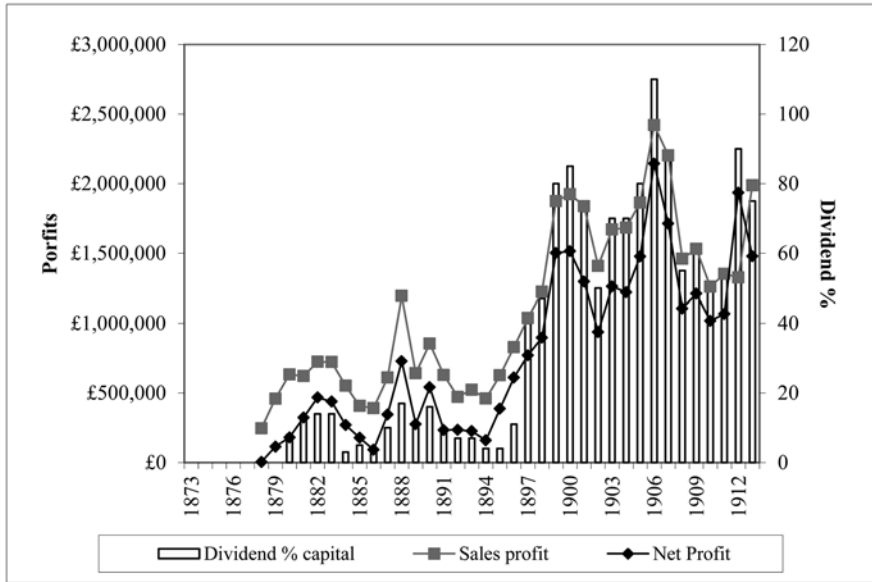


Figure 8.7 Annual evolution of Rio Tinto sales profits, net profit and dividends (as a percentage of the company share capital), 1873–1913

Source: Harvey (1981: 356–358 and 362–363) and *Revista Minera*.

Rio Tinto was enjoying the sweetest moment in its history and it was no coincidence that it came with the beginning of the Rothschilds' presence. A quick look at the company's general results for the period (see Figure 8.7) reveals an important turning point in 1895, which was the result of the new conditions brought in by the bankers. From 1897 annual sales profits did not drop below 1 million pounds with a record figure obtained in 1906, when the company declared a pre-tax profit of £2,420,996. The effect on the ordinary share dividend was spectacular. Not only did the company's image gain immensely from a 110 per cent dividend payment that year, equally important was that it was able to achieve a fantastically high level across the whole period – 69.05 per cent between 1897 and 1913. As a result of its success and the confidence it inspired in the financial markets, Rio Tinto was in 1912 the thirteenth largest company in the world in terms of capitalization, with a value of 143 million dollars. It was no fluke that at the outbreak of World War I the ordinary shares of Rio Tinto (of five pounds nominal value) were selling on the market at £68.50.<sup>143</sup>

<sup>143</sup> Schmitz (1995: 85–96) and Harvey (1981: 67).

## Deutsch & Cie. and the Beginnings of the Oil Industry in Spain

The case of Deutsch & Cie. is one of great interest, for it occurs in a sector – oil refining – whose origins in Spain are anything but clear. Unfortunately, there is an important gap in the documents consulted, and only fragments of information are available about a company that was for several decades at the forefront of a key sector in the modernization of Spanish industry. However, the data we have does allow us to reconstruct an important part of the company's history.

The company was born out of an agreement between the House of Rothschild in Paris and the French refiner Deutsch de la Meurthe, signed at the end of 1879. Alexandre Deutsch had become a pioneer in the processing of oil not only in France but in Europe when he built the continent's first refinery at Pantin, near Paris, which imported oil directly from Pennsylvania. In February 1877 the businessman and his two sons, Henri and Emile, had set up a business that would be known as A. Deutsch & Fils and which, as far as we know, owned two more refineries in France by the early 1880s, one in Rouen and the other in Saint-Loubès, not far from Bordeaux. The three refineries consolidated the company's position as a pioneer and market leader among the French refineries.<sup>144</sup>

The oil-refining industry was at that time enjoying a period of growth. In 1859 Colonel Drake's Pennsylvania Rock Oil Company had located important oil fields which had led to the birth of a large oil drilling and processing industry in the United States. The systems used to take advantage of the crude oil were still somewhat basic, since the use of combustion engines was not sufficiently developed to warrant large-scale use of petrol or diesel. However, the early distillations did provide a range of products such as heavy oils, lubricants, paraffin, naphthalene and, especially, kerosene for lighting, that had generated a market of sufficient importance to make medium-sized refineries worthwhile enterprises. It was a phenomenon that in the United States would rapidly grow to enormous proportions in the hands of Standard Oil.

The Rothschilds' agreement with Deutsch de la Meurthe brought about an attempt to broaden the company's activities in Spain, but it was soon complemented by a further agreement to construct a refinery of some size in Fiume (then under Austrian sovereignty), which was directed from Vienna through the Société de la Raffinerie d'Huiles de Fiume.<sup>145</sup> Against this backdrop the Paris House began to make complementary investments in the newly discovered oilfields around the Caspian Sea. In theory, the Rothschilds initially had the intention of merely financing the small refineries of the region and organizing small shipments of oil using the Baku–Batium railway. However, after a frustrated attempt to join forces with the Nobel Brothers Petroleum Co., in 1883–1884 they set up on their own as the Société Anonyme Commerciale et Industrielle de Naphte Caspienne et de la Mer Noire,

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<sup>144</sup> Turgan (1882: vol. 15, 6–7).

<sup>145</sup> The construction of this refinery was probably decided upon in 1881. In that year the Paris House of Rothschild owned 2,834 shares in the company. ARL, Rfam. FD/5.

better known by its Russian name BNITO, through which they would organize the supply to the Deutsch installations in France, Spain and Austria – in this case, Fiume – and so pave the way towards an oil distribution network on a European scale.<sup>146</sup>

The new business began operations in Spain as a joint venture, under the name of Deutsch & Compañía, which lasted seven years. Deutsch would take charge of the company's production while the Rothschilds put up the capital of 3 million francs, so assuring themselves the financial control, 50 per cent of the net profits and 5 per cent of the capital.<sup>147</sup>

The firm contracted the Scottish company A. and F. Craig & Co. to build three refineries, which were finished in record time. The first was in Santander and was christened "La Cantábrica". Another in Seville went under the name of "La Lucilina", the same name as the Rouen refinery, while the third was known as "La Británica", and was built in Alicante on the site of the old lead foundry discussed in Chapter 3.<sup>148</sup> The intention was to use these installations to get into the markets of northern Spain, Andalusia-Extremadura-Madrid and the Mediterranean provinces by pushing sales through a network of deposits and warehouses that rapidly extended to Madrid, Bilbao, Saragossa, Gijón, La Coruña, Vigo, Cadiz, Malaga, Almeria, Garrucha, Cartagena and Valencia.<sup>149</sup>

The contract of association was prolonged in 1887 and 1897, through to 1911, on the basis of the original agreement. Only the amount of share capital changed, being reduced by half.<sup>150</sup> By then Deutsch & Cie had established itself as the main oil refining company in the country with no fewer than five plants. Along with the original three, there was now "La Catalana" refinery in Badalona, which had been purchased from Ramón Canals Compañía in 1888, and "La Gallega" refinery, located in El Ferrol, plus the warehouse at the Atocha rail station in Madrid and premises in Philadelphia for the management and storing of crude oil purchases. All these installations meant that the company held 29 per cent of national production and had clear potential for growth.<sup>151</sup>

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<sup>146</sup> Chandler (1996: vol. 2, 721–722), McKay (1986: 115) and Ferguson (1998: 880). An agreement between the Rothschilds and Marcus Samuel, to sell the BNITO production eastwards of the Suez Canal, would lead to the birth of Shell Transport & trading Co. in 1891.

<sup>147</sup> Copy of the contract of the company's constitution dated 31 December 1879, ARP, 131AQ 354.

<sup>148</sup> The Rothschild agency in Madrid did not take part in the negotiations to set up Deutsch & Cie., but it did go through the necessary procedures with the Alicante city council and the owners of the old lead factory in order to guarantee the transaction pre-agreed with the Deutsch family. Letter from Weill to the Paris House of Rothschild dated 12 December 1879, ARP, 132AQ 6209.

<sup>149</sup> Turgan (1882: vol. 15, 16) and Teresa Tortella (2000: 77).

<sup>150</sup> Copy of the contracts to expand the company, 4 March 1887 and 9–10 February 1897, ARP, 131AQ 354.

<sup>151</sup> Precisely 374,464 barrels (or 13,480,632 litres) of the 1,300,000 barrels in 1896–1897. Reports on the tax years 1896 to 1900 of the Deutsch & Cie., ARP, 132AQ 139.



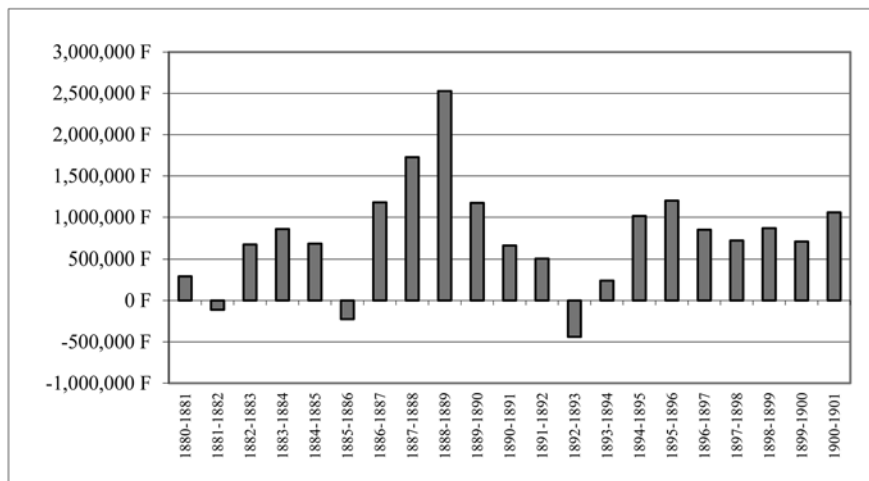


Figure 8.8 Net annual profits of Deutsch in Spain, 1880–1900 (in francs)

Source: ARP, 132AQ139.

And the company would have grown yet further had it not been for the fact that the company waived its potential for expansion in support of a sector cartel, made up of all the refineries in the country (of which more in Chapter 11). Yet in spite of these measures the situation at the end of the nineteenth century was tough for the producers, who were being swept out of the arena of public lighting by gas and electricity. Moreover, the customs legislation of January 1892 meant the company had to change its production process so as to be able to import oil in bulk, as well as having to construct its own containers. With the agreement of the Rothschilds, the 2,000-tonne tanker *Le Lion* was purchased to supply the Spanish and French factories and, at the same time, take advantage of the navigation premium agreed for vessels under the French flag.<sup>152</sup>

Elsewhere, the company successfully tackled its problems of competitiveness through an imaginative diversification of its production into similar sectors such as vegetable oils, sulphuric acid and important mineral lubricants. So successful was this policy that in 1899 these productions yielded more profits than the refining of crude oil. With the turn of the century the company continued with its policy and built an *orujo* (liquor) plant in Baeza, “Las Monsalvas”, which produced oil for lighting in mines and soaps, along with another plant in Badalona for the manufacture of starch from rice.<sup>153</sup> In consequence, the company enjoyed high

<sup>152</sup> In the tax year 1896–97 alone, the company received a navigation premium from the French government of 91,468 francs. Report for the tax year 1896–97 of Deutsch & Cie., ARP, 132 AQ 139.

<sup>153</sup> Two reports of 23 March 1897 and 2 December 1898, ARP 132AQ 139.

profits during the first two decades of its existence, averaging a very respectable annual net profit of 1 million francs.

Thereafter we have little information on the evolution of the company. We know that the contract of association was extended in December 1911,<sup>154</sup> although the agreement lasted barely a year before being modified in May 1912, when the company was nationalized and became subject to Spanish law. The final agreement ran until 30 April 1919.<sup>155</sup>

We do not have any production figures for the company in the twentieth century, or any financial results, but production of oil by-products could not have been very high once oil imports stagnated at 1880 levels, even dropping in Spain between 1893 and 1914.

The Rothschilds nevertheless continued their interest in oil for a further decade, even to the extent of becoming more involved in the sector. In 1903 they participated in a syndicate with Shell Transport and Royal Dutch Petroleum, forming the Asiatic Petroleum Company, which quickly turned into a merger between the two oil companies (with Royal Dutch taking 60 per cent and Shell 40 per cent) that has survived to the present day. The House of Rothschild would sell all its Russian interests in 1911–12, although they remained as the major shareholders of Royal Dutch–Shell until well into the century.<sup>156</sup>

Meanwhile, *Deutsch et Cie.* completed its process of becoming Spanish. In Spain the competition was becoming ever greater following the spectacular rise in demand caused by the birth of several national consortia supported by the leading Spanish banks and the arrival of Standard Oil and also Shell. At the beginning of the 1920s, once the last contract between *Deutsch* and the Rothschilds had expired and the original French company had disappeared,<sup>157</sup> the firm joined forces in Spain with Standard Oil in an agreement to distribute its products in Spain. From then on, data on the history of the company becomes even scarcer. All we know is that in 1925 *Deutsch et Cie.* was re-established as *Sociedad Anónima Marca el León S.A.* and two years later all its oil refining installations were expatriated and incorporated into CAMPSA. The firm continued to trade with its remaining assets under the name of *Compañía Auxiliar para el Comercio y la Industria.*<sup>158</sup>

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<sup>154</sup> Agreement of 30 December 1911, ARP 132AQ 354.

<sup>155</sup> In order to facilitate its activities (and possibly for legal reasons), the company moved its headquarters to Spain, to number 4, calle marqués de Valdeiglesias, in Madrid. It figures in the Madrid mercantile register of 16 May 1912, vol. 30 for companies, folio 199, num. 23, inscription 19, ARP 132AQ 139.

<sup>156</sup> Mckay (1989: 115), Chandler (1996: vol. 2, 728) and Bouvier (1967: 323).

<sup>157</sup> It seems that British Petroleum purchased all the assets held by the *Deutsch* family in France shortly after the death of Henri *Deutsch* in order to install its French subsidiary. This reference was given to me by Professor Broder.

<sup>158</sup> Tortella (1991: 278–280) and Cabana (1992: 258).

## Chapter 9

# The First Symptoms of the End of an Investment Model

Regardless of any changes to the market and business structure brought about by the economic situation, from the 1920s on there were two factors that had a lot to do with the decline of the Rothschilds' businesses in Spain, and which would explain to a large extent why their previously successful model was beginning to wear out.

On the one hand, there was a series of elements related to the decline in the internal organization of the company, which was based on a time-honoured system of agencies that entered a period of crisis towards the end of the nineteenth century. The decline of the system was due fundamentally to the failure in the generational takeover, and it was to affect the majority of the Rothschilds' agencies around the world.<sup>1</sup>

Spain was no exception – the descendants of Weisweiler and the first Bauer were not up to the work done by their predecessors, and the agency's activity began to fall off during the last years of the nineteenth century and the first two decades of the next. There were problems in training and staff recruitment and, in all likelihood, a certain listlessness on the part of the head offices, which became noticeably more relaxed about their control of the agencies' dealings. Neither should it be forgotten that there was growing competition from the new Spanish commercial banks which had been set up or reinforced during the First World War, which itself had put a stranglehold on many business opportunities.

In spite of everything, the Madrid agency underwent something of a revival in the 1920s and recovered some of the vitality that had characterized it during the nineteenth century, thanks to the healthy economic climate and the more dynamic nature of the latest of Bauer's, successors, Alfredo Bauer Landauer. Yet it was a fleeting effort, and a series of irregular operations would generate such a heavy burden of debt that the agency became bankrupt in 1931, after over 90 years of uninterrupted presence at the highest levels of Spanish finance.

Other factors alien to the agency that had to do with modifications in the Spanish political and economic structure and the rise of nationalism as a socio-political force would also play a part. After a period of transition that had begun in 1898 and would last until the end of the First World War, this phenomenon would erupt in the 1920s. Its main proponents were the Regenerationists (supporters of the intellectual-political movement promoting political and economic modernization, founded by Joaquín Costa), the Catalan industrial bourgeoisie and the nouveaux

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<sup>1</sup> Ferguson (1998).

riches who had made extraordinary profits out of the Great War, and who were no longer willing to put up with the political and economic power of the foreign giants. In short, what was happening was the arrival of a new political and economic class, typified by Cambó and the Fomento del Trabajo Nacional, or National Work Development, organization in Catalonia, the Basque business conglomerates and the new commercial banks of Madrid. The political creed of this group was founded on the radical defence of protectionism and the reservation of the so-called “strategic sectors” for the Spanish. Its projects included an aggressive policy of nationalization and an intense, xenophobic campaign against companies with foreign capital; these would become progressively harsher until they turned into an all-out attack.

The first attempts to impose these new policies were initiatives taken independently by some of the ministers sympathetic to the new mood. Their ideas were more often than not frustrated before they were up and running. Examples were the attempt by Sánchez Toca to nationalize the railways just after the turn of the century; the failure in 1916 of Alba’s plan to tax the extraordinary wartime profits, and the summary dismissal of Minister Urzáiz when he tried to raise the export duty on pyrites in the middle of the war. On all these occasions the defence mechanisms of the large companies within the Spanish political class worked perfectly, ample proof of the lack of authority wielded by successive governments in opposing these companies’ influence. Nonetheless, in certain cases they did manage to impose their own agenda, as in the Defence of National Production Act, the customs duties of 1912, and the government-guided process to repatriate the foreign debt. All these provide evidence that the chief players in Spanish politics and economy were beginning to show a certain independence in the face of influence from abroad.

From 1925, all the large industrial companies controlled by the Rothschilds began to encounter serious problems. MZA could hardly survive without the State after the small increase in tariffs of 1918, which obliged the company to associate itself with the new Railway Statute, which offered funds in exchange for acceptance of a medium-term nationalization programme. In the meantime Rio Tinto and Peñarroya had to sort out tax issues and restrictions on their exports, while also facing an irreversible decline in the profits of their industrial mining businesses. The political pressure from the companies in Madrid faded away and both firms had to turn to outside Spain in order to expand.

## **Decadence, Recovery and Bankruptcy of the Madrid Agency**

### *Living off the Spoils: The Listless Second Generation*

The most representative events of the twilight years of the agency were heavily concentrated in the early 1890s. Daniel Weisweiller died in January 1892, although he had retired from business some years earlier. This left only Ignacio Bauer, who

liquidated the old Weisweiler & Bauer partnership<sup>2</sup> and single-handedly assumed the representation of the Rothschilds in Madrid. Yet in the eyes of the House, the company had lost a lot of its business verve – Bauer, one of its most gifted agents, had ceased to take on risks after his father-in-law, Josep Morpurgo, another Rothschild agent in Trieste, had got himself into a financial mess. It seems that it was Fritz Perugia, who had worked some years previously in the Madrid agency, who had spelled the downfall of the Trieste agency in 1891, after a highly risky operation which had forced Leopold Rothschild, Perugia's brother-in-law, to intervene and prevent further losses.<sup>3</sup>

During the last years of his life Ignacio's great obsession was to see his sons installed at the Madrid agency and to prevent the Rothschilds sending anyone in their stead. With this in mind, Ignacio took charge of almost all the business at the agency, relying solely on the help of his eldest son, Gustavo, cashier of the House, until he fell seriously ill in 1894. Even so, Bauer struggled on for some years in the hope that his two younger sons would finish their studies and thus be able to join their brother in the agency.<sup>4</sup> However, Manuel and Fernando would never participate in the family business. Manuel died in the same year as his father while Fernando committed the unforgivable "sacrilege" of converting to Christianity, and was therefore excluded from the succession.<sup>5</sup> On the death of Ignacio in 1895, the Rothschilds agreed to Gustavo's taking over the reins of the agency and, although they withdrew a number of the benefits enjoyed by his father and Weisweiler,<sup>6</sup> they assigned him a fixed annual amount, paid jointly by the Paris and London Houses.<sup>7</sup>

Gustavo did not show the same business ambition and acumen as his father. In 20 years he was unable to offer his employers a single new area of business, although he continued to play the symbolic role of Rothschild agent and to hold certain important positions such as delegate board member and chairman of MZA. The Bauer family lived well beyond its means in Madrid, obsessed as they were with maintaining the high lifestyle of Ignacio. This led them to purchase a sumptuous villa, "El Capricho", in 1900, situated in the Alameda de Osuna. This was a mansion with Versailles-like gardens to the north of Madrid and had been seriously considered as a residence of the Royal Court during the splendorous

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<sup>2</sup> Copy of the liquidation document of 30 January 1892, ABE, registry, 1st transfer, File 553.

<sup>3</sup> ARL, Rfam FP/5/7.

<sup>4</sup> Letter from Gustavo to Alphonse Rothschild of 12 November 1894, 132AQ24.

<sup>5</sup> According to Garzón (1997: 31), "Fernando" (says Gustavo, confusing him with his brother) was one of the main supporters of newspaper *El Debate* and was elected to parliament in 1910. His brother-in-law, the Duke of Baena, did have contacts with the agency, since he was a board member of MZA from 1899 to 1913.

<sup>6</sup> For example, an eighth part of the Almaden profits.

<sup>7</sup> According to a letter from Gustavo of 12 June 1895, general expenses of the agency that covered that allocation amounted to 280,000 pesetas per year. ARP, 132AQ 24.

times of the dukes of Osuna. But despite this and other external trappings, the agency was not even the shadow of what it had been in the world of Madrid business some decades before.

On top of everything else, Gustavo Bauer decided to join up with his brother-in-law, Moriz Schey, in running the agency. The latter had been working with the Rothschilds since 1898. Together, they created the new partnership, Bauer & Cie. It was a name that supposed no commitment on the part of the Rothschilds, nor on that of Schey, although the company maintained the prestigious mark of the House.<sup>8</sup> The incorporation of Schey was, however, a complete disaster for the agency. In 1908, after some certainly murky years of business, it was discovered that Schey had been speculating large amounts on the Paris Stock Exchange and had suffered heavy losses, eating away his wife's dowry (350,000 francs), his own fortune (250,000 francs) and 250,000 pesetas of the agency's money. It would appear he was doing all this behind Gustavo's back, who was obliged to dissolve the name Bauer & Cie. and replace it with Gustavo Bauer.<sup>9</sup> Once again, he found himself alone with the agency's business.

Apart from this incident, which had reduced the agency's activity even more, things went on as lethargically as they had before.

#### *Attempts at Recovery and New Initiatives in the 1920s*

On the death of Gustavo Bauer in 1916, his sons Ignacio and Alfredo decided, after talks with the Rothschilds in Paris, to remain in charge at the agency.<sup>10</sup> The Rothschilds showed little belief in the potential of the two young men, but the almost protective support of Maristany and Dato and the evident difficulties in relieving the family of its representation in Spain led them to plough ahead with the family on board.

The Bauer brothers set up a regular joint mercantile company under the name of Bauer y Compañía,<sup>11</sup> in which José and Jesús Rodríguez Ferro, the sons of the now-retired Pedro Rodríguez González, the former cashier and proxy of the House, would continue to collaborate. For the rest, the Rothschilds kept up the annual allowance for the agency costs,<sup>12</sup> although they withdrew the 25,000 francs paid to Gustavo for his work at MZA, as well as the 20,000 francs he had been assigned for his collaboration in the business of the *Deutsch et Cie.*, an amount that had been borne by the Paris House alone.

<sup>8</sup> Letter from Gustavo Bauer to the Rothschilds of 10 December 1899, ARP, 132AQ 24.

<sup>9</sup> Letter from Gustavo Bauer to Neugburger of 6 March 1908, ARP, 132AQ 24.

<sup>10</sup> Letter from Ignacio and Alfredo Bauer to the House of Paris, of 24 November 1916, ARL XI/4/110.

<sup>11</sup> The company capital of the firm was initially set at only 100,000 pesetas, apparently due to fiscal reasons, but soon it will rise to 2 million pesetas. ARP, 132AQ 24.

<sup>12</sup> In total, this amounted to 172,000 pesetas in fixed expenses and 40,000 francs as salary, paid in equal parts by the Houses of Paris and of London. ARP, 132AQ 24.

The activity of the Bauer brothers was initially hardly brilliant. The Rothschilds complained that the agency continued to take no financial risks and was practically living off the scarce gold and silver sales from London, the payment of the *Deutsch et Cie.* customs duties and from small loans to MZA and Peñarroya, all without actually bringing in any new business. Furthermore, Ignacio Bauer got into the habit of withdrawing the funds entrusted to him by MZA and *Deutsch et Cie.* and of depositing them directly in his account with the Bank of Spain, much to the disgust of some of the MZA board, who saw a complete lack of return on their resources.<sup>13</sup>

However, in the mid-1920s the Casa Bauer began to emerge from this lethargy, due to the good economic situation at the time and, especially, to the initiative of the younger brother. Alfredo was a much more energetic type. He had learned the ropes in the Peñarroya offices in Paris and had in some aspects developed into a character in the mould of his paternal grandfather. His aptitudes saw him take a seat on the Peñarroya board in 1916, followed by the chairmanship of MZA in 1924, ahead of his elder brother, who was more concerned with literary and academic matters, in which, truth be told, he was not outstanding.<sup>14</sup> We have records, moreover, that Alfredo brought new investment options to the Rothschilds, and two of these bore fruit: the *Sociedad Anónima de Fibras Artificiales* and the *Compañía del Lukus*.

The involvement in the *Sociedad Anónima de Fibras Artificiales* came about through an expansion of the activities of the former *Sociedad Española de Seda Viscosa*, in the hands of the Vilá family. The Vilá had seen how their Barcelona factory's production had grown spectacularly during the First World War and they now needed to build a new plant if they were to avoid losing their market. In 1922 they came to an agreement with the powerful *Comptoir des Textiles Artificiels*, of the Carnot-Gillet group, to expand with the support of other investor partners.<sup>15</sup> Frédéric Ledoux was offered 2.75 of the 12 million pesetas capital that the company had set as the target, although it appears that Peñarroya was not directly involved in this initiative. Ledoux offered Alfredo Bauer a 1 million peseta share, which he passed on to the Paris Rothschilds. The House decided not to take the offer up, although Edmund and Eduard Rothschild did so on their own behalves. The company was finally set up with 6 million pesetas' capital and the Rothschild brothers had to limit their stake to 500,000 pesetas, although they asked for the right to double the figure, in the case of the company capital's doubling. However, the Rothschilds do not figure among the shareholders, since the company benefited from the law protecting new industries supported by Spanish capital. Their holding,

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<sup>13</sup> Report for the House of Paris, taken after an interview with Ignacio Bauer of 17 January 1922, 132 AQ 24.

<sup>14</sup> Garzón (1997).

<sup>15</sup> Torres (dir.) (2000: 230–232).

therefore, appears in the name of Bauer, who took a seat on the board, which was chaired by Romanones.<sup>16</sup>

The second initiative, the *Compañía del Lukus*, was an atypical affair for the House, considering the track record outlined here, although it was one in which the Paris Rothschilds took particular interest. The firm came into being through a project of a new type. Alfredo Bauer and José Pérez Caballero, son of the former Spanish ambassador to Paris and Minister of State in 1906 and in 1909, Juan Pérez Caballero, had negotiated with the State the concession of 2,600 hectares near Larache, in one of the most fertile areas in the Spanish Protectorate of Morocco. This concession, which was free during the first 60 years of its use,<sup>17</sup> was to remain in Spanish hands, but Alfredo offered it directly to the Rothschilds with the idea of setting up an agro-industrial business there and further ones in the surrounding area.<sup>18</sup> The managing company was constituted in June 1927, with the head office in Larache, and had a capital of 4 million pesetas, distributed in 800 shares at 5,000 pesetas between Rothschild Frères (695 shares), Alfredo Bauer (80) and José Pérez Caballero (25). Again, the Rothschild shares were registered under the name of Alfredo Bauer, who took the chairmanship.<sup>19</sup>

The company grew at almost helter-skelter speed from the moment it was set up. New lands were purchased and in a few years the original area had tripled and a range of industrial installations had been built, most under the initiative of José Pérez Caballero, who in spite of being the secretary of the company, carried out managerial duties.<sup>20</sup> The result of all these incorporations was that the *Sociedad del Lukus* had to increase its capital in 1928 and 1930, until it reached a highly respectable 12 million pesetas, as well as 4 million in loans from the Paris House.

The visit by Robert Rothschild to Larache in 1930 revealed that some of the investments made were not justified and that the business lacked proper industrial accounting. Trusting in the notes sent by Alfredo Bauer and some positive reports from the engineer Guillemet, the general director of the *Casablanca Compagnie*

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<sup>16</sup> Letters by Alfredo Bauer of 27 October 1922 and 7 November 1922 and letter from the Rothschilds to Alfredo of 22 November 1922, ARP, 132AQ 41. The company was finally set up in August 1923.

<sup>17</sup> Report on the *Lukus* to Guy de Rothschild of 16 October 1931, 132AQ344. The concession would have previously belonged to George Braunschwig, but the Spanish government did not recognize the concession. Bauer paid Braunschwig 350,000 pesetas so that he would renounce his rights.

<sup>18</sup> Letter from Robert de Rothschild, in Paris, to Lionel Rothschild, in London, of 6 September 1927.

<sup>19</sup> Report on the *Lukus* to Guy de Rothschild of 16 October 1931, 132AQ 344.

<sup>20</sup> *Ibid.* According to this report, Pérez Caballero had made a tendentious interpretation of the articles, as he thought he should receive 5 per cent of future increases of company capital, and thus was very interested in increasing expenses. When Pérez Caballero was contradicted on this point and expelled from the board of directors, he brought a lawsuit against the company and demanded compensation.



Marroccaine (who had paid visits to the company's properties and had spoken of its high potential), the Rothschilds had until then borne all the expenses. They now decided that a restructuring of the company was in order. Pérez Caballero was relieved of his position and replaced by José Gomendio, while the Bourgeois agents and Viallate, who was already in Peñarroya, were parachuted in as members of the board. The new management took steps to rationalize the existing installations and the other available assets.<sup>21</sup> From then on until the end of 1941, the company intensified the production capacity of its 5,600 hectares of fruit and vegetables and its industrial complex of Larache, which included a flour mill, a rice-husking installation, a vegetable cannery and a tuna cannery. To these were added, at the end of 1940, a heavy, unfinished, investment in a pork-processing plant and a project for a plant for tuna derivatives. The total assets were valued at 33,562,493 pesetas, of which the lands purchased accounted for just 2,415,242 pesetas. The Rothschilds had put up all the funds, had financed all the increases in capital and their shareholding in the company had never dropped below 90 per cent.<sup>22</sup> This circumstance explains in part why they had little difficulty in selling this asset in 1941.

By the beginning of the 1920s the Bauer brothers had an important share in their own right in the *Compañía Española de Construcciones Electromecánicas* (SECEM), in which they had invested 1 million pesetas.<sup>23</sup> They may also have held total control of the *Compañía de Seguros Contra Incendios La Urbana*,<sup>24</sup> which operated solely in Madrid. Over the following years, though, they were to become involved in an interesting list of business initiatives which would substantially enrich the firm's operations and the family wealth.

In 1923 they set up the *Compañía Aérea Española*, in agreement with the *Compagnie Aérienne Française*, the latter supplying two members of the board<sup>25</sup> and the technical management, although the staff would be half Spanish and half French. The Spanish part of the board included the former Under-Secretary for Public Works, Marín Hervás, and Juan de la Cierva. The company would not devote itself to commercial aviation, an aspect it discarded early on. In 1924 it won the concession of the Albacete aerodrome, where it set up its civil school for pilots and from where it also carried out its contract with the Land Registry Office to produce aerial photographs of 200,000 hectares of Spanish territory. Shortly afterwards, it gained a further contract from the Marine and War ministries to provide instruction for their pilots. From 1930 it also had its own installations in

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<sup>21</sup> Ibid.

<sup>22</sup> Reports by the French Consul in Larache of 4 December 1942 and 19 May 1842, AMEFF, B-32841.

<sup>23</sup> Sarmiento (1992: 22–25).

<sup>24</sup> Report from the House of Paris, after an interview with Ignacio Bauer, of 17 January 1922, 132AQ 24.

<sup>25</sup> It may have been Charles Cahen d'Anvers, who shared a seat on the Peñarroya board with Alfredo Bauer, who initiated the project.

Madrid. Its capital stood at 3 million pesetas, a considerable figure if one takes into account that at the same time Iberia had no more than 1.1 million, and that most of it had been put up by the Bauers. Accordingly, the Bauers took 428 shares in the *Cía. de Líneas Aéreas Subvencionadas (CLASSA)*, which covered all the Spanish airlines in a national monopoly built up by the directors between 1927 and 1931.<sup>26</sup>

We also know that in 1921 the Bauers directed the *Asociación de Iniciativas La Granja*, which ran the *Club de Campo* and the *Blas Club* in Madrid, which in 1926 took over the control of *Atlántida Cinematográfica Española SA.*, with a capital of 2 million pesetas<sup>27</sup> and which, in 1931, held a share of 1.7 million pesetas in the *Cía. Agrícola e Industrial de la Guinea Española*. While significant, all these initiatives were small fry compared to the weight of their share in the *Compañía Iberoamericana de Publicaciones* (hereinafter, *CIAP*) and in the business of the almost 100-year-old banking house.

*Victims of Success: The Failure of the CIAP and the Bauer Bankruptcy*

Curiously, the *CIAP* was not the initiative of Alfredo Bauer, but that of his brother, Ignacio, whose fondness for books and desire for fame led him into a partnership with Manuel Luis Ortega to create an ambitious publishing house built on the old Editorial Ibero-Africano-Americana. The partnership was formalized on 28 January 1925 at the Madrid mercantile registry office with a capital of just 600,000 pesetas, in 1,200 shares of 500 pesetas, of which half were issued. Of these only 200 were paid for in cash with the remainder being considered as shareholder contribution.<sup>28</sup> The board, as Molina notes,<sup>29</sup> had a noteworthy contingent of people associated with the North African Jewish community, including Toledano, Coriat and Bandelac, as well as leading figures form the cultural world in Madrid, such as Goicoechea, Altamira and Sáinz Rodríguez, who were also interested in the Jewish community or in the study of Hebrew cultural influences. Over the following years this would attract criticism from jingoists and ultra-conservative sectors.

At first sight, the scarce resources of the *CIAP* offered little possibility of any short-term growth. Yet from 1928 on, the expansion was impressive, with one purchase quickly following another. These included prestigious publishing houses such as *Renacimiento* and *Mundo Latino*, as well as several well-established series and magazines like *Bibliotecas Populares*, *Gaceta Literaria* and *Novela de Hoy*. A large modern printing press was also acquired, along with its warehouses, in the centre of Madrid, followed by *Librería Fe*, the largest bookshop in Spain, with ten branches, and subsidiaries were planned in Buenos Aires, Montevideo,

<sup>26</sup> ARP, 132Q 27 and AMAAEEF, Serie Y international, 1918–1940, no. 321.

<sup>27</sup> Gortázar (1986: 68–70 and 73–74).

<sup>28</sup> Madrid Mercantile Registry, page 5,174. Ortega received 300 shares from a total of 1,200 for providing a series of yearbooks edited by him as well as several Spanish regional guides.

<sup>29</sup> Molina (1998: 41–42).

Mexico and Quito. At the beginning of the 1930s it had an unrivalled number of Spanish authors on its lists, headed by Manuel Azaña, “Azorín”, “El Caballero Audaz”, Francisco Cossío, Concha Espina, Eugenio d’Ors, Antonio Goicoechea, Gómez de la Serna, Alberto Insua, Juan Ramón Jiménez, Salvador de Madariaga, Gregorio Marañón, Manuel and Antonio Machado, Pedro Mata, Gabriel Miró, “Rubén Darío”, Pedro Salinas, Unamuno and Valle Inclán, who wrote their works exclusively for the CIAP and contributed to its wide range of journals. In short, it was the largest publishing group in Spain and Latin America, with no less than a 90 per cent market share in some fields.

The inevitable dark side of such a complex publishing network lay, paradoxically, in the risky financing. It seems that instead of increasing the company capital or putting up his own money for the CIAP acquisitions, Ignacio decided to finance purchases through a simple movement of bills at three months, under his own name, which he immediately discounted at the Bank of Spain or other credit entities. Inevitably, the amounts started to grow and accumulate in relation to the firm’s expenses. The cost was high indeed. We must remember that the discount rate hovered around an automatic 6 per cent and that the majority of the bills were renegotiated, since the Bank of Spain granted the banker almost unlimited credit. Liabilities after two years were huge and entirely tied up in short-term debts. The company capital barely covered a third of the value of the Príncipe de Vergara offices and workshops and not even a tenth part of its impressive editorial stable.<sup>30</sup>

The magnitude of the debt led to Alfredo’s decision, at the end of 1929, to relieve his brother of the control of operations, to exclude him from the family business and to take sole control of Bauer & Cía.<sup>31</sup> As Alfredo himself told a high-ranking employee of the Paris House, the “hole” generated by Ignacio was close to 4 million pesetas and, while the CIAP planned to issue shares to pay off its credit,<sup>32</sup> Ignacio was obliged to sign a mortgage on his part of the (indivisible) inheritance from his father, which included an important collection of paintings, tapestries, objets d’art, and the mansion and gardens of the Alameda de Osuna.<sup>33</sup>

The astonishing thing about the whole affair, though, was that, once Alfredo had taken over the reins of the business, instead of suspending operations with the CIAP and paying off what money he could, he tried to pick up the company and recover Ignacio’s investment and pay the debts through the family company. Like his brother before him, Alfredo trusted that, properly managed, the business’s immense wealth would yield enough to settle the ongoing debts. So every effort

<sup>30</sup> Report on the properties of the CIAP, ARP, 132AQ 25.

<sup>31</sup> Copy of the notary certificate of reform of the set-up of company Bauer & Cía., ARP, 132AQ 24.

<sup>32</sup> The operation was registered on 30 November 1929 in the Madrid Mercantile Registry, page 5,174.

<sup>33</sup> Handwritten notes on the meeting with Alfredo Bauer in Paris of 20 December 1929, ARP, 132AQ 24.

was made to make the investment as profitable as possible. He closed the 4 million peseta bond issue and began to ask for funds from the Bank of Spain, the Bilbao, the Urquijo and the companies that he himself had shares in, at times through loans but mainly through the same system of drafts of bills that his incautious brother had used. His intention, it seems, was to refinance and relaunch the company in a way that would make best use of its potential and create the optimum outlet for its publications by improving the distribution network through association agreements with 109 bookshops spread around Spain and through an expansion of the activity of the Latin American subsidiaries

Yet the results of the CIAP at the end of 1930 were not as hoped for. The 5 million pesetas from sales barely covered the outstanding interest payments. Indeed, in the middle of an economic depression the response of the market could hardly have been otherwise. There remained the option of continuing to grow, since there were still four more bookshops lined up for purchase and 100 kiosks to be built in as many small towns. However, by then the CIAP finances had collapsed.<sup>34</sup>

In January 1931, and again in Paris, Alfredo Bauer admitted to the Rothschilds that he was ruined. By his calculations he had up to that moment lost 7 million pesetas through the CIAP and he was convinced that he would only be able to sell out with losses of between 40 and 50 per cent. His debts would have to be covered by his own fortune and that of the family business.<sup>35</sup> Meanwhile, he begged his patrons at least to advance the necessary funds to pay back MZA, of which he was chairman at the time, a loan of 5 million pesetas (12,943,106.25 francs), which the Rothschilds acceded to on condition that the money was returned to them by the following 31 December and at an interest rate of 4.75 per cent. They also insisted on receiving a bill for 7 million pesetas in the name of the *Compañía General de Artes Gráficas*, a subsidiary of the CIAP, and written proof from Alfredo that all the advances made under his name to the *Cía. del Lukus* belonged to the House of Rothschild.<sup>36</sup>

The Rothschilds then sent one of their officers, P. Jardot, to Spain so that, aided by the lawyer and former minister Piniés, he could uncover what had really been going on in Madrid in the last few months and just how great the debts incurred by the Bauers were. After a thorough investigation of the Bauer accounts, those of the CIAP and following a series of interviews with those involved, Jardot reached the root of the bankruptcy and came to conclusions that contradicted the statements made by Alfredo at the earlier meetings. An overall balance of the main accounts pointed in the first place to a lesser liability on the part of Ignacio Bauer in the provision of funding to the CIAP, specifically just 2 million pesetas,

<sup>34</sup> Report on the CIAP, undated, probably in the summer of 1931, ARP, 132AQ 25.

<sup>35</sup> Report by Ettinghausen, of the House of Paris, after an interview with Bauer of 20 January 1931, ARP, 132AQ 24.

<sup>36</sup> Sworn Statement by Alfredo Bauer of 2 July 1931, ARP, 132AQ 24 and letter from Edouard Rothschild to his cousins from London of 30 January 1931, ARP, 132AQ 24.

while his brother had been responsible for increasing that figure by another 13 million at least. Alfredo had, furthermore, compromised important amounts in bills drawn on entities in which he participated or held a post as director, such as the *Cía. Española de Aviación*, Peñarroya, the SECEM, the insurance firm *La Urbana*, CIAP itself and the aforementioned debt with MZA, which had now been covered by the loan from the Rothschilds. Alfredo had also offered as surety for the operations an important number of shares and bonds that he did not own, in particular 2,160 Rothschild shares in MZA and 3 million pesetas of Spanish bonds that he had purchased in 1929 in the name of his bosses. Moreover, the assets were overvalued because the properties mentioned in the Bauer accounts were totally unsellable at the time, the 1,700,000 pesetas of the *Cía. Agrícola de Guinea* could not be cashed in, and the 14 million that were immobilized at the CIAP were even less accessible. Jardot added that there were some liabilities of the firm which did not figure in the accounts, including 2.5 million pesetas in bills of the *Banco Urquijo* which fell due the following August and September. At a rough reckoning, the real assets of the House of Bauer, including the surety bonds which it did not own, were barely 25 million pesetas, while liabilities were probably around the 30 million mark, if not higher. The forecast was that the House would either suspend payments shortly of its own accord or it would be forced into doing so by its creditors, who were already well aware of the situation.<sup>37</sup>

And so it was. Payments were officially suspended in July 1931.<sup>38</sup> The Bauers tried to figure as a creditor of the CIAP, but the Board returned the ball a few weeks later so that the Bauer debts could not be transferred to it. The matter was placed in the hands of the courts, which in October declared *Casa Bauer & Cía.* responsible for the financial management of the CIAP and ordered it to take responsibility for all the debts contracted until then.<sup>39</sup>

Faced with this state of affairs, the Rothschilds did no more to protect the firm and put themselves first in the queue of creditors. The House of Bauer assets and the personal fortunes of Alfredo and Ignacio were sufficient to cover the debts of the CIAP and avoid a hearing,<sup>40</sup> but liquidation proved arduous and would drag on for the best part of a decade. The liquidating committee fixed the overall debt of the House of Bauer at 29,131,605.57 pesetas, but assets to meet this figure totalled

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<sup>37</sup> Report from P. Jardot to the House of Rothschild in Paris of 30 June 1931, ARP, 132AQ 24.

<sup>38</sup> Devastated, Alfredo wrote the Rothschilds this brief note on 30 June 1931 (ARP, 132AQ 25): "Messieurs: En ce jour si tragique pour moi, je tien à vous exprimer du fond de mon cœur que je regrette plus de ce qu'on peut eu exprimer par des mots tout ce qui c'est passé. Je vous prie de croire Messieurs à mes sentiments les plus dévoués. Alfredo Bauer."

<sup>39</sup> Ortega (1931: 33–35 and 47–48). Commercial Registry of Madrid, page 5, 174.

<sup>40</sup> On 4 November 1932 an agreement was reached with the creditors in order to set up a liquidating committee. According to a letter from New Court to the Rothschilds in Paris, of 30 July 1931 (ARP, 132AQ 24), Alfredo Bauer's father-in-law, Victor Ephrussi, provided the necessary funds to avoid legal proceedings being taken against him.

only 23,488,000 pesetas, of which it was reckoned that only 17,500,000 pesetas could be turned into cash. The most affected of the creditors were the Rothschilds, who were due 13,544,936 pesetas of the initial amount on account of the shares they owned which had been put up as surety against default on payments to the Bank of Spain and the Bilbao and personal loan they had made to Alfredo.<sup>41</sup> Their consent to a controlled liquidation of the House of Bauer was the last gesture of loyalty to their last agent in Madrid, and one that kept him out of prison.<sup>42</sup> The agency itself, however, was doomed to disappear after 98 years of presence in the capital city. Decades would pass before the Rothschilds again had any official representation in Spain.

## The First Signs of Nationalist Policy

### *Tension between Rio Tinto and the Treasury*

One of the most characteristic elements of the businesses in Spain under the control of the Rothschilds was the freedom with which they acted regarding the political powers and the ease with which they imposed their interests, as will be apparent in Chapter 11. The case of Rio Tinto was the most significant of all.

The truth is that in the corrupt and disorganized Spain of the Restoration the company had little problem gaining and maintaining an iron control of the political and economic institutions that affected it directly. It was not all one-sided, though, for in the years immediately following the sale of Rio Tinto the Spanish government was at pains not to endanger the good progress being made by the mine. At a time when the Spanish economy attracted so much distrust it was vital to safeguard the interests of a company which, in the eyes of the big European investors, was the definitive reflection of the large-scale business opportunities to be had in Spain.

If we go back to the very birth of the company, we find that the management also deemed it opportune to win over important figures in Spanish politics and so ensure a favourable attitude towards the firm, although it preferred in this case to deal with slightly less prestigious figures than those in play in the railways. In 1874 it took on the Member of Parliament Daniel Carballo, who smoothed the way for the authorization of railway work, as well as work on the port and

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<sup>41</sup> Reports on the liquidating committee of 28 February 1833 and 1 May 1833 and minutes of the 1st General Assembly of creditors of the House of Bauer & Cia of 20 July 1933, ARP, 132AQ 25.

<sup>42</sup> Nine years later, the debts of the House of Bauer and of Alfredo Bauer, personally, with the Rothschilds had risen to 13,176,825.7 pesetas. On the brink of the sequestration of the House of Rothschild in Paris, and given the situation of Spanish economy at that time, the bankers presumably never recovered the money. Report of 24 November 1944, ARP, 132AQ 25.

the importing of machinery. In return for his highly satisfactory work, he was placed on the company payroll with a salary of 1,200 pounds a year.<sup>43</sup> In 1889 he was replaced by Enrique Bushell, until 1896, whereafter the board came to the conclusion that it was more profitable and discreet for the company to promote the successive Conservative Party candidates for Huelva and Valverde del Camino, in exchange for their supporting the company in Madrid. From then on, Rio Tinto won government favour with the argument that its mere presence was enough to assure the victory of the dynastic parties over the popular republicans and socialists in the mining area. This “service” was paid for through numerous political and economic privileges, which made the company, among other things, the most powerful cacique in the province of Huelva.

As a reinforcement to this presence, the company appointed an official representative in the capital, whose mission was to deal directly with the government on administrative issues affecting the company. Between 1873 and 1904 this mission fell to Gabriel Rodríguez and his son Antonio, although it would be through José Valero Hervás, from 1905, that Rio Tinto would wield most influence in the capital.

One of the most important consequences of this favouritism towards Rio Tinto lay in the scant importance given by the State to its tax obligations during the first decades of its existence. With its own railway, its own port, its ownership of the land and the subsoil of the areas it mined, not to mention its provision of public services of a large part of the population of the province of Huelva, the Rio Tinto directors felt that they were doing enough for society and the economy as it was and considered that they had little obligation to adhere strictly to their fiscal obligations in Spain. Fraud, therefore, became run of the mill. On the other hand, it was certainly the case that – albeit because of the ultra-liberal policies of the time, the failure to establish a serious tax system, and the sheer political corruption of the Restoration – most foreign companies in Spain went about their activities with all the freedom of those in the metropolitan colonies of the major European powers.

The new century brought about a change of course, at least in terms of the taxes the Spanish government started to demand from national and foreign companies. As is well known, the economic disaster in the wake of the war with the United States and the loss of the last colonies left the Exchequer in one of its worst situations ever in terms of liquidity. The air of political and economic regeneration in the Silvela Cabinet encouraged the Minister of Finance, Fernández-Villaverde, to undertake major tax reforms. Logically enough, the mining sector, being the healthiest of all, was in the front line when it came to increasing contributions to cover the new demands of the State.

Villaverde’s reform affected Rio Tinto through five taxes, of which four were entirely new and the fifth was substantially changed. The amended tax was the old tax on mines, which had, since 4 July 1825, laid down a levy on the surface area of mining activity that was paid by the hectare as well as a tax on the mining itself.

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<sup>43</sup> Avery (1985: 279).

The new law of 28 March 1900 not only expressly divided these two items into separate taxes, but also brought in a new, more rigorous system of calculation that raised the amount paid considerably. A new stamp duty and a further three taxes on exports, capital and profit (the last two related to the new utility tax) completed the round of new legal charges made on the company.<sup>44</sup>

Under the law governing the purchase of the Rio Tinto mine, the new owners had to submit without question “to the charges and duties specified under the mining laws and regulations in force”.<sup>45</sup> Even so, the company aired its protests at what it considered to be an indiscriminate and unfair rise in taxes, and did nothing at all to help the authorities carry out their legal dispositions. A clear example of this can be seen in the implementation of the stamp duty. This says as much about the clear intention of the company to defraud the Exchequer as about the lack of diligence, means or interest on the part of the Spanish officials in preventing the company doing so, not to mention the success of the age-old manoeuvres by the company representatives in Madrid to mitigate the rigorous measures of the ministry as far they could. The fact is that the tax was intended to take a one-thousandth part of company shares and bonds per year. In the case of foreign businesses the taxable capital fixed was to be calculated solely from the value of the company’s assets in Spain, based on the estimation of the capital devoted to its operations in the country. With the intention of getting a direct valuation, Villaverde ordered the Dirección General del Timbre (Head Stamp Office) to set up a special committee to deal exclusively with the mines of Rio Tinto and Tharsis.<sup>46</sup> The events that befell this committee are, we believe, a good illustration of how things unfolded.

The head of the committee conscientiously approached both these companies and requested that they, under the terms of the new tax law, declare the amount of their assets in Spain. The administration departments of both companies responded to the request with feigned surprise by stating that it was impossible to separate their Spanish capital from that of their other businesses. Instead, by way of response, Tharsis declared its 625,000 shares and Rio Tinto presented the budget for the exploitation of the mine for that year (24,647,464 pesetas). The committee insisted that this latter document was not what it required and demanded detailed copies of the of the company accounts, with a breakdown of the values of assets in Spain. The Rio Tinto board protested to the committee, maintaining that the Stamp Duty Office had no reason to demand such information and that the Spanish government had no right to impose new taxes on foreign companies.<sup>47</sup>

The Exchequer saw no alternative but to dispatch a representative to Huelva for meetings with the management and to try to persuade them to collaborate with

<sup>44</sup> Solé (1967: 194–197) and Harvey (1981: 140).

<sup>45</sup> *DSCD*, 13 June 1870; Flores Caballero presents the text (1981: 101–102).

<sup>46</sup> Report by the committee (14 December 1900); AHN, Fondo Contemporáneo, section Hacienda, Serie General, File no. 11.393.

<sup>47</sup> *Ibid.*



the administration in this matter and establish some unified criteria. Were he to fail in this, as he did, he was to take charge personally of valuing everything in the province that was being used for the development of company operations – in other words, the value of the mine, the machinery and all the industrial and urban construction related thereto. Carlyle, in charge of Rio Tinto at the time, voiced his disagreement but allowed access to the mine's records.<sup>48</sup>

The government official did as best he could and after two days decided to make use of the export figures for the minerals, which, since he lacked any in-depth technical knowledge, were all he had to make a rough estimate of the value of the deposits. With no sales contract, he drew on the various batches that left via the port, gave them their market value and reckoned a hypothetical annual profit for the year of 26,864,370.91 pesetas. He then went on to calculate the amortization of the mine for a period he underestimated at 20 years, at a rate of 5 per cent per annum, obtaining a figure of 334,789,439 pesetas. This was to be the taxable amount.<sup>49</sup> The same criterion continued to be considered valid over the following years, until the Stamp Duty Office realized its defects and increased the figure. The estimated value of the mine in 1910 reached 700 million pesetas. The company did not agree with the figure and, as far as we know, appealed against it repeatedly, from 1911 to 1916 at least. The company's subsequent influence in Madrid ensured that it was reduced to 500 million the following year and that it continued to fall to 300 million in 1915 and 70 million in 1920.<sup>50</sup>

The remaining taxes also underwent continuous irregular reductions of greater or lesser significance. At first, the company did not even bother to pay the new utility tax on profits and capital, arguing that it was exempt on account of the purchase contract. The Spanish government viewed things otherwise and threatened that it would take the amount it demanded in kind if necessary. Rio Tinto reluctantly agreed to negotiate in 1903, but not without first lobbying for their position in Madrid, the like of which they had never done before, and they showed no qualms about buying the support of top-ranking politicians, including not a few former Ministers of the Exchequer, including Puigcerver, Moret and Osma. The company's proposal was to pay tax on just 5 per cent of its profits, given that the greatest part of its production was sold outside Spain. This would have meant paying a token amount. The Exchequer initially opposed the offer but finally accepted a similarly low figure in 1905, taxing 20 per cent of capital and profits (Tharsis, by contrast, paid on 80 per cent). It was agreed that Rio Tinto would pay 33,000 pounds to settle tax arrears since 1900.<sup>51</sup>

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<sup>48</sup> Ibid.

<sup>49</sup> Report by the committee of 14 December 1900; AHN, Fondo Contemporáneo, Hacienda, Serie General, File no. 11.393.

<sup>50</sup> Annual Reports of the Dirección General del Timbre regarding Rio Tinto; AHN, Fondo Contemporáneo, section Hacienda, Serie General, File no. 11.393 and RM, 8 October 1920, p. 539.

<sup>51</sup> Harvey (1981: 141–142) and Avery (1985: 283–284).

It was a similar story for the export tax. The law passed on 18 March 1900 ruled that mining firms should pay a duty of 2 pesetas per tonne of copper mineral exported of a tenor of over 1 per cent and 20 pesetas per tonne of copper matte. Valero Hervás protested against the classification of low-grade pyrites under the law as “copper minerals”, arguing that such a denomination tarnished the image of the product abroad. A second campaign was therefore set up to reform the law – on this occasion to “save” the good image of Spanish mine production in international finance circles. The Rio Tinto representative in Madrid pulled strings with skill and the tax was finally reformed under the Spanish Royal Order of 11 January 1911. Under the new ruling, the minimum tenor for taxation was raised from 1 to 2.5 per cent, which excluded the greater part of Rio Tinto’s production and the amounts paid under the export tax were, therefore, minimal.<sup>52</sup>

Harvey<sup>53</sup> recognizes that, even discounting these operations, the company deliberately manipulated, revised and evaded paying taxes after 1900. If in 1913 it had paid the taxes stipulated by law, it would have had to contribute, instead of the 91,003 pounds, 200,000 pounds. Thanks to all the manoeuvring, which Harvey calls “effective business response”, the company was able to bank extraordinary profits at the expense of the Treasury.

Things continued in much the same vein over the following years, including those of the Great War. In 1916, after the failure of the Alba project to tax extraordinary war profits, the Minister of Finance, Urzáiz, was unexpectedly removed, from Rio Tinto too just another example of the incapacity of the public institutions to stand up to the power of the large companies.

The Urzáiz affair came about because of an event that at first sight appears to have little to do with Treasury matters. Even before hostilities broke out in Europe, a committee had been set up to study the mining systems in the province of Huelva and to propose technical reforms in the wake of an accident at the end of 1913 in the Rio Tinto mine of San Dionisio. The committee’s power was then extended to take in the industrial development of the mines and the social conditions. It finished its work in 1916 and published an extensive report the same year, the conclusions of which were decisive. Apart from some imperfections in the Rio Tinto system of exploitation (compared to that of Tharsis, for example), the committee also found that national wealth was being seriously wasted in the province of Huelva for the benefit of foreign interests. According to the calculations of an engineer at the port of Huelva, Francisco Montenegro, the value of the exports leaving the docks was 102,787,230 pesetas, of which 54,446,438 were accounted for by raw mineral, 32,773,937 by ingots of copper and 1,274,440 by the copper filings. Montenegro claimed that with sufficient industrial transformation in the province so as to extract the iron from the ore, accompanied by a rise in copper and sulphate productions, the values of exports would increase by at least 174,899,216 pesetas.

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<sup>52</sup> Prats and Hernández, *Enciclopedia Jurídica Minera* (1906), p. 955, and Harvey (1981: 142).

<sup>53</sup> Harvey (1981: 142 and 1979: 9).

The committee therefore recommended that, in support of national industry, customs duties on pyrites should be raised and that the minimum payment should be 1.6 pesetas/tonne on exported mineral of above 1 per cent tenor of copper. It also mentioned the possibility that exports should be limited as the industry of the province developed.<sup>54</sup> The report reached Urzáiz, the Minister for the Treasury at that time, who either out of a sense of duty or personal interest<sup>55</sup> put it into effect. A testimony close to the events is perhaps the best indication of what happened next:

At one o'clock in the afternoon Señor Urzáiz signed two royal orders levying a tax on the export of copper and pyrites, which affect in the main the Rio Tinto company, among other mining companies. Four hours later, at five, he received a letter from the President of the Government, Señor Conde de Romanones, requesting his resignation and, without waiting for the same to be formulated, the King signed divers Royal Orders at eight o'clock dismissing Señor Urzáiz and appointing in his stead Señor Villanueva. At the same time, a functionary from the Ministerio de la Gobernación [former Ministry of the Interior], headed by Señor Alba, went to the printing house of the *Gaceta* to collect the aforesaid Royal Orders. The government immediately dictated a further two royal orders repealing those of Señor Urzáiz, although none of the four were published in any official newspaper.<sup>56</sup>

We should recall that Álvaro Figueroa, conde de Romanones, had been one of the Rothschilds' closest allies in Spain since he had been on the Peñarroya board. He was, moreover, an ardent Francophile and was not going to do anything to hinder the exports of raw materials to the Allied countries when their war industry needed them so keenly.<sup>57</sup>

During the war Rio Tinto's network of customers in Madrid was sufficient to bring the company unscathed through a myriad of unfavourable legal measures. Meanwhile, in 1916 Peñarroya gained the support of the French committee that was visiting Spain and could continue to rely on the assured presence of its board members in government and the continued services of Bauer in Madrid.

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<sup>54</sup> Guitián, Villasante and Abbad (1916: 7–9 and 165–169).

<sup>55</sup> Angel Urzáiz had been the first president of the Sociedad Anglo-Española Cooper Fosfatos and of Productos Químicos, which supported the group of British chemical industries Williams Copper & Nephews, which was likely to have been interested in keeping the largest possible quantity of pyrite in Spain; Nadal (1992: 301).

<sup>56</sup> “Declarations of Sr. Angel Urzáiz”, in the *Revista Nacional de Economía*, num. 58, November–December 1924, p. 273. Collected in Roldán and García Delgado (1973: vol. 1, 154).

<sup>57</sup> López-Morell (1997b).

Although these early initiatives did not pay off, they were a clear warning to Rio Tinto and the other foreign companies that there winds of independence were blowing through Spanish economic politics and that there were problems afoot.

*The Loss of the Almaden Mercury*

The effectiveness of the great mining companies in maintaining their privileged regime was not matched by the most traditional of the Rothschild businesses in Spain, which had been firmly in their hands since the agreement of 1870. The bankers had managed to maintain the commission sales contract for the Almaden production for a further 20 years, but the political changes of the first two decades of the twentieth century had an increasing weight in the government's deliberations over the renewals of these, as had the growing independence of the Treasury from foreign credit, which had progressively lessened the margins of the House, in favour this time of the State.

Yet the problems in keeping the business could easily have come earlier. Just a few months after the failed negotiations in 1896, when the Rothschilds let go of another advantageous position to facilitate the renewal of the contract and its extension for a further 30 years, the Exchequer received an offer to take the contract from Howleys of London, given that it had already been improved and published in the *Gaceta de Madrid*. Yet the Rothschilds were still a very strong force to be reckoned with and it sufficed for Gustavo Bauer to threaten the government that the House of Rothschild would use all its means and long experience on the mercury market to compete against any other contractor<sup>58</sup> for the ministry to break off negotiations at once.<sup>59</sup> And so the contract continued for the three remaining years alongside the last yearly payments on the loan signed with Figuerola.

When the expiry of the contract drew near, in the summer of 1900 Villaverde secured the authorization of parliament to negotiate the sale of the Almaden mercury under the budget law. On this occasion he knew how to use the interests of the Rothschilds, who would certainly have been encouraged by a rise in prices of almost 20 per cent, and was able to substantially improve the conditions for the Spanish Treasury. The definitive agreement would last for 10 years – while it maintained the previous discount and brokerage, it lowered the Rothschilds' commission from 2 to 1.25 per cent and allowed the House a 20 per cent share of net profits only above 8 pounds 2 shillings and sixpence, with the figure dropping to 10 per cent if the price went over 9 pounds 2 shillings and seven pence.<sup>60</sup> Nor was the contract bound by any other financial operation, so all the cash raised would,

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<sup>58</sup> Letter from the French Embassy in Madrid to the French Foreign Affairs Minister, Hanotaux, of 20 December 1897, AMEFF, B-31.186.

<sup>59</sup> Martín (1980: 418).

<sup>60</sup> Martín (1980: 418–421).

after expenses, go straight into the State coffers. The renewal of the contract, set for 30 June 1910, was not, however, so simple.

Gustavo Bauer took great care to prepare the ground well in advance for a possible agreement. He held various meetings with the Minister for the Exchequer, González Quesada, during the spring of 1909. González Quesada, whom Gustavo held to be “a truly honourable gentleman of great authority besides being a close and loyal friend”, agreed with Bauer on the desirability of renewing the 1900 contract for a further 10 years under the same conditions. Nevertheless, the minister informed the agent that he would not be able to close the issue before October or November due to a series of parliamentary matters that were holding up the approval of the budget for 1910. He even informed him that, given the possibility of his no longer being minister in October, things would be much easier for the Rothschilds and for his own successor (“who would in all likelihood be a friend of his”) to obtain approval from parliament were somebody else to apply for such. He made the point that, while he could put the matter before the Cortes immediately, such a gesture might be interpreted as “out of place and dangerous”. Not wishing to force the situation, Gustavo followed his friend’s recommendation, a course of action which the Rothschilds deemed reasonable as well.<sup>61</sup>

Come October, though, any discussion on the budget proved impossible after the tumultuous summer, in which the events of the “Semana Trágica” – the “Tragic Week” – in Barcelona, which put paid to the “long” Maura government, brought national politics to a standstill.

After a fleeting Cabinet led by Moret, during which the Rothschilds were unable to take advantage of the presence of the MZA vice-chairman, Alvarado, as Minister for the Exchequer,<sup>62</sup> Canalejas came to power, with Eduardo Cobián in the top position at the Treasury, ushering in the most reformist government in Spain since the Sexenio.

Negotiations with Cobián, considered as an independent within the Cabinet, were tough. Initially, the minister refused to discuss the renewal of the contract with Bauer until more urgent issues had been resolved. The Rothschilds began to fear that this was an act of hostility towards them that foreshadowed a legal complaint against the contracts.<sup>63</sup> However, the agreement in force was prolonged indefinitely in May until the Cortes could take a decision on it,<sup>64</sup> although by June the ministry had drawn up a proposed bill, which would be under negotiation throughout the following year.<sup>65</sup>

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<sup>61</sup> Letter from Gustavo Bauer to New Court of 28 April 1909 and his reply of 3 May 1909, ARL XI/111/75.

<sup>62</sup> Months later the Rothschilds regretted this episode. Letter from New Court to Gustavo Bauer, of 18 April 1911, ARL XI/111/75.

<sup>63</sup> Letter of New Court to Gustavo Bauer of 24 February 1910, ARL XI/111/75.

<sup>64</sup> Martín (1980: 421).

<sup>65</sup> The budgets for 1911, which authorized offering the contract for a further ten years, were not passed by the Cortes until the end of the year. The authorization did not establish

From then on Gustavo Bauer emphasized to the Rothschilds the need to increase sales in order to give the talks as positive an atmosphere as possible.<sup>66</sup> In the meantime, he drew on his contacts at the ministry to secure the withdrawal of some of the major modifications proposed under the bill, beginning with the government's proposal to put up the limit for sharing profits to 9 pounds and 15 shillings, which would not allow for any further profits, considering the prediction of the Rothschilds that the price of mercury would fall in the coming years. He was also successful in cancelling the obligation to sell at least 7,500 flasks per quarter, which would have left the Rothschilds with no room to manoeuvre in the case of a surplus. Bauer also managed to have the maximum stock in London raised from 50,000 flasks to 75,000 – in May 1903 there had been 69,826 flasks, at a standstill, although he was unable to avoid a minimum sales price of 7 pounds and 10 shillings being fixed, which could be lowered only on special authorization of the government. The remaining conditions were as in 1900.<sup>67</sup>

The Rothschilds were unsuccessful in persuading the ministry not to hold a public auction to listen to other offers. Bauer then sent an official protest to the government very much in the tenor of that sent by Weisweiler to Mendizábal in 1837. He argued that the Rothschilds alone had proved capable of reaching a permanent agreement with the American producers that had reserved the European market for Almaden. Neither did he believe that there was any other banking house in a position to put up the administrative costs of the sales process, which required stock to be held to the tune of up to 22.5 million francs or more. His final argument was that the Rothschilds' 60 years of experience in the area were the best guarantee of all to safeguard the interests of the country. He also let it drop that, were they to lose the contract, they would not consider themselves bound in any way and would be free to continue in agreements with other producers and their customers. The conclusion to this missive included a serious threat that competition would be the inevitable consequence of the loss of the contract, competition that could wreck the market with a price war. The Exchequer, however, did not back down and Bauer had to resort to attempting to influence the choice of the tribunal that would decide the outcome of the auction.<sup>68</sup>

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any conditions, so it was left to the ministry to stipulate them. Letter from Bauer to New Court of 26 December 1910, ARL XI/111/75.

<sup>66</sup> The Rothschilds strove hard to follow Bauer's advice, but little could be done due to a reduction in the demand from mines in China, which had become one of the main buyers of mercury, following an epidemic in Manchuria. Letters from New Court to Bauer 30 May 1910 and 19 December 1910, ARL XI/111/75.

<sup>67</sup> Letter from New Court to Gustavo Bauer of 4 July 1910 and replies from Bauer of 28 September 1910, 24 May 1911 and of 1 June 1911, ARL XI/111/75.

<sup>68</sup> Letters from Gustavo Bauer to New Court of 11 March 1911 and 1 June 1911 ARL XI/111/75.

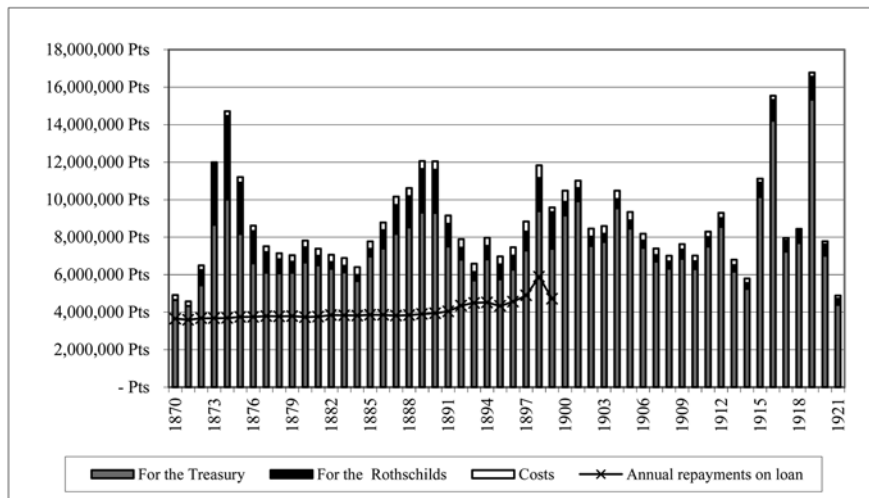


Figure 9.1 Distribution of profits from the sale of the Almaden mercury, 1870–1921, and annual repayments on the 1870 loan

Source: Martín (1980) and ARL VII/15/0-2 Quicksilver account, num. 2.

Inevitably the auction of 25 September 1911 received three more proposals, all clearly intent on winning. Bauer immediately forgot all his threats and lowered the previous demands of the Rothschilds extraordinarily, offering a commission of just 0.75 per cent and accepting that the participation over 8 pounds and two shillings was to be just 5 per cent.<sup>69</sup> In the wake of this offer, which was considered to be the best, the auction was adjudicated directly and the sales agreement for a further ten years, as of the following first of January, was finally sealed on 23 November, though not before the resolution of a protest from the Banco de Vizcaya which had contested the auction and a press campaign that ended only when the administrative tribunal and the ministry publicly and jointly confirmed the result of the auction. Gustavo consoled himself with the thought that the delay in the negotiation had at least prolonged the better conditions of the 1900 contract for another 18 months.<sup>70</sup> Nevertheless, a look at Figure 9.1 reveals that the Rothschilds found that the Great War had partially reduced the loss of margins in the contract, so practically maintaining the net profit received for their participation for the three years following the end of the conflict. The great beneficiary was, in any case, clearly the Treasury.

In 1921 the second Maura government, this time with Cambó as the minister in charge of tax, did not even bother to consider an auction or to renegotiate the contract with the Rothschilds, since it simply transferred all the organization and

<sup>69</sup> Martín (1980: 422–423).

<sup>70</sup> Letter from Gustavo Bauer to New Court of 28 September 1911 ARL XI/111/75.

sales to the Board of Directors of the Almaden and Arrayanes mines,<sup>71</sup> a body that depended on the Spanish Inland Revenue and which continued to hold exclusive rights to the production and commercialization of the Almaden mercury practically until the present.<sup>72</sup> What we cannot assert is whether or not the Rothschilds continued to participate in the mercury market after that date.

### **The Legacy of the First World War**

The years following the outbreak of the war require careful interpretation in terms of Rothschild investments in Spain. Despite the great profits enjoyed by their companies during the Great War, the early days of the conflict spelled the end of the bonanza and were a sore test of their maturity in the face of ever faster change in the economic organization of Spain and the economic policies of the successive governments that left them without many of their former advantages and privileges. Elsewhere, the general economic crisis of the early 1920s was not only breaking the back of the markets but was also showing up the flaws in the organization of the production processes and a large part of the international trade structure. The situation degenerated to the point where the Rothschilds had to radically rethink the policy of allowing them free rein and adopt a policy of almost full-scale intervention.

#### *The Deceptive Situation*

As is well known, the First World War brought about an unprecedented mobilization of resources. The reserves of material accumulated during the long decades of the “armed peace” were whittled away until they were no longer sufficient to withstand the shameful and endless trench warfare. The battle front reduced resources to a minimum, forcing the combatant nations to draw on all the economic potential and resources they could manage to get from uninvolved nations.

In their eagerness to outdo the enemy, neutral Spain proved a crucial source for the resources that they all so desperately needed. The simplest of modern warfare instruments, the shell, whatever its calibre, was made from the same basic materials: the cartridge or covering was essentially copper; the bullet was again of copper, filled with lead; and the detonator, while it could be made using various methods, always required sulphuric acid and mercury. Spain was the leading European producer of, and indeed was a world leader in, all four – copper,

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<sup>71</sup> Martín (1980: 435–438).

<sup>72</sup> From 1982 the deposit was controlled by Minas de Almaden y Arrayanes, SA, a state company under the control of the Dirección General del Patrimonio del Estado. This company continues to run metallurgical businesses in Almaden. The mine, however, was shut down in 2002.



lead, mercury and sulphur. The strategic role of these resources and that of the companies that controlled them would prove crucial in the coming hostilities.

The outbreak of war caused a lot commotion in Spain. While foreseeable, the war nevertheless caught everybody unawares, including the foreign companies and, in general, the whole of the Spanish export sector, which, overnight, saw the doors slammed shut on its products on account of the outbreak of hostilities and the imposition of the first preventive war measures. Peñarroya and Rio Tinto, though, would prove to be key players during these difficult times, and not only because they would make gains from their undisputed position as leaders of their respective sectors, but also because they would undertake a series of initiatives to organize the new market, enabling them to forge even further ahead of other wartime suppliers, and even surpass the demands of the Allied governments.

One of the best examples of this new state of affairs was the situation of the small lead foundries and exporters compared to Peñarroya. In Cartagena, where the majority of the small exploitations not yet absorbed by the French giant were concentrated, the effects of the opening months of the war were surprising and paradoxical, since, in spite of the increasing demands of manufacturers all over Europe, the complete international standstill of payments caused by the moratoria of the British and French and the progressive depreciation of foreign values, which prevented collection of sales payments, drove the sector towards an unprecedented crisis. Production was cut by half and the price of lead slumped by 17 per cent, leading to the closure of half of the working shafts. Peñarroya, the *Compañía de Mazarrón* and the *Compañía de Aguilas* were all financed by foreign capital, but they had no problems in reaching an agreement with the Bank of Spain on 25 August 1914 in which the latter supported the creation of the *Sociedad Franco-Española de Almacenes Generales de Depósitos*, a company that was intended to finance exports of the type that Spanish exporters had been repeatedly denied.<sup>73</sup> Thus, in one swoop, Peñarroya solved the problem of financing its sales and eased out its other competitors, which was also an effective way of forcing them to sell their productions at a nice price to Peñarroya in the following months.

Meanwhile, Rio Tinto had to completely restructure commercially. The customers it lost in Germany were compensated for by new contracts in France, the United Kingdom and North America, where all efforts were being directed to the war industry. Rio Tinto's sharp-witted chairman, Fielding, seized the initiative and reached an agreement with the British War Office to set up a committee in charge of organizing all the sales and distribution of pyrites – a committee, of course, which always favoured Rio Tinto.<sup>74</sup>

In 1916 the relative boom in commercial activities was stopped short by a spectacular change of events. The growing naval operations and the shortage of

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<sup>73</sup> Shares issued were distributed among Peñarroya's administrators, who kept control of the company. ABE, registry, file 56,610 and Minutes of the Operations Committee, book 10942, Session 22 October 1914.

<sup>74</sup> Harvey (1981: 167–168).

transport began to bite hard and to affect the stability of the markets. The slow progress of the military operations and the failure to make any gains on the front line rather showed up the ‘business as usual’ policy of the British. Rigorous controls of all commercial activity, and especially international trade, were introduced. On 14 June 1916, the representatives of the Allied powers met in Paris to decide on a joint course of action for redistributing their supplies, setting up blockades and preparing the ground for the post-war period. Germany, for its part, responded by intensifying its submarine warfare and sea attacks, with the record sinking of 800,000 tonnes of shipping in February 1917. The outcome of all this was that freight prices rocketed, a turn of events that particularly affected the iron and pyrite imports from Spain. The classic Bilbao to Tees route, which cost five shillings and four pence per tonne in 1914, had shot up to 26 shillings by early 1916, forcing the British Ministry of Munitions to set up an ore broker in March of the same year to control convoys. This managed to pull the price down to 18 shillings, although this did not prevent the transports from becoming more dangerous and less popular, thus restricting the possibilities of growth for Spanish mining. Spanish mineral exports dropped from 12 million tonnes in 1913 (146.6 million pesetas) to 4.7 million tonnes in 1919 (65.5 million pesetas). A huge crisis in the sector was the inevitable consequence, and in the province of Huelva alone, 5,000 miners found themselves out of work.<sup>75</sup>

From then on, Peñarroya and RTCo. began to go separate ways, with each adopting radically different courses of action. One decided to live off its earnings, taking advantage of the extraordinary prices and its political contacts, while the other opted for a model of expansion. Financially, the results were practically the same, but Rio Tinto’s failure to prepare wisely for the “lean years” would eventually take its toll.

Internationally, Peñarroya deployed a double strategy to take advantage of the rise in demand and to avoid collapse. It increased production, it diversified, it fully integrated all its activities, and it convinced the French government that its participation was indispensable for an ordered market. It was certainly a propitious moment, with lead trading in London at a fixed rate of 30 pounds per tonne, by government order, while on the free market in Paris it was selling at 1,900 francs (70 pounds). Smuggling to the Central Powers was rife. Somehow Peñarroya had to assure itself a minimum price of 40 pounds per tonne, if it was to give the miners incentives while not aggravating the industry and the war ministries. Faced with a dearth of initiatives, the company proposed a plan to the French War and Commerce ministries that would provide some coherence to the Allies’ imports, along the lines adopted by the German Metallgesellschaft before the war. This would involve setting up a large corporation of producers who would cover the whole production and distribute it to all the markets at a single price. The company was to be known as *Minerais & Métaux* and would be open to producers from any friendly nation, although Peñarroya had already prepared a list of 32 companies

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<sup>75</sup> Hardach (1986: 19–37, 53–54 and 281), Fontana and Nadal (1982: 97–98).

which would back the initiative. The French government picked up on the project and passed it on to the British, who accepted it. A meeting of the Allies was set up and it was decided that, as of August 1917, lead would be purchased in Spain at 750 pesetas per tonne and that it would be distributed among the Allies by *Minerais & Métaux*.<sup>76</sup>

Once the distribution problem had been dealt with, Peñarroya was perfectly able to meet all its commitments. Despite the loss of the Bleyberg foundry and the fact that 76 of its 105 technicians had been called up, it had not merely maintained its structure intact, it had actually enlarged it during the first three years. It is worth underlining the firm's insistence on making contact with other companies in the search for complementary production lines and strategic alliances. The case of the association with Kuhlman is highly significant. In 1915 Peñarroya ceded the company the chemical component of L'Estaque, the Marseilles factory, in exchange for shares, which in the long term supposed a very tidy link with one of the most firmly established chemical factories in Europe. An opposite case was the incorporation of the Megrine factory in Algeria, ceded to Peñarroya by the French government in compensation for an outstanding debt with the *Metallgesellschaft* in 1914,<sup>77</sup> as was its participation in setting up the SECEM.<sup>78</sup> The overall outcome was that the company accumulated more and more of the Spanish lead production which, together with the productions of Megrine and Marseilles, totalled a record 152,287 tonnes of smelted lead in 1916. It also topped the coal list for Spain that year, with 828,825 tonnes, ahead of the 724,094 produced by the *Duro Felguera*. At the same time it was able to extend its range of products derived from sphalerite, galenas and coal.

The intensification of Allied controls was like a lifebelt for Rio Tinto, after two years of dreadful results in 1914 and 1915. Whether to avoid excessive dependence on North American producers or because it remained the most prestigious British mining company, the fact is that the British government treated Rio Tinto with special favour and allowed it a huge say in the new organization of the market. Indeed, it was the only representative of the mining industry, among the numerous metal stockbrokers and politicians, on the British Metals Commission (and one of the most active participants, truth be told).<sup>79</sup>

Fielding offset the impossibility of sending pyrites to Central Europe by applying for subsidies from the Ministry of Munitions to compensate for the high cost of shipping to the United States. The minister came round to Fielding's arguments, and Fielding assured him that the Rio Tinto pyrites were fundamental to the American war industry and in containing prices. The company increased its exports to such an extent that it had to build a new plant in Deschelter, Philadelphia,

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<sup>76</sup> National Archives, Paris, F-12-7679 and 7680.

<sup>77</sup> SMMP Memory 1916 and A.N., F-12-7680.

<sup>78</sup> Sarmiento (1992).

<sup>79</sup> A.N., F-12-7680.

to process 100,000 tonnes of mineral a year (a figure that could be increased to 500,000) and to produce 3,000 tonnes of copper.<sup>80</sup>

Thus, when, as a result of the low amounts of mineral coming in, the price of copper doubled and shot past the 130 pounds per tonne of standard copper,<sup>81</sup> the Allied governments came to mutual agreement with Rio Tinto to purchase all its copper at 115 pounds per tonne<sup>82</sup> and so avoid speculation wrecking the British government's plans. Rio Tinto production stood at barely 30,000 tonnes, but even so, the price fixed was good business for the company. Not much could be exported in Europe, but the little that was was in the form of copper, and the fixed price of 130 pounds per tonne meant the results were simply fantastic for the time. In 1915 the profits to be distributed totalled 1,112,500 pounds (a dividend of 55 per cent on ordinary shares); in 1916, it was 1,862,500 pounds (95 per cent); in 1917, 1,768,750 pounds (90 per cent); and in 1918, 1,018,750 pounds (50 per cent).<sup>83</sup> J.P. Morgan repeatedly sought shares from the Rothschilds for its customers.<sup>84</sup> Rio Tinto was, in the view of all, a rising value, though in reality its feet were made of clay.

This trade policy supposed a negotiating effort, which was not rewarded by any judicious industrial policy. Even if it wanted to, the company could not increase the production of the mine. Exports of crude pyrites and production of washed pyrites slowly gave way to copper, which again could not be produced in greater quantities if the case hardening processes were abandoned. Furthermore, since 1914 the company had been unable to get basic spare parts such as fans, compressors or Bessemer retorts and coke, which was imported from America at 10 pounds per tonne. Nevertheless, the engineers managed to mine 24,000 tonnes of copper. The year 1916 saw copper production costs rise to 37 pounds per tonne and the company began to feel the effects of the appreciation of the pesetas, which was costing it 50,000 pounds a year.<sup>85</sup> It is difficult to understand how in this situation a company with the resources of Rio Tinto did not reach an agreement with some shipping company to supply it or even develop a fleet of its own to solve the problem of shipping, as Peñarroya had.<sup>86</sup>

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<sup>80</sup> Rio Tinto report, 1916, ARP, 132AQ 105, 2nd Folder and Harvey (1981: 168).

<sup>81</sup> *The Mineral Industry*, vol. 30, 1921, p. 158.

<sup>82</sup> Report on Río Tinto, 1916, ARP, 132AQ 105, 2nd Folder.

<sup>83</sup> Avery (1985: 305).

<sup>84</sup> ARP, 132AQ 104, folder 3.

<sup>85</sup> Report on Rio Tinto, 1916. ARP, 132AQ 105, 2nd Folder.

<sup>86</sup> Peñarroya signed an agreement with Naviera Valenciana for the exclusive use of its 18 vessels. RM, 1916, p. 276.

Table 9.1 Rio Tinto production and sales, 1912–1918

Year	Total Rio Tinto production (col. 2 + col. 3)	Crude pyrites sales (col. 2)	Pyrites processed at the mine (col. 3)	Washed pyrites sales	Copper production
1912	2,406,969	698,399	1,708,570	977,812	25,623
1913	1,859,571	652,168	1,207,403	729,099	21,400
1914	1,204,822	606,252	636,570	637,348	17,544
1915	1,054,222	264,455	789,767	676,163	20,357
1916	1,528,708	279,999	1,248,709	741,387	21,385
1917	1,381,118	224,682	1,156,436	531,667	27,005
1918	1,623,009	141,979	1,481,030	205,062	23,244

Source: Salkied (1987: 105–107).

The technical visit made by the Spanish engineers Guitián, Villasante and Abbad revealed what nobody was seeing at the time. In the last years of the war Rio Tinto was undergoing a decapitalization of its installations. There had been no technological improvements in the mine for over 11 years and management had shown no inclination to remedy this. The company would all too soon suffer accordingly.

MZA, in contrast, gained few returns from the war in Europe, which seems to some extent contradictory given that the Spanish shipping companies were making money out of the increase in international traffic hand over fist during those years. The railway companies' profits grew as well, as did the overall results of the mines. The problem came when these increases could not be brought in line with the overall changes in prices. Overheads shot up much faster than current incomes, as can be seen in Figure 9.2 – 4.4 per cent in 1915, 23.3 per cent in 1916, 24.5 per cent in 1917 and 36.6 per cent in 1918. All this pulled down the MZA profit margins to levels below those of previous years.<sup>87</sup> The railway companies complained that they could not alter their tariffs in line with inflation because these were controlled by the State under the law governing concessions. The total refusal of the government to bring in changes spelled the ruin of the companies and sparked off a series of protests and petitions for new subsidies to compensate for the losses, which would be a bone of contention during the 1920s.

<sup>87</sup> Tedde (1978b: 208–210) and Ortúñez (1999: 115 and 83–96).

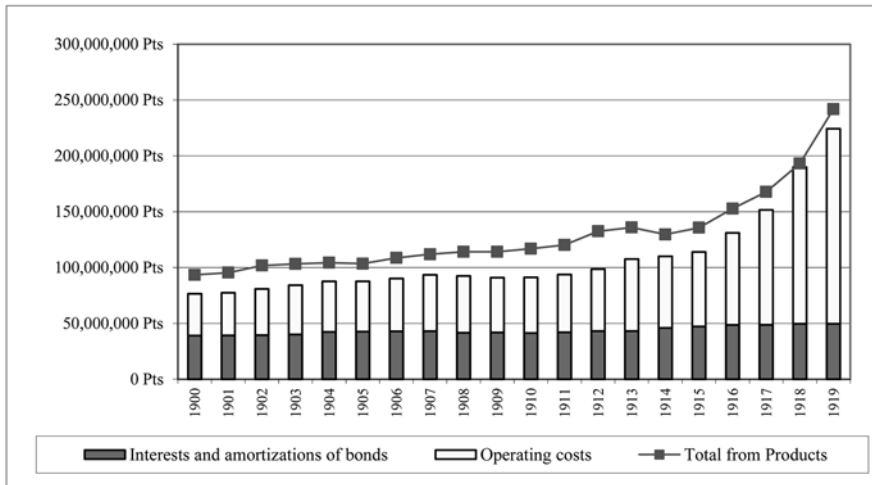


Figure 9.2 Total income on products, operating costs and financial burden of MZA, 1900–1919

Source: Tedde (1978b) and *Anuario Financiero y de Sociedades Anónimas*.

The increase in international traffic during the war served only to highlight the old problem of Spain's different railway gauge. Whatever the efforts made by the Norte and MZA to speed up the arrival of their convoys at the French border, the trains piled up in Irun and Port Bou as passengers and goods changed trains, even though the French government did all it could to lay on extra carriages and wagons.<sup>88</sup> Not even a special French–Spanish agreement in 1917 to control the conditions of the transfer of merchandise at the frontier would solve a problem that quite simply had no short-term answer.<sup>89</sup>

A mission from the French Institute supported by the French government arrived in Madrid in 1916 to analyse ways of improving trade exchanges with Spain, which France so anxiously needed. The railway expert Teissier, who was also chairman of the Midi company, emphasized the problems of the gauge and informed the mission about a project promoted by King Alfonso XIII to open two new trans-Pyrenean lines from Barcelona and Saragossa using the "European" gauge.<sup>90</sup> The initiative was viewed with keen interest by the French authorities and

<sup>88</sup> Report of 21 November 1916 from the ambassador in Madrid to Briand, Board President and Minister of Foreign Affairs, and telegram of 29 March 1917, AMAAEEF, Political and Commercial Correspondence, Nouvelle Série, Espagne, no. 63.

<sup>89</sup> Agreement 16 April 1917, AMAAEEF, Political and Commercial Correspondence, Nouvelle Série, Espagne, no. 63.

<sup>90</sup> AMAAEEF, Political and Commercial Correspondence, Nouvelle Série, Espagne, no. 88.

with a logical gut rejection by the two large “French” companies based in Spain. The work would be done but only along a narrow stretch from Lerida to Canfranc and under Primo de Rivera. Like so many other transnational projects, it was an utter failure.

*The Problems of the Post-war International Market*

After more than four years’ fighting, the armistice of 11 November 1918 marked the end of hostilities. As expected, the end of the war brought about a fall in demand in the British and French weapons industries and values would quickly undergo a general decrease. There was also the problem of surplus stock, which the British government tried to play down so as to avoid an excessive impact on the market.<sup>91</sup> Indeed, the authorization given to the manufacturers to meet their orders through their copper reserves staved off an immediate fall in prices, which remained unchanged during December at 122, 137 and 135 pounds per tonne for “standard”, “electrolyte” and “best selected” copper respectively.<sup>92</sup> However, a fall of 10 pounds in all the indices in the first week of 1919 was the starting pistol for a continuous fall in prices that would not cease until they hit 76 pounds for “standard” in May.<sup>93</sup> Lead remained high for longer at around 30 pounds the ton and even rose to 50.2 pounds in February 1920 before taking a downward turn to 20.6 pounds just one year later.<sup>94</sup>

It was an end that had been widely predicted but its consequences had not been properly foreseen by any of the producers. The main problem was none other than the tremendous growth of the North American mining and processing industries during the war, which had given them the leadership of most markets – clear proof that these companies had used the war to replace imports for home-produced resources for use in their industry and for the huge business of supplying Europe. As a result, the North American products were invading Europe, its stock markets were gaining the initiative and its industry was proving surprisingly lively against its European competitors.

In the area of copper the problem was even greater. During the Great War the United States went from being a net importer of metals, since its industry absorbed all the domestic production and needed still more, to accounting for 66 per cent of world exports. The country’s importance was still greater when we consider that the American multinationals controlled most of the deposits in Chile and the rest of South America, as well as being responsible for processing the productions of the majority of the mines in the Congo. In 1921 the three large American groups controlled 74 per cent of world copper refining. American Metal Co. (controlled

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<sup>91</sup> The British government retained large quantities of copper, which were stored and sold gradually amid great publicity in order to avoid the effects of speculation.

<sup>92</sup> RM, 8 December 1918, p. 603.

<sup>93</sup> RM, 1 January 1919, p. 11 and 8 September 1919, p. 392.

<sup>94</sup> Prices in London recorded by *The Mineral Industry*.

by Metallgesellschaft) had moved from Germany to America in 1917. The same German firm accounted for 8 per cent of refined copper exports, with the Japanese refineries controlling another 8 per cent.<sup>95</sup> It is clear from the figures why Rio Tinto and the other European producers would not be the market force they had been in the past, despite the rich pickings of the war. It could be said that from then on Europe followed American trends and decisions.

Yet the greatest threat to the Spanish pyrites from 1918 would be in the field of sulphur, where they had until then be unrivalled. We should recall that throughout the nineteenth century the pyrites from Huelva had triumphed commercially over the Sicilian sulphur due to both their competitive price and the rest of the useful metals they contained. The Italian government was even forced into adopting serious protection measures in order to stem the invasion of the Spanish pyrites. Likewise, the Americans had had to pull out of using their own Louisiana deposits because the depth of the seams had proved a technically insurmountable problem. When Herman Frash developed an effective method of extracting the sulphur based on injecting water at high temperatures, the technical problem became an economic one. The system was expensive to install and needed a yearly supply of 9.46 million litres of water per shaft. It was an investment that could not recouped given the more competitive Spanish prices.<sup>96</sup>

When Spanish pyrites started to grow scarce as a result of the war blockade, the North American chemical industry began to draw on its own sulphur, in spite of the cost. From 1914 the consumption of sulphur obtained using the Frash process rose in the USA from 3 per cent to 48 per cent in 1919. This was directly at the expense of the pyrites, which at the beginning of the conflict represented the source of 74 per cent of the sulphuric acid produced in the country. The re-establishment of the commercial supply should have led to the recovery of the former status quo, but the gaining of this market share in those years meant the Louisiana mines could reduce costs through an economy of scale, something which would not have been possible under normal conditions.<sup>97</sup> Another advantage was that the local sulphur lent itself perfectly to the contact process, which did not need the old Roebuck lead chambers to obtain sulphuric acid. The new system used a platinum and native sulphur catalyst and was pyrite incompatible on account if its excess of arsenic. It also gave a much more concentrated acid. On top of everything else, the transformer plant cost half that of the pyrites and only needed 40 per cent of the labour.<sup>98</sup> Such a scenario meant that the American market, the traditional stronghold for RTCo. sales, gradually closed its doors on operations, as the figures in Table 9.2 bear out.

<sup>95</sup> Gibson-Jarvie (1986: 140) and Schmitz (1995: 395).

<sup>96</sup> Checkland (1967: 152) and Martin (1916).

<sup>97</sup> RM, 1 January 1924, p. 9 and Harvey (1981: 170). According to *The Mineral Industry* (1921: 652), RTCo. ended exports of pyrites of low copper content to the USA and focused on those with a higher tenor.

<sup>98</sup> Checkland (1967: 152–153).



Table 9.2 USA pyrite imports, 1916–1921 (in tonnes)

Year	Total USA pyrite imports	Imports from Spain	Imports from Canada
1916	1,224,4519	1,095,980	148,682
1917	967,340	747,830	210,615
1918	489,786	270,649	221,442
1919	338,973	280,725	84,761
1920	332,605	200,706	100,672
1921	216,229	191,515	7,000

Source: RM, 1 January 1924, p. 9.

The market situation was worrying indeed, but the company took no drastic measures, since it considered itself bound by the 1911 agreement with Tharsis (renewed in 1916), which would not expire until the end of 1921.<sup>99</sup> It was clearly in its interest to reach another agreement at the earliest moment, although there remained the hope of a recovery in the demand, but none was forthcoming. What Fielding never suspected was that his traditional rival was actually better placed than he thought to start negotiations.

Tharsis did not make much money during the war years. It was bound by old agreements with British manufacturers, a circumstance that prevented the company from making more profit out of the rise in prices. It should not be forgotten that, like all companies, it was hit by the rising freight costs. The Scottish company opted for an intelligent project, though, to improve its deposits in Sierra Bullones and in Zarza, which included the improvement of its industrial installations and the purchase of some bordering lands. The idea was to focus on the sulphurs, leaving the copper production as a secondary business.<sup>100</sup> Neither should one omit that Tharsis had few dealings with North America, so its losses there were minimal, nor the fact that the greater part of its customers were in Great Britain where the production fabric did not suffer the destructive effects of the war, as occurred in Germany and France, where the Rio Tinto pyrite purchasers were concentrated. Tharsis, therefore, started from an advantage after the war, a circumstance that its rival did not take long to notice.

In 1919 Rio Tinto sold just 386,000 tonnes of minerals, 26 per cent of the figure for 1913.<sup>101</sup> It tried to remedy the difficulties of supplies and financial losses occasioned by a strong peseta as it went along through a bond issue in Spain, which sold easily.<sup>102</sup> The situation was not as yet worrying and the firm sought to

<sup>99</sup> Harvey (1981: 171) and Checkland (1967: 192–196).

<sup>100</sup> Checkland (1967: 195).

<sup>101</sup> Harvey (1981: 170).

<sup>102</sup> The company made an initial issue of 100,000 bonds (of a total of 200,000) at 500 pesetas, with an interest rate of 6 per cent to be paid back in 10 years. Its main objective

boost trust with a payment of the best dividend possible in the middle of the year – 20 shillings.<sup>103</sup>

The concern of the directors of the large pyrite companies was understandable, given the circumstances. From the early 1920s, they saw the need to sit down and negotiate with the clear need to find some common recipe to save the situation before the markets became a free-for-all that nobody wanted. Yet reaching a common understanding was complicated. The Tharsis chairman, Rutherford, was all for introducing a minimum market price, whatever the cost, because the old agreement had only set out the sales regions. Fielding opposed this, though, arguing that it would mean a loss of manoeuvrability vis-à-vis the customers. He also felt strong enough to engage in a trade war. Rutherford was well aware of the production problems of Rio Tinto (there had been a general strike at the mine), and accordingly stuck to his guns and negotiated with Orkla, the Norwegian mine, which had moved into third place in the European pyrite rankings. The negotiations were definitely at a standstill.<sup>104</sup>

In 1920, as a forewarning of the ensuing disaster, Rio Tinto announced that it would not be paying the summer dividend it usually paid out on ordinary shares at the end of the first six months.<sup>105</sup> It was the first time in 40 years that the company had failed to pay a dividend. The London and Paris Rothschilds were alarmed by the situation. While they had shown a reasonably permissive attitude towards the internal management of the company, they were not going to consent to a fall in the mine's production or a slump in share prices that had reduced them to 43 per cent of the previous year's price.<sup>106</sup>

The Rothschilds intervened in June and demanded an immediate reshuffle of the board. Fielding kept the chairmanship but had to cease negotiations with Tharsis at once, while losing a good part of his executive powers to Lord Milner. The latter gave the job of redesigning the trade policy and, therefore, negotiations with other producers to Sir Arthur Steel-Maitland,<sup>107</sup> a man who like Milner favoured dialogue and who was, in principle, a supporter of market agreements. Faced with the awkward competition from the North Americans and the apathy of the demand in Europe, this was the option that was most in line with the old Rothschild philosophy of complete control of the markets, although things would change in the coming years.

The period 1921–23 was more than just the confirmation of a foretold crisis. The search for a viable negotiated solution that protected the interests of all the

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was, according to the company itself: “to avoid, given current conditions, negotiation of the large quantities of paper in sterling necessary for the mining establishment” (RM, 24 October 1918, p. 521).

<sup>103</sup> RM, 16 September 1920, p. 520.

<sup>104</sup> Avery (1985: 307–308).

<sup>105</sup> RM, 16 September 1920, pp. 521–522.

<sup>106</sup> ARP, 132AQ 104, dossier 3.

<sup>107</sup> Harvey (1981: 171).

pyrite producers created a succession of nonsensical events, in which Rio Tinto was never able to impose its agenda – this, despite the intervention of Wallemborg, the owner of Orkla and an old acquaintance of the Rothschilds,<sup>108</sup> who approached the Paris House, in its capacity of major shareholder of Rio Tinto, through the general director of its mine, Lenander, in an attempt to convince them of the need to speed up the negotiations towards an agreement.<sup>109</sup> Many solutions were proposed: plans to extend the current agreement; fixing a minimum market price; and even a formal proposal of a three-way Rio Tinto–Tharsis–Orkla merger.<sup>110</sup>

A definitive solution proved elusive, however. January 1922 marked the end of the old agreement and hostilities broke out. Logically, Rio Tinto should have been able to overcome its divided rivals with little difficulty, but things panned out very differently from what the board had expected. Tharsis reacted by slashing prices and took the fight to Rio Tinto, stealing many of its best European customers, such as Duisburger Kupferhütte in Rhineland or the powerful French company Saint-Gobain. Surprised by just how much his rival could take, Fielding counterattacked on the British market, increasing sales from 25,000 tonnes in 1921 to 85,000 by the end of 1922. The qualitative difference of the Rio Tinto resources seemed to cut little ice when it came to signing contracts, and Tharsis continued to better the successive cuts of its rival. The small mines in Spain were hard hit by competition for which they were not prepared. The engineer Fernández Balbuena, from the Castillo mines, spoke out for all the other producers when he called for immediate government intervention against the continuous “dumping” being carried out by the two giants, which was spelling disaster for the rest.<sup>111</sup>

The battle took its toll on all alike and by the end of 1922 the producers were ready to resume the talks. Fielding had lost the chairmanship to Vizconde Milner<sup>112</sup> and it had become the public will of the company to reach an agreement as early as possible, although not without an initial desperate attempt to gain shareholder control of Tharsis.<sup>113</sup> As a last resort, Rio Tinto offered the solution of setting up an association of pyrite producers led by Rio Tinto, Tharsis and Orkla which would have the capacity to establish quotas and prices. Rio Tinto tried to impose a parity in decision-making powers to prevent Tharsis and Orkla banding up against

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<sup>108</sup> In 1856 the Wallemborg family had funded, together with James Rothschild, the Stockholms Enskilda Bank, one of the most important banks in Sweden; Cameron (1971: 163).

<sup>109</sup> Report on M. Lenander’s proposal (chief executive of Orkla) of 27 April 1921, ARP 132AQ 104, dossier 3.

<sup>110</sup> Letter from Anthony Rothschild to the House of Paris of 28 October 1921, Report by Steel Maitland of 28 October 1921, ARP 132AQ 106, folder 1, and Report on Rio Tinto of 12 November 1921, ARP 132AQ 104, dossier 3.

<sup>111</sup> Checkland (1967: 199), Harvey (1981: 172) and Avery (1985: 309).

<sup>112</sup> Avery (1985: 309).

<sup>113</sup> Letter from Steel Maitland to the Rothschilds in Paris of 21 November 1922. ARP, 132AQ 104, 3rd folder.

it,<sup>114</sup> but the news that the American and Italian sulphur producers had formed a production and sales cartel<sup>115</sup> obliged the British company to back off. After further discussions and the admission of two new members, Mason & Barry and the Société de Pyrites, on 19 July 1923 the Association of Pyrite Producers was finally constituted in London for a period of three years.<sup>116</sup> It was the barest of agreements and one that after so many years of uncertainty and dispute left the Rio Tinto directors and the Rothschilds with the feeling that Tharsis had, in the end, got its own way.<sup>117</sup>

The problems in Peñarroya were similar, although there is no doubt that, thanks to its plans to expand and a brilliant management of the market during the war, the firm was able to weather the post-war crisis much better.

The company had inherited a good part of the business structure that it had generated itself during the conflict once *Minerais et Métaux* (at the expense of ceasing to be the sole purchaser on the French market) offered to organize the Peñarroya sales. In Spain, Italy, Portugal and Argentina, the G. y A. Figueroa company would continue to organize the sales of the company as it had done for the last 20 years, and it agreed to collaborate with *Minerais et Métaux* in the sales in other countries.<sup>118</sup> On top of everything else, the Peñarroya board had responded to the expectations created by the war by deciding to increase the company capital in 1917 and to bring the balance in line with the true value of the assets. The company had a surplus of 29 million francs in premiums from earlier issues, so it opted to issue two packages of 97,500 ordinary shares: the first was to be offered free to the existing shareholders, at a ratio of one new share per old share, and the second would be offered at the existing price and almost entirely to the shareholders. The SMMP tripled its shares in this way, increased its capital to 73,125,000 francs and rewarded its shareholders in an extraordinary manner.<sup>119</sup>

With this capital available, Peñarroya set about increasing its assets, following its highly successful traditional policy of friendly acquisitions of firms or setting up joint subsidiaries. With *Minerais et Métaux* and other partners, it financed the Société Minière et Métallurgique d'Indochine explorations in the Gulf of Tonkin;

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<sup>114</sup> Checkland (1967: 199) and Avery (1985: 309).

<sup>115</sup> RM, 1 June 1923, p. 298.

<sup>116</sup> Agreement on the setting up of the Association of Pyrites Producers of 19 July 1923, ARP, 132AQ 106, 1st folder. This document can be found unabridged and translated in López-Morell (1997a).

<sup>117</sup> Letter from N.M. Rothschild & Sons to Rothschild Frères of 15 June 1923, ARP, 132AQ 104, dossier 3.

<sup>118</sup> ArMetaleurop, PYA Juridique no. 247.

<sup>119</sup> Shareholders took 87,196 shares at 250 francs. The remaining 10,304 were distributed as usual among the three banks of the company: Mirabaud, Cahen d'Anvers and the Rothschilds, Letter from the Board of Directors of Peñarroya to the Rothschilds of 24 March 1917, ARP, 132AQ 103, ArMetaleurop, PYA Titres divers, no. 117 and National Archives, Paris, F-12-7680.

jointly with the Khulman company it purchased the assets of the Société de Piritas which was still a subsidiary of Peñarroya and financed the *Cía. Comercial Ibérica*,<sup>120</sup> together with the Compagnie D'Aguilas, which had been an auxiliary of Peñarroya during the war, when it had pulled out of the contract with Métallurgique de Mazarrón (of German capital), it set up a subsidiary worth 1,200,000 pesetas; in 1919 it reached an agreement with Minas de Malfidano, under which the latter accepted the participation of Peñarroya on its board and the cession to Peñarroya of the Noyelles Godault lead and zinc factory near the Belgian border, which had been left in a bad state during the war but which had the right to compensation for the destruction suffered. Finally, in 1920 it bought the assets of the Societat di Pertusola, paying 550,000 pounds to the owners and a further 60,326 pounds for the shares in its subsidiary, Gennamari. The outlay was considerable, but the new general manager André Chastel, saw the investment as giving the company huge potential: "by ensuring from the start a production that will allow a decrease in the intensity of explorations in Spain, the mining future of the company is well consolidated."<sup>121</sup>

Yet it was the very growth of the company that was also the origin of its main problems during these years. Overheads had soared as a result of the increase in business, salaries and the new production capacity, which obliged the company to hold large stocks of merchandise. The new problems came not so much on account of financial or trade difficulties but more because of the impossibility of maintaining high supply flows during the Spanish mining crisis.

The war had meant that many seams that had all but given out in Spain could remain open. When the war ended, though, the over-exploitation and the fall in the metal tenors in the ores affected the profitability of a good number of the facilities establishments. The Azuaga district all but disappeared from the mining statistics and there was widespread falls in the productions of Ciudad Real and Murcia. The only ones to remain strong were those of Jaen and Cordoba; the latter thanks to the huge returns from the seam known as El Soldado, which belonged to Peñarroya, and which turned out an average of 30,000 tonnes of galenas a year throughout the 1920s. In the country as a whole, though, production had fallen to almost half of that achieved in the middle of 1912.<sup>122</sup> The famed foundries of Linares could not guarantee their supplies, leading Peñarroya to strike an agreement with Sopwith

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<sup>120</sup> This company already held the monopoly on the *Potasse d'Alsace* in Spain and it was regarded as an effective tool for selling other chemical products in Spain. Khulman therefore allowed the *Asturiana de Zinc* in, to which he assigned half of his share. ArMetaleurop, PYA-Juridique, PVSCA, Book 7, session 20 January 1920.

<sup>121</sup> ArMetaleurop, PYA-Juridique, 258. PVSCA., Book 7, sessions 14 February 1918, 18 December 1919, of 29 January 1920 and 15 April 1920.

<sup>122</sup> González Llana (1949: 37–47).

in order to close the San Luis foundry.<sup>123</sup> The same fate befell the small foundry of Escombreras.

The stance taken by the Peñarroya management to counteract the lack of supplies and the rise in costs was to establish a programme of investments that included continuing to prospect for metal and coal mines in all of Spain; to reform the Peñarroya foundry in order to incorporate the latest technology; to develop the installations purchased in the Pyrenees, which included the Pierrafitte zinc mines and the Arreau waterfalls (the latter to provide electricity for electrolysis); and, lastly, to research and develop the flotation technology (purchased from the Mineral Separation) in order to treat the low-grade minerals of San Quintín.<sup>124</sup>

This clearly countercyclical programme was evidence of the company's decisive, entrepreneurial character. However, given *the* results of the exploitation and the evolution of prices, one gets the feeling that it was the latter that really accounted for the company's continued high profits until 1920, after which the company did well enough just to maintain its margins, although these were still much larger than those of its competitors.

Elsewhere, the company had to take financial measures similar to those of Rio Tinto because of the slump of the franc against the peseta and the problems of transferring funds from France. In 1919 the firm was authorized to issue 20 million pesetas of bonds at 6 per cent in Spain, a figure that had to be upped the following year to 60 million.<sup>125</sup> Yet before any effective normalization of its assets in Spain, Peñarroya, like Rio Tinto and even MZA, would have to address the most serious and uncontrollable of its problems: the labour unrest generated by the spectacular rise in prices in Spain.

### *Inflation and Social Protests*

No amount of reiteration will reveal the full extent of the changes produced by the Great War in the Spanish economy. On the one hand, the conflict in Europe brought about the definitive arrival of some sectors that would be mainstays of the country's industrialization for the rest of the century, while, on the other, contact with the rest of the European markets produced an unprecedented dismantling of prices that would seriously destabilized every section of Spanish society.

The phenomenon had direct repercussions for the less privileged layers of Spanish society and it revitalized the workers' movement, which took on a hitherto unknown influence on the country's affairs. A series of non-stop demonstrations and the strikes of 1912 and 1913 reached a climax in the famous revolutionary

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<sup>123</sup> According to the agreement. Sopwith would take the minerals from the first smelting at San Luis, and would hand over to SMMP the slag lead minerals from the second smelting to be treated at Peñarroya or Santa Lucía, ArMetaleurop, PYA-Juridique, 258. PVSCA, Book 7, session of 25 September 1919.

<sup>124</sup> ArMetaleurop, PYA Juridique, 247.

<sup>125</sup> ArMetaleurop, PYA Juridique, titres divers, 104.

general strike of 1917, which would have knock-on effects for almost five years. Its consequences have been studied in depth from various angles, so we will limit ourselves to highlighting the features that interest us here.

As mentioned, MZA was unable to adjust properly to the sudden increase in prices, because of the freeze on tariffs which prevented it from passing on the rise in traffic to either its shareholders, in the form of better dividends, or to its workers, in their pay packets. The company underwent continuous industrial conflict from 1914. It solved the issues diplomatically by awarding the workers bonuses in 1916 and 1917. These consisted in an extra month's pay in the first year for all its employees, and two extra months' in the second. These bonuses would later become fixed parts of the pay and meant that MZA suffered less during the revolutionary strike of 1917, whose effects were felt much more harshly in the *Compañía del Norte*, which dismissed 6,000 workers in an attempt to quell the protests.<sup>126</sup>

The repeated complaints of the railway companies finally wore down the government in 1918 and it authorized a rise of 15 per cent, which the companies passed on to their employees in part through various bonuses. These wage increases were hardly sufficient for the employees to recover their purchasing power nor to compensate for the higher costs brought about by the introduction of the eight-hour day, so strikes continued on and off until the threat of a massive general strike in 1920 obliged the Ministry of Economic Development to respond to the demands of the railways and to assign them a series of repayable grants that the companies were to return the moment their cash products recovered.<sup>127</sup> MZA used these funds, amounting to almost 160 million between 1920 and 1926 (see Table 9.3), to continue to improve the pay conditions and pensions of the workers without having to make cuts and to avoid the item "staff wages" being cited as the principal cause of the firm's bankruptcy, as the railway companies were trying to demonstrate.<sup>128</sup>

The mining companies faced a different scenario. Their exclusively private character, removed from the public services, obviated direct State intervention and also gave them greater freedom when it came to restructuring staff and countering industrial unrest. However, Peñarroya and Rio Tinto went about solving their labour conflicts in very different ways.

Peñarroya had been having problems on and off with its employees since 1916. Protests were invariably centred on the Peñarroya foundry, the coal mines of Peñarroya and Puertollano and the railway line, as the concentrations of workers made for better coordination of union activity. The problems worsened in 1918.

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<sup>126</sup> Martínez Vara (2001: 12–13) and Juez (2001: 10–11).

<sup>127</sup> Juez (2001: 12), Artola (1978c: 415–416) and Tedde (1978b: 212–213).

<sup>128</sup> Just as Martínez Vara (2001) has recently demonstrated.

Table 9.3 Record of the principal MZA expenditure and income, excluding financing costs and taxes, 1913–1926 (pesetas)

Year	Staff costs	Total exploitation costs	Traffic products	Misc. income	State advances for staff improvement	Total products
1913	31,920,323	65,042,316	133,997,740	1,944,915	—	135,942,655
1914	32,439,036	64,738,960	128,199,963	1,495,946	—	129,695,909
1915	31,854,859	67,569,424	134,666,049	961,739	—	135,627,789
1916	35,475,691	83,168,684	151,328,824	1,516,493	—	152,845,316
1917	40,055,042	103,427,369	165,157,356	2,609,845	—	167,767,201
1918	47,616,410	141,008,092	187,263,664	5,913,372	—	193,177,036
1919	56,859,087	175,538,757	239,458,669	2,334,899	—	241,793,568
1920	79,513,886	202,836,491	246,880,178	1,868,443	25,562,141	274,310,761
1921	96,158,816	211,428,589	250,827,993	-423,474	30,284,753	280,689,272
1922	102,359,729	213,342,479	257,748,777	1,003,453	30,589,852*	290,752,500
1923	105,819,783	218,637,453	272,907,712	1,819,365	30,667,800	305,394,877
1924	106,971,015	217,300,720	289,022,584	3,663,181	15,972,813	308,658,578
1925	112,009,858	218,950,017	294,046,420	4,399,629	14,056,075	312,502,123
1926	111,007,457	220,645,022	301,285,264	2,346,531	12,778,250	316,410,044

Source: MZA (1931: 221 and 225).

Note: \*In 1922 MZA provided 1,410,419 pesetas from other funds as a back-up to the State advance. The amount is included in the entry for the total products.



Following a strike of unknown duration the workers succeeded in July in getting the management to make the temporary wartime bonus of 20 per cent permanent and to award rises in almost all of Peñarroya and Bélmez's foundry, workshop, factory and coal-mining operations, as well as to the railway employees, although the management were able to keep the metal mines and the installations in other districts out of the agreement.<sup>129</sup> In December it was the turn of the railway employees to initiate strike action with demands for another wage increase. They were joined by the workshop workers, who were demanding the dismissal of one foreman and the withdrawal of the others, and shortly afterwards by the coalminers, who were demanding an extra allowance of 500 kilos of coal over the 100 that the firm already gave them each month. The management stood firm and refused to concede anything else. It was estimated at the time that labour costs had doubled since 1914 and the management was not willing to yield in matters of discipline, which, they believed, would put the functioning of the business at risk. Management had numerous meetings with ministers and high functionaries of the relevant administrations in a more or less futile attempt to persuade them to intervene. Finally, on 3 January 1919 Ledoux announced the end to the strike; the company had given in on just a few issues of secondary importance.<sup>130</sup> In 1920, though, the workers were out again in Peñarroya, bringing the installations to a standstill from 1 April to 3 June.<sup>131</sup>

Soon afterwards, though, the fall in coal and lead prices, and in general those of all the industrial materials manufactured at Peñarroya, led the management to make readjustments and to wind up some of the earlier concessions. The board agreed that, as of 1 March 1922, there was to be a 25 per cent cut of all wages. The decision was met with a general strike that began on 20 February and would not end until 10 May, though to no avail, and the workers drifted back to their posts. The measure began with a cut of just 5 per cent, but soon steamed ahead with a further immediate cut of 15 per cent, followed by the remaining 5 per cent in August. There was an attempt to re-ignite the protests on 25 August, with the declaration of an indefinite strike at the Peñarroya electricity plant. On this occasion, though, the government did send in troops to ensure minimum services for the duration of the strike, which ended on 13 September with the workers' pay demands being accepted, although the management used the occasion to reduce the number of workers in the workshops and at the plant, as well as to remove the

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<sup>129</sup> RM, July 1918, pp. 383–384.

<sup>130</sup> ArMetaleurop, PYA-Juridique, 258. PVSCA, Book 7, sessions of 28 December 1918 and 30 January 1919 and RM, December of 1918, p. 610.

<sup>131</sup> On that occasion the conflict was solved with an agreement to increase daily working hours by one hour, offset by an increase in the percentage of pay per hour worked. ArMetaleurop, PYA-Juridique, 258. PVSCA, Book 7, session of 1 July 1920.

instigators of the strike.<sup>132</sup> From then on, the yearly reports on the business are free of any noteworthy industrial conflict.<sup>133</sup>

Rio Tinto had for decades responded to the continual wage disputes by arguing that it paid the best mining wages in the area, although, of course, for the workers such percentage differences were trivial in the face of the steep inflation they were suffering. Their protests at their loss of purchasing power rapidly stoked up the atmosphere, despite attempts by management to soften the situation by increasing the subsidy to its company stores.<sup>134</sup> The measure was insufficient and tensions rose during 1919, with the threat of a return to the unrest of the 1913 and 1917 strikes.<sup>135</sup>

Until then, the board had paid no attention whatsoever to the mine's labour problems. Fielding had handed over all the power at Rio Tinto to Walter Browning, a man whose character and firm hand had inspired the utmost confidence in maintaining maximum discipline and ensuring production went ahead as the board deemed fit. Since his appointment as director of the mine in 1908, Browning had taken to an extreme all the options used by his predecessors to control production. This *modus operandi* spread to all the economic, social and political spheres in Spain with which the company was related, and in ways which were not always considered legitimate. The director rolled out a series of measures that extended from controlling provincial political activity, while maintaining close contacts at the national level, so as to get maximum support both from the local authorities and those in Madrid, to adopting a paternalistic relationship with the workers that involved the promotion of any type of social initiatives that would help to increase production (such as company schools, shops and hospitals). He topped off his strategy with the cut-throat persecution of any union activity (which was always backed up by police repression), the control of workers' organizations and indiscriminate sackings.<sup>136</sup> All these measures were accompanied by a radical separation of the social and labour conditions enjoyed by the local miners and the British "staff", who lived in districts away from Rio Tinto and who had no connection with the miners other than in the workplace.

The worsening situation led the workers to reorganize their unions, which had been dissolved in the previous strike, even though Browning would not recognize them as a negotiating party. The first demonstrations took place in early 1920, and the company responded by firing the union leaders (principally a

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<sup>132</sup> ArMetaleurop, PYA-Juridique, 258. PVSCA, Book 7, sessions of 2 March 1922, 1 June 1922 and 28 September 1922.

<sup>133</sup> SMMP Memories of 1921–24.

<sup>134</sup> Household supplies shops in Rio Tinto depended on the company. Goods were sold to employees at low, subsidized prices. According to Harvey (1981: 173–175), the company lost 175,000 pounds in 1918 because of these subsidies.

<sup>135</sup> Arenas (1999), Avery (1985: ch. 10), Ferrero (1994), Castro Isidro (1989), Gil Varón (1984).

<sup>136</sup> Peña (1993: 299–324).

certain Egocheaga, the main organizer of the 1913 strike); by initiating separate negotiations with the various departments of the firm in an attempt to isolate the workers' claims; and by applying to the government to send in more troops. It was April before the workers as a whole received any joint proposal from the management to increase salaries by 10 per cent. But the workers' demands went a great deal further. They were seeking a rise of 70 per cent; fewer working hours; holidays and sick leave; a non-discriminatory pension scheme; as well as the readmission of the workers already sacked. And so the strikes went on.<sup>137</sup>

The leading Spanish newspapers, including *ABC*, *El Sol*, *La Libertad*, *El Día* and *El Socialista*, had repeatedly attacked the policy of RTCo. during the war, and now started to adopt more extreme positions.<sup>138</sup> For some years already there had been a strong current of opinion which could be called nationalist that was finding a response in the public mood, and it now joined in the Rio Tinto conflict with enthusiasm. Funds were raised all over Spain to support the strikers and these initially financed the evacuation of 3,000 children from the mine. Even the Royal Family supported the initiatives. Dato himself, a personal friend of Browning, sought in vain to persuade him to adopt a more lenient approach. In the meantime, the British ambassador in Madrid, Sir Esme Howard, was fighting to prevent the government from taking special legal measures against the firm. The Rothschilds, for their part, demanded more information and finally opted to send in Sir Rhys Williams, a man well-versed in the ins and outs of Huelva mining, to arbitrate.<sup>139</sup> He set out for Rio Tinto in November, with instructions to prepare a report on the situation and with authorization to mediate in the conflict.

After an extensive visit to the mine, Williams came up with a series of clear conclusions: apart from the deep unrest among employees and workers caused by the dictatorial attitude of the director, the real cause of the strikes lay in the serious subsistence problems the workers were suffering, which had nothing to do with the demagogic attitude of the press and of some Spanish politicians, and even less with the supposed financing of the strikers by Germans and Russians. The rise in the cost of living had been 125 per cent over the last six years (80 per cent from 1914 to 1919 according to Harvey), while salaries at Rio Tinto had gone up only by 35 per cent. The immediate consequence had been the progressive worsening of the workers' situation, which the strikes had served to aggravate, to the extent that they had sunk into levels of dire poverty. Even before the conflict, a medical report of the 9,856 workers at the mine revealed that the severe lack of nutrition had left 63 per cent totally unfit for work. The best workers at Rio Tinto

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<sup>137</sup> Harvey (1981: 173–175) and Gil Varón (1984: 161–165).

<sup>138</sup> Avery (1985: 291–293). Browning despised the press, yet he did not hesitate to search for support from other newspapers such as *La Época*, *El Diario Universal* (of Romanones), *La Correspondencia de España* and *El Nuevo Heraldo*. Taking advantage of its financial difficulties, he even bought *El Día* in 1920.

<sup>139</sup> Harvey (1981: 176–177). Williams had been head of the Esperanza Sulphur & Copper Company.

left for other mines where the pay was better. They had only to go to Peñarroya, where salaries were 40 to 50 per cent higher. According to Williams, it was easy to perceive that the bulk of the workers at Peñarroya were much better qualified, worked more and were more efficient, compared to those at Rio Tinto, where performance levels continued to decrease.<sup>140</sup> The myth about the “good” salaries at Rio Tinto. was shattered, despite the board’s futile attempts to maintain it.

To break the impasse, Williams recommended that Browning carried out a series of emergency measures. Salaries needed to be raised immediately to subsistence levels; the paternalistic policy had to end and enquiry committees comprising workers and British members of staff were to be set up with the goal of recommending the most appropriate social policy; finally, there had overtures were to be made to the Catholic trade union, which was much more moderate, though not well embedded. The operation now sought to favour this union over the socialist and anarchist one, known as the Nuevo Rio Tinto, in order to undermine its influence and thus negotiate under conditions that would be more advantageous for the company.<sup>141</sup>

This last operation failed, but there was no need to go further down that line. At the end of January, the workers, worn down by six months of uninterrupted strike, began to return to their posts. The company had on paper won and Browning graciously retracted the earlier measures, without any negotiation. The unions were left unrecognized, however, and, with the purchase of the new machinery, the management embarked on a drastic plan to lay off workers, starting with the most prominent unionists. Between 2,500 and 3,000 workers found themselves out on the street.<sup>142</sup>

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<sup>140</sup> Report by Sir Rhys Williams, ARP 132AQ 104, dossier 3 and Harvey (1981: 178).

<sup>141</sup> Harvey (1981: 181).

<sup>142</sup> Gil Varón (1984: 16) and Salkied (1987: appendix 12, 106).

# Chapter 10

## The Slow Journey towards the End of the Rothschild Investments in Spain

### **Changes in MZA Ownership and Public Interventionism**

The railways were one of the most controversial aspects of the nationalist politics developed by successive Spanish governments during the interwar years, the second major cause of the decline of the Rothschilds' investments in Spain. This had much to do with the semi-public character of the railway companies: when all was said and done, the railway companies were, according to the 1855 act, little more than long-term concessions that were run with the authorization of the State, which retained control over tariffs and decisions on line extensions. Even the General Railway Act of 1877 did not bring about a move away from the public service character of the companies, and indeed reinforced some elements of State control, although it did also serve to reaffirm the rights of the shareholders and bondholders, with special emphasis on foreign capital.

Meanwhile, the companies, many of which had been clearly speculative in their early stages and which had proved to be scarcely profitable, never faltered in their struggle to improve their profit margins both with the State and other industrial sectors that sought to use their political clout to obtain better conditions for the distribution of their products by rail.

This dichotomy of general and private interests set off a long debate on the role of the railway businesses in the economic structure of the country and their difficulties in improving services without losing profitability. The controversy became known as "The Railway Problem". Its characteristics and implications have been studied in depth by a number of authors,<sup>1</sup> so here we will focus on two aspects which had the greatest repercussions for the management of these companies. First there was the position of the government, which opted to assume a part of the financing rather than allow any rise in tariffs; and, second, there was the progressive arrival of national capital in what had previously been traditionally foreign shareholdings, which was to generate tensions with the founders – the Rothschilds in the case of MZA. This leads one to question the effects the phenomenon might have had for the control of the company.

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<sup>1</sup> Ortúñez (1999) provides a full overview of the literature in this respect.

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The belief that the railways could better managed through more State intervention and that these measures could have a direct effect on the development of national industry was one that influenced the ideas of many of the Ministers for Economic Development linked to the Regenerationist Movement. Earlier, bills of 1892 and 1894 had sought to impose a series of tariff reductions on the companies for basic products that were in some way of national interest, but were not passed,<sup>2</sup> and it was left to Sánchez Toca in 1900 to present a viable project for State intervention in the railways. The minister published various decrees that, while outwardly cast as voluntary measures, sought to authorize the government to carry out a sweeping reform of the bases of railway politics with a view to nationalizing the railways. Among other things, his decrees empowered the ministry to impose certain materials on the companies for those lines that were considered as deficient; measures to ensure that posts in the companies were held by Spanish nationals, and the demand that interests and dividends be paid in pesetas. Sánchez Toca had barely five months to put his projects into effect, however. Some of his projects were partially turned down by the State Board and did not come into effect. An important exception was the decree regarding the nationality of post holders, which laid down that two-thirds of the board members, the directors and the heads of service of the railway companies should be Spaniards who resided in Spain.<sup>3</sup> The French government voiced its concern and anger at the measures,<sup>4</sup> even though the large companies would put off introducing the measure for an extraordinarily long time, until the Catalans Boix and Maristany took over as general directors of Norte and MZA, respectively, in 1908.<sup>5</sup>

Yet the nationalist measures continued. The customs duties franchise for bringing in foreign railway materials was repealed in 1907. It had borne the brunt of much criticism from the Basque iron and steel industries as well as from the national machinery builders. The following year saw an act regulating secondary railways, which obliged any new railway companies to be domiciled in Spain.<sup>6</sup> Again the reforms were an important step towards the future nationalization of the foreign railway companies. Nevertheless, it was to be the structural problems arising during and in the wake of the First World War that would eventually speed up State intervention in the sector.

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<sup>2</sup> García Venero (1948: 318).

<sup>3</sup> Letter from the French Foreign Minister (Delcasse) to his counterpart in Finances (Caillaux) regarding Minister Sánchez Toca's plan to nationalize the railways of 4 February 1901 AMEFF, B-31,194.

<sup>4</sup> Report from the French Ambassador in Madrid to the Foreign Affairs Minister Bourgeois, of 29 March 1906, AMFAAEE, Political and Commercial Correspondence, Nouvelle Serie, Espagne, 73.

<sup>5</sup> Ortúñez (1997: 177).

<sup>6</sup> Muñoz, Roldán and Serrano (1978: 165–166).

In 1918 the Congreso de Economía Nacional spurred the creation of a Railway Assembly, though, surprisingly, neither the Norte nor MZA proved keen to participate. The assembly sought to discuss a series of proposals regarding the extension of the network and the renewal of the rolling stock and infrastructure, increases in tariffs and a reduction in the price of coal for companies providing public services. The smaller companies went even further and proposed the nationalization of the whole railway system as the only way out of what was a situation of general bankruptcy.<sup>7</sup>

Ministers Cambó and De La Cierva looked into the suggestions of the Railway Assembly and put forward proposals for a reversion of the railways to the State. Yet neither they nor indeed any of the 15 Ministers for Economic Development between 1918 and 1923 was able to finalize how the nationalization of the companies should be organized. So in the end there was just a rise in tariffs in 1918, some help from the Ministry to pay the staff and the creation of the Consejo Superior Ferroviario (Higher Railway Board) in 1922 which in reality had very limited operational powers in terms of the companies.

Under the Primo de Rivera dictatorship, Rafael Benjumea, conde de Guadalhorce, the all-powerful government Minister for Economic Development, sought to give the Railway Problem a definitive solution. After a series of studies and with the hindsight gained from the experience of previous ministries, he presented a project to the companies in 1924 called the Estatuto Ferroviario (Railway Statute). The proposed law envisaged periodical reviews of tariffs so that these covered the company costs of exploitation, pensions, financial charges, taxes, amortizations and reserves. It also promised improvements to the network and the purchases of new materials to be borne by the State budget, which would raise the finance through a series of bond issues with redemption dates falling after the end of the concessions and the funds raised by which were to be managed through a Caja Ferroviaria, or railway fund. This solved the problem of the network's obsolescence while at the same time providing support for national railway materials and metal manufacturers industries as a whole, which enjoyed some years of spectacular growth as a consequence. In exchange, the companies were forbidden to share profits exceeding the average dividends paid out between 1909 and 1913, which in the case of MZA was 4.5 per cent. The State reserved the right to rescue the lines through an agreed payment and a new Consejo Superior de Ferrocarriles, or Higher Railway Board, was set up, comprising government and railway representatives, which, this time, did hold executive powers over the companies.<sup>8</sup>

The State guaranteed the participation of most of the companies in the Estatuto by threatening those that those which did not join that they would be obliged to

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<sup>7</sup> Comín, Martín, Muñoz and Vidal (1998: vol. 1, 283–285) and Artola (1978c: 411–412).

<sup>8</sup> Artola (1978c: 422–428) and Gómez Mendoza (1989: 121–127).

return the advances made to cover salaries and the loss of the 1918 rise in tariffs.<sup>9</sup> All the big companies came in, including a protesting MZA (which would have preferred an equivalent tariff increase), and most of the smaller companies. The total came to 10,788 kilometres of wide gauge lines and 2,355 of narrow gauge.<sup>10</sup>

Table 10.1 Amounts received by MZA from the Caja Ferroviaria (in pesetas)

Year	Lines and works	Rolling stock and engines	Electricity	Totals
1926	22,652,973	6,417,290	–	29,070,263
1927	42,733,141	37,503,702	2,204,088	82,440,930
1928	39,563,274	37,245,947	4,632,764	81,441,985
1929	60,188,833	39,276,012	2,035,574	101,500,419
1930	34,532,933	43,598,472	486,160	78,617,565
Totals	199,671,154	164,041,423	9,358,585	373,071,162

Source: Ortúñez (1999: 252–260).

Despite the criticism the companies poured on the Estatuto in its early years, the system did benefit them, and may were certainly saved from bankruptcy. The amounts received by MZA, summarized in Table 10.1, allowed the company to share out profits, to continue to meet its enormous debt and to make important improvements to its network without having to resort to any more bond issues. It is hard to believe that the company would have been able to tackle such an objective without the help received, even if it had obtained the long-sought increase or removal of fixed tariffs.

Moreover, Ortúñez<sup>11</sup> insists that the railway companies, including MZA, deliberately tried to extend the reversion period, which they all saw as very near, and in the meantime artificially inflated the value of the firms so that they would be expropriated under better conditions. Indeed, the companies increased their reserves as far as they could so as to be able to distribute them suitably when nationalization came, and also to be able to pay as they went along the shares with the extraordinary interests of the frozen capitals. An investigation in 1923 revealed that many of the companies had in fact not included in their liabilities the aid given to the employees, so omitting one of their most important creditors. They had, therefore, been paying unreal dividends on their accounts for three years. The government insisted on its contributions figuring in the company accounts as

<sup>9</sup> Artola (1978c: 428).

<sup>10</sup> Only a small group, accounting for 412 kilometres of wide gauge and 2,204 of narrow gauge, rejected it. Reports from the French Embassy in Madrid, AMFAAEE, Europe 1918–1940. Spain. Volume 113.

<sup>11</sup> Ortúñez (1999).



their shares, to be discounted in the future reversion processes, although it did so under highly favourable conditions for the companies. In return, the companies won the concession that the Estatuto would respect their internal management, with the exception of compatibility of posts, since the board obliged all the former ministers of the MZA board to resign, starting with Alvarado, the chairman at the time, and José Luis Sartorius and the marqués de Alella.<sup>12</sup>

The ministry shifted its policy in 1928 once it was seen that the companies were paying respectable interests and that their shares were rising nicely on the Madrid Stock Market. It decided that the moment had come for the State to start collecting returns on its investments.<sup>13</sup> A year before, the conde de Guadalhorce had nipped in the bud the attempt by MZA to increase the dividend above the 6 per cent mentioned. The company argued that only a part of the dividend – 4.63 per cent, or 22 pesetas – came from the railway income; 6 pesetas came from the interests on the reserves and another part from the reduction in capital of 5 million pesetas, authorized by the articles of the company through the devolution to the State of some of the company's concessions, which added a further 10 pesetas per share. All of which meant that the effective dividend rose to 8.1 per cent. The mere rumour of such a dividend set the price of shares soaring and the Treasury Minister, Calvo Sotelo, declared that he would not accept further transfers to the Ministry for Economic Development without anything in return from the companies, which were showing high profits thanks to the funds received from the State. A very irritated Guadalhorce had meetings with MZA and made it clear that a company that was legally in need of help could not possibly pay out such dividends, whatever their origins. MZA suspended its project but did not dispel the anger of the minister, who prepared a law to limit companies' interests to 6 per cent indefinitely, to demand the return of the aid received and to stop any projected new aid. All of which meant that the company would have to return to defraying its improvements. Again, the Rothschilds protested to the French government about this "interference" in the running of the business. Their protests were passed on to the Spanish government in the hope that the losses would be taken into account.<sup>14</sup> Yet only the end of the dictatorship would finally prevent the law coming into effect.

Things took a turn for the worst for the MZA management from 1931. The first Republican Cabinet, freed from the constraints of the Estatuto by the Berenguer government, passed legislation that imposed tight controls on the railway companies' accounts, established a single tariff for all the companies, abolished the 3 per cent profit the Estatuto guaranteed shareholders and the possibility of rescuing companies in exchange for public debt – something that that the owners

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<sup>12</sup> Ortúñez (1997: 180) and Artola (1978c: 423).

<sup>13</sup> Ortúñez (1999: 268–295).

<sup>14</sup> AFPE, MZA, Minutes of the Board, L-403, session of 19 April 1927 and reports on the Spanish railways of October–December 1929, AMFAAEE, Europe. 1918–1940. Spain, Volume 116.

were totally against.<sup>15</sup> On top of this, the law of August 1932 imposed an important management restriction on the companies: none of the board members could sit on the three other boards. It was a measure that affected several members of the board of the company in Madrid and no fewer than four of the six members of the Paris Committee – namely Gastón Griollet, Robert de Rothschild, Maurice de Waru and René Mayer.<sup>16</sup>

This last decision was not aimed merely at foreign board members, though, but at the highly elitest Spanish business class in general and at the level of influence they wielded in the management of most of the important companies of the country. Indalecio Prieto had spoken in the Cortes of:

Certain gentlemen [who] have accumulated representation on boards of directors, of whom there are some forty or fifty at most, who have in their hands the management of all the large public and private businesses in Spain: this is a situation which the Republic must put an end to prudently and skilfully. Their enormous duties imposed on them by their positions on other boards of directors means that they cannot devote themselves to railway matters, to the public interests of the railways, and the State has the right to demand all their attention in these matters.<sup>17</sup>

It was a debilitating situation for the Rothschilds, who had just lost the recently bankrupted Bauers as agents of the company. Robert Rothschild and Maurice Pereire called a meeting at once with Herriot, President of the Council and Minister for Foreign Affairs, to express their protest and ask him to intermediate politically to prevent the practical disappearance of French representation in the great Spanish railway companies. The talks were complicated and, after a series of proposals, it was agreed to leave the Paris board members as acting members on an indefinite basis.<sup>18</sup> In Madrid, however, no fewer than eight seats became vacant.<sup>19</sup>

Yet these events paled into insignificance next to the downturn in the economic situation. The slump in traffic was coupled with the application of numerous social benefits imposed by the government that obliged, amongst other things, the automatic reinstatement of all who had been fired as a consequence of the crisis. The burden of these measures was important, although Tedde and Martínez Vara<sup>20</sup> do not believe that the social policies of the republican government were in any way behind the plummeting profits of the companies. Rather, it seems that the

<sup>15</sup> Comín, Martín, Muñoz and Vidal (1998: 308–310).

<sup>16</sup> Letter from Herbette, French ambassador in Spain, to Herriot, of 8 September 1932. AMFAAEE, Europe. 1918–1940, Spain, Volume 254.

<sup>17</sup> *Ibid.* The composition of this group was analysed by Roldán and García Delgado (1973).

<sup>18</sup> AMFAAEE, Europe, 1918–1940, Spain, Volume 255.

<sup>19</sup> Ortúñez (1997: 181).

<sup>20</sup> Tedde (1978b: 230) and Martínez Vara (2001).

most significant factor was the slow fall in income from traffic and the refusal of the government to bring into effect the 1924 decree to review tariffs, which hit the MZA accounts hard, with losses from 1929 and the end to amortization and share payments in 1935.

The definitive bankruptcy and the loss of its status as an attractive financial investment marked the first steps down a road that led inexorably towards nationalization, a process that was only hastened by the outbreak of the civil war.

### *The Nationalization of MZA*

The successive political milestones of policies aimed at nationalizing the railways coincided with the slow process of nationalizing MZA's capital, although its causes and consequences were rather different for bonds and for shares.

The original MZA bonds, with which most of the old network had been constituted, had been issued and were to be found almost exclusively on the French market. These corresponded to series 1 to 20. Also in circulation on the British and Belgian markets were the old bonds of the Cordoba–Seville and the Badajoz companies, as well as a small series of TBF ones, which had been issued simultaneously in Barcelona, Lyon, Paris and London in 1883, when the Catalan capital market had exhausted its supplies. All later issues by the company were made on the Spanish markets, and successive amortizations meant that the number of bonds abroad decreased with respect to those traded in Madrid, Barcelona and Bilbao, until these accounted for the majority at the beginning of the 1920s (see Figure 10.1).

An attempt in 1926 to nationalize the bonds being traded abroad,<sup>21</sup> as the Norte had done with its own bonds in 1918, met with failure. On this occasion, the decision was not based on any type of government pressure, unlike the nationalization of the State debt years before, but on the initiative of the firm's management, which was unhappy on account of an important tax increase on marketable securities and dividends on the Paris market. Yet the call by the firm to nationalize the bonds (approved under the Spanish Royal Decree of 8 March 1927) was a complete failure. By law, 80 per cent of authorizations were required for a conversion to take effect, but only 367,569 bonds of 752,554 from the early series (48.84 per cent) and 16,166 of 31,309 of the Cordoba–Seville ones (51.63 per cent) were forthcoming, even though the period was extended by six months. The attempt was finally withdrawn and the bonds continued in circulation abroad, at least nominally, until 1941.<sup>22</sup>

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<sup>21</sup> In reality, not all, but only the bonds of series 1 to 16 and those of the old company Córdoba–Sevilla, which accounted for 803,488 bonds. Series 17 to 20, those of the Badajoz and the TBF series of 1883 could not be nationalized. The latter three amounted to 238,235 bonds. AFFE, MZA, Secretary S/44/140.

<sup>22</sup> AFFE, MZA, Minutes of the Board, L-402, Sessions of 17 March 1927, 15 June 1927, 13 October 1927, 17 November 1927.

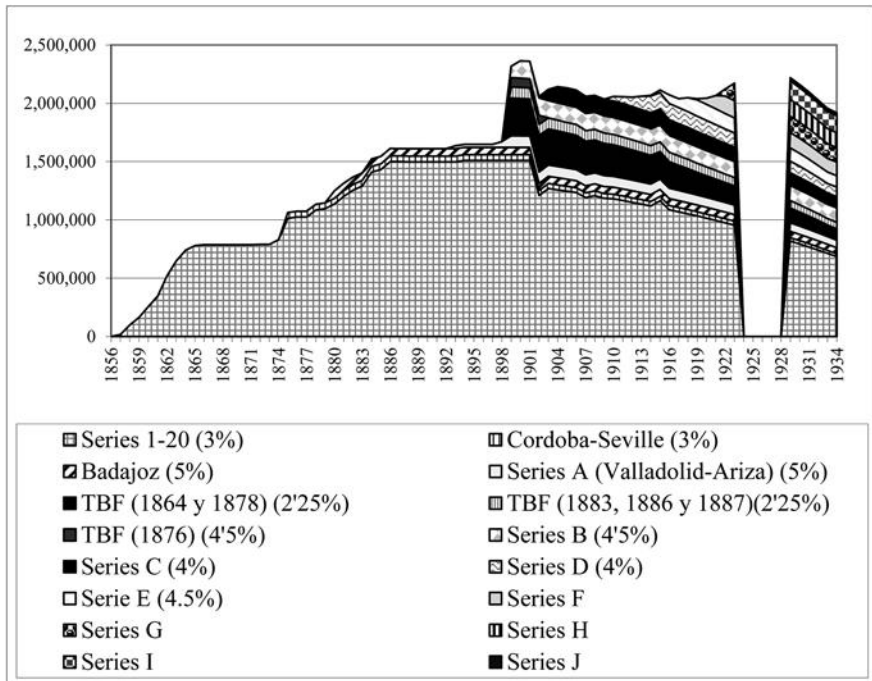


Figure 10.1 Number of MZA bonds in circulation, by items, 1856–1933

Source: *Historia Financiera de MZA* (19-9-1918). AFFE, MZA, Board Secretary's Office, Box 215. Known as *Anuario Financiero y de Sociedades Anónimas* from 1919.

From the First World War on, it was a similar story for the shares but in this case it was just a question of simply buying up shares by Spaniards on the free market. Figure 10.2 shows how, during the First World War and the years following, there was a dramatic swing in the make-up of the shareholders on account of the massive influx of Spanish investors. This apparent, progressive and swift, nationalization of ownership reached the point where by the mid-1920s one can no longer talk about the MZA as a foreign company. The days when James Rothschild had sought to sell a thousand MZA shares in Madrid so that the shareholders' meeting would not be empty were long gone by.<sup>23</sup>

The large Spanish financial institutions showed a surprising interest in the railway companies and would not take long to buy up the largest packages of shares, and they even knocked the Rothschilds off their perch as the major shareholders (see Table 10.2).

<sup>23</sup> Letter from Weisweiller and Bauer of 8 May 1868, ARL XI/110/6.

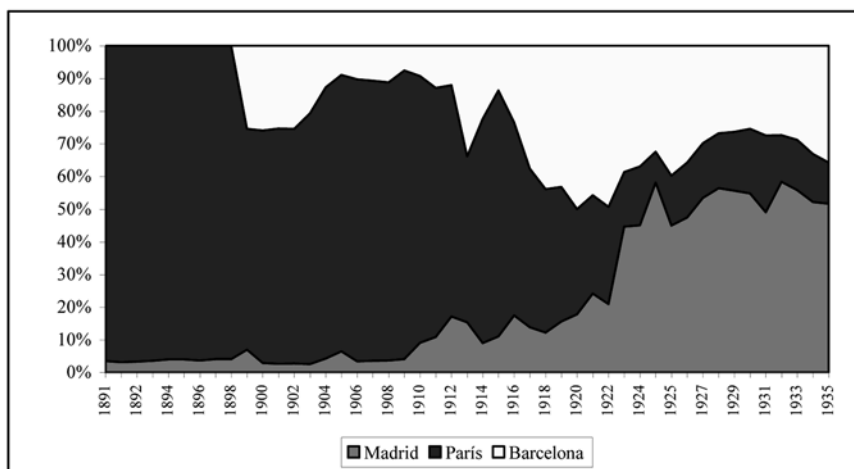


Figure 10.2 Distribution of the MZA shares for shareholders' general meetings, 1891–1935 (percentages)

Source: AFFE, MZA Secretary's Office.

The real interest of the large Spanish banks was obscure but apart from the obvious advantages to be gained from strengthening their portfolios, the directors would hardly have wanted to miss out on the benefits to be gained from having financial control of a company with the volume of assets possessed by MZA, a company moreover that was constantly in need of credit for its short-term financing and one that generated important commissions for the payments of its shares and bonds. Here was a series of highly attractive benefits that had hitherto been the prerogative of the Rothschilds.

Table 10.2 Largest individual shareholders (in order of size) at the MZA general meetings

	1913	1924	1940
1st	Rothschild Frères 12,728	Banco Hispanoamericano 34,684	Banco de Bilbao 22,815
2nd	Marqués de Urquijo 5,000	Banco de Bilbao 32,599	Guillermo Gil de Reboleño 10,895
3rd	Taberner, Tolrá y Manaut 4,000	Banca Sáinz 23,647	Caja de Ahorros de Bilbao 9,716
4th	Sáinz e Hijo 4,000	Banco de Vizcaya 22,141	Banco Español de Crédito 8,797

Source: AFFE, MZA, Secretary's Office S/12/25 and C/197/352.

It was Maristany, with the consent of the Paris Committee, who actually fostered the entry of the Spanish financial entities into MZA. These gradually placed their directors in the well-remunerated seats on the board, while at the same time easing out the candidates drawn from the Spanish political class as well as gaining a foothold in other companies that were traditionally linked to the firm such as the Banca Sáinz and the Banco de Barcelona. (The latter was represented by Manuel Marqués, who was related to Maristany through the marriage of their children.<sup>24</sup>) It seems that the idea was to guarantee the financial contribution of these entities at a time when their participation and support on boards and at shareholders' meetings was expected.

Yet the Rothschilds' control of MZA remained unaffected and they suffered no loss of authority through the loss of the French shareholders. However open the House was to sharing posts with Spanish nationals and even to a policy of compensated nationalization, it drew a firm line when it came to the actual decision making.

The main guarantee and safeguard of their control lay in the peculiar manner they had of organizing the voting in the annual meetings. The articles stipulated a system under which only the leading 150 shareholders could cast their votes. Voting rights were distributed proportionately with a maximum of 10 votes per attendee or individual representative. With this in mind, the Rothschilds were careful to distribute their shares among the immediate family and had been encouraging their immediate partners to take medium-size share packages. In short, they could count on the necessary votes in any contingency.

The shareholders' meeting of 1924 is a good example of how the Rothschilds controlled decision making in a dispersed group. Prior to the meeting it was known that some Catalan shareholders, supported by the Banco de Cataluña, intended to push through a wider distribution of dividends and, possibly, the dissolution of the Paris Committee. The directors trod softly but firmly, and started to prepare the ground, fully aware of the share packages being deposited by their opponents.<sup>25</sup> With all the relevant certificates presented the month before the meeting, the main group of shareholders comprised the family and the Rothschilds' French customers, represented by Jesús Rodríguez Ferro, with powers to represent the Bauers, as opposed to the group represented by Francisco Recasens, who had not had the foresight to split his package (the Banco de Cataluña alone presented its 15,000 shares in a lump number). In contrast, the Rothschilds had split their 17,000 or so shares into 55 parts, of which around a score were in the hands of people whose surname was Rothschild, with each portion containing between 174 and 2,000 shares. When it came to sharing out the voting rights under the terms of the articles, Rodríguez Ferro, with 60,911 shares, controlled 483 votes (35.8 per cent), which was more than double those of the Catalan group with just under 5,000 shares, and 16 times greater than those of each of the shareholders

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<sup>24</sup> Ortúñez (1997).

<sup>25</sup> Ortúñez (1997: 183).

ranked from third to fifth (Hispano, Bilbao and Banca Sáinz), who totalled half the votes. The Rothschilds could also count on the votes of their employees (Bauer, Rodríguez Ferro, Lisle, Viallate and Waru), those of the directors Valenciano, Alvarado, Cervantes, Quintanilla, Espinosa de los Monteros, the Maristany and others close to them like Marqués, who also represented the Arnús y Garí, not to mention the aforesaid Madrid banks. Together they amounted to an overwhelming majority in shares and votes, and the dissident group was rather left out on a limb.<sup>26</sup>

The system of voting did not change until 1932, when voting rights were granted on the basis of one vote for every 50 shares, without limitation of presentations.<sup>27</sup> Yet by then there was little sense in such initiatives to impose change on company policy or on amount of the dividends, since the economic situation and the policies of the republican governments had quashed any hopes of a recovery.

### **Harassment and the Shift Away from Mining Investments**

Similar developments were not seen in the mining companies, although there was no shortage of nationalization plans proposed by Spain's political leaders. Cambó, for example, saw both Rio Tinto and Peñarroya as "economic Gibralters", an expression that Franco himself would pick up on, and already in 1918 he was showing willing to authorize a loan of 100 million pesetas for Rio Tinto and 50 million for Peñarroya on condition that the two companies became Spanish and traded on the Madrid Exchange.<sup>28</sup>

Sir Rhys Williams himself noted the complaint that the values were not traded in Spain in his report on Rio Tinto in 1920. It is highly significant that the report includes the belief in Spanish financial circles that the company had intentionally brought down the share prices with the idea of giving a boost to the American shares. In the face of all these working hypotheses, Williams went further and studied the possibility of nationalizing the shares. He arrived at the conclusion, though, that to nationalize the company would not bring any advantages since it would pay the same taxes as it had to date.<sup>29</sup>

The nationalist phenomenon had a much more limited effect on the mining sector despite the existence of a widespread will in political circles and amongst a good number of Spain's mining engineers to seek a more effective reserve of the country's production for nationals by restricting the liberalizing elements of the 1868 law.

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<sup>26</sup> AFFE, MZA, Board Secretary, C/197/352.

<sup>27</sup> Ortúñez (1997: 183).

<sup>28</sup> Report of 5 July 1918 from the French ambassador in Madrid after an interview with Cambó, MAAEEF, Europe, 1918–1929, Espagne, no. 105.

<sup>29</sup> Report by Sir Rhys Williams, ARP, 132AQ 104, dossier 3.

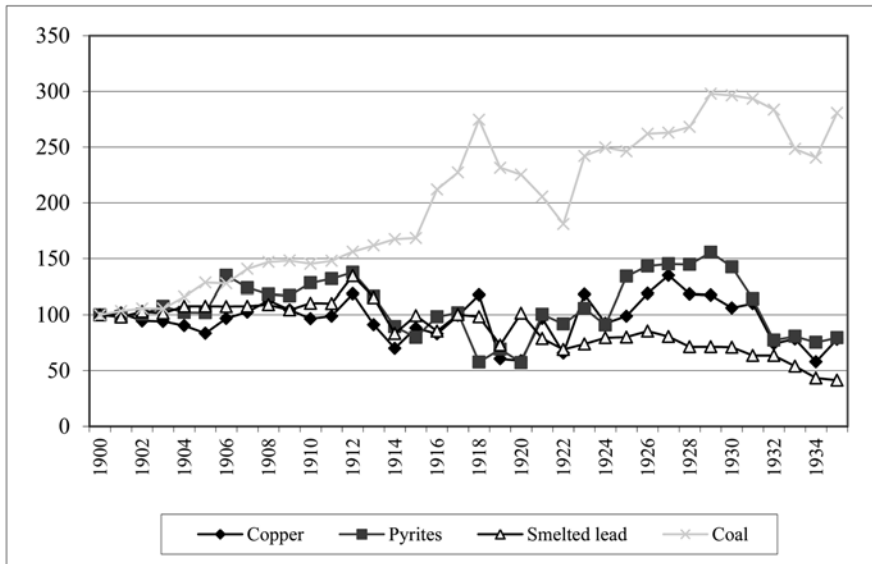


Figure 10.3 Development of production of the principal non-ferrous and coal mining sectors in Spain (1900 = 100)

Source: Carreras (1989) and Coll and Sudriá (1987).

Attempts to pass the Mining Code of 1912 and the Ley de Bases, or “Framework Act”, proposed by Cambó in 1918, which had much the same legislative aims, failed, and the group only managed to push through a law, passed on 14 June 1921, to set aside all future mining concessions for Spanish nationals.<sup>30</sup> This does not mean that there was no pressure exerted by the government on foreign companies. The State increased its support for interventionism in the management of domestic markets, labour policies and export taxation. These were measures that had an impact on almost every part of the sector, although Rio Tinto would be the worst hit.

From the perspective of production and the markets, the 1920s offers two sides of the same coin. After surviving the initial post-war trauma, the production levels of non-ferrous metals slowly recovered, with the exception of lead, which continued to fall as the seams began to give out, although we know that Peñarroya retained a good proportion of the still-profitable ones in the Iberian Peninsula. Coal production rose, too, thanks in part to the State intervention, which protected national production and compelled it to be used intensively in industry and for the railways. This again proved beneficial for Peñarroya, but the dependence of these productions on international markets and the growth of other mining industries would leave the Spanish mining business defenceless against the crisis of the 1930s.

<sup>30</sup> Muñoz, Roldán and Serrano (1978: 168–177).



The Rothschilds' mining companies took the decision to plough ahead, alternating between expanding their installations and increasing their assets. Initially, this was mainly within Spain with only timid ventures beyond its borders. After the 1929 crisis, though, the spectacular fall in the ore tenors, the growing social conflict and the deterioration of the political situation led the directors to direct all their efforts abroad, leaving their investments in Spain at an increasingly secondary level.

*The Mirage of the "Happy Twenties"*

The lamentably poor performance of the Rio Tinto management during the first three years of the 1920s and the loss of initiative in the market slowly convinced the Rothschilds of the need to steer the company back onto its old course and they set about launching a third internal revolution. Clearly the old leaders, who now had nothing to contribute, could not be counted on. The hard line taken by Fielding had not really convinced anyone and Steel and Milner's ideas based on negotiation and control had not proved as effective as hoped for. A third, intermediate, way was urgently required.

Steel helped the changes along when he announced he was leaving the board in 1924 to take up the post of Minister for Labour in the British government.<sup>31</sup> When New Court suggested to MP Amery, former Lord of the Admiralty,<sup>32</sup> that his cousins could cover the vacancy Robert Rothschild replied in a friendly manner that there had been enough politicians on the Rio Tinto board and that it was time to bring in actual businessmen. He even offered the opportunity to kill two birds with one stone by including a Spaniard on the board, and so help ease the tense relations with the Spanish government.<sup>33</sup> The second proposal was summarily rejected by the Rio Tinto board, although the first meant that the candidate finally accepted was Sir Auckland Geddes,<sup>34</sup> on the proposal of Milner.

Geddes continued to be a politician, but one with a rather unique professional experience in a wide variety of fields. He had been a lecturer in medicine at several universities in Scotland, Ireland and Canada. Following a long convalescence after illness, he enlisted in the army in 1914, where his brilliant organizational skills quickly took him into the War Office, until he was appointed Minister for National Service in 1917 and Minister for Trade in 1919. Were that not enough, he enjoyed the invaluable friendship of Milner and Lionel Rothschild, who convinced him that he should resign from his current post as ambassador in Washington and take

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<sup>31</sup> Avery (1985: 310).

<sup>32</sup> Letter from Lionel to Rothschild Frères dated 31 January 1924, ARP 132AQ 104.

<sup>33</sup> Letter from Robert Rothschild to N.M. Rothschild & Sons dated 5 February 1924, ARP, 132AQ 104.

<sup>34</sup> Letter from Lionel to Rothschild Frères (undated), ARP, 132AQ 104.

a seat on the Rio Tinto board, as somebody capable of carrying out the imminent reforms.<sup>35</sup>

Meanwhile, problems from outside had invaded the Rio Tinto board and were creating strong divisions. Truth be told, the agreement on the pyrite cartel in 1923 had satisfied nobody, but its sponsors saw it as a lesser evil. Even though sales had increased, this was owing more to the post-inflation period in Germany than to any effective action by the Association of Pyrite Producers. Prices had not improved either – at least 28 mining firms had opted out of the agreement and they had rapidly taken hold of 35 per cent of the market. With such a large share outside its control, it was very difficult for the Association to withstand the pressure from American sulphur. To make matters worse, during 1924 the price of pyrite exports to the United States had been halved in an effort to keep them going.<sup>36</sup>

The band of discontents was headed by Fielding (who else?), who could not forgive Steel for “buckling” before Tharsis. It was his opinion that the company’s real advantage over its rivals was going to waste. While Orkla and Tharsis were unloading their merchandise in the port at some 15 shillings per tonne of pyrite, Rio Tinto could do the same for seven shillings and sixpence. Similarly, the Italians and North Americans were selling their sulphur at US 18 cents per unit as opposed to the 10 cents charged by Rio Tinto. As far as Fielding was concerned, there was no objective reason whatever to keep Rio Tinto in the Association. The company was, in his view, perfectly positioned to reduce the price of pyrites to 12 shillings per tonne and to put pressure on Tharsis to negotiate under better conditions. That sort of price would force many small mines to close down, including those that had been purchased by industrial concerns like Saint-Gobain, which would now be better off buying on the market. Neither did he believe that this would entail the loss of the dividend, since a reduction in the selling price would be offset by a rise in consumption and by the returns from building a plant in England, where the profit on sulphur and iron, estimated at 200,000 pounds a year, which was lost in the sale of raw pyrites, could be recovered.<sup>37</sup>

In the spring of 1925 Milner approached Lionel with his concern about Fielding’s stance. During a brief absence, Fielding had done all he could to break the agreement and endanger the good relations they wanted to have with the other producers. The chairman of the company was in favour of offering Geddes the post of commercial director, a position that had previously been Steel’s, and to offer him the vice-chairmanship in order to strengthen his position on the board and to counterbalance the influence of the previous chairman.<sup>38</sup>

Geddes was in accord with Fielding regarding the negative nature of the agreement, although he did not criticize the stance taken by Steel to get round

<sup>35</sup> Harvey (1981: 217).

<sup>36</sup> Harvey (1981: 173) and RM 1 June 1925, p. 337.

<sup>37</sup> Report on the interview between Fielding and Weill of 19 June 1925, ARP, 132AQ 106.

<sup>38</sup> Letter from Lionel to Robert Rothschild of 17 March 1925, ARP, 132AQ 104.

what was certainly a dangerous impasse. He opted for prudence when tackling the issue and did not believe that it was the best moment to break the contract with the Association as the market was saturated with contracts through to 1927.<sup>39</sup> In support of this, a study conducted in December 1924 by the commercial head of the company, A.J. Clift, reported that, if Rio Tinto left the Association, it stood to lose up to 1,163,000 pounds over the next four years. It would also cause unnecessary harm to the associates, which could have very negative effects in the long term. Tharsis quickly followed suit and built other factories,<sup>40</sup> although running the risk of jeopardizing the new financial support for the Scottish company, put up by no less a house than that of Morgan, Grenfell & Co.<sup>41</sup>

At the height of the tension, Milner died in May 1925 and a replacement needed to be found in double-quick time. Lionel Rothschild informed his cousins in Paris that there was a feeling among the board that Fielding should return as chairman and that Geddes should wait a couple of years before taking over.<sup>42</sup> But the denizens of rue Laffite had already drawn their own conclusions and the answer brooked little argument: "I categorically believe that Fielding should not be chairman of Rio Tinto again [...] it is more a question of two opposing policies than one of persons."<sup>43</sup> Geddes was appointed immediately, becoming the fifth chairman of Rio Tinto after barely a year on the board.

From the moment he took over, the new chairman scrupulously followed the instructions of the Rothschilds to professionalize the management of the company. Since it had first been set up the Rio Tinto board had had only five members, yet their work was anything but effective. Fielding, like his predecessor, Hugh Matheson, had held so much power that the management had lost all flexibility when it came to taking decisions. The hostile atmosphere of the previous three years had pushed the board members further apart and had shown the system up. This situation had led to a worrying lack of initiatives during such a time of crisis. Geddes, on the other hand, was a man who had no qualms about delegating responsibilities to his close circle. So when the time came to covering vacancies on the board, he made sure that the new administrators were perfectly capable men and exclusively devoted to the company. The first two new members – Charles M. Buchanan and R.M. Preston, who took over from the deceased Milner and J.M. Macdonald – were clear examples of this; Geddes gave them leading roles in directing operations and pushed aside the old members, Fielding and Lord Debing.

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<sup>39</sup> Report on the meeting held by Geddes and Weill of 26 July 1925, ARP, 132AQ 106.

<sup>40</sup> Harvey (1981: 208). In contradiction of Fielding's suspicion, Tharsis organized a trade union to set up a sulphuric acid plant, which ceased to exist when the Association was created. Checkland (1967: 199).

<sup>41</sup> Report on the meeting held by Weill and Lionel Rothschild of 19 June 1925 in London, ARP, 132AQ 106.

<sup>42</sup> Letter from Lionel to Rothschild Frères of 18 May 1925, ARP, 132AQ 104, dossier 2.

<sup>43</sup> Telegram from Rothschild Frères to N.M. Rothschild & Sons of 19 May 1925, ARP, 132AQ 108, dossier 8.

Buchanan was appointed head of finance and Preston commercial director. The engineer G.W. Gray was also brought in from Rio Tinto to advise on technical matters and greater powers were given to the long-standing secretary of the company, J.G. MacLeod, who was promoted to second financial director. Both would become full board members in 1929.<sup>44</sup>

Geddes ordered Preston and Buchanan to carry out an in-depth study into the company's businesses in Spain and to hold meetings with their customers in Germany and France. A year later he sent Gray and MacLeod off on a similar mission to the United States. The reports from his collaborators led him to the conclusion that production, the subsidiary companies and trade policy were not functioning as well as they had in the past.<sup>45</sup>

The expectations of Steel and Fielding for the mine were confirmed. According to the new calculations, if reforms to treat minerals of lower purity were not put in place, the productivity of the mine would fall in just a few years to the level of Tharsis if the reforms for treating less pure minerals were not brought in. What Rio Tinto really needed, and what the company's technicians were envious of, was a production system similar to that of Orkla. The Norwegian engineers had managed to compensate for the low sulphur content in their pyrites (which were 10 per cent poorer than the Spanish ones) by intensive use of the metals they contained. While Rio Tinto was losing one of every five tonnes of copper in the pyrites in the mine and its customers were making use of most of the metal contents in the raw pyrites the company sold them, Orkla contracted the sulphur exclusively and recovered the slag for other uses using a process that used the sulphur, copper and the zinc (in the form of zinc oxide) contents. It was an operation that Rio Tinto was extremely interested in, since the ores contained 2 per cent of this extremely expensive metal, compared to 1.8 per cent of those of Orkla. If the company could tap that wealth, it could obtain a profit equal to half of that it made on the copper. Furthermore, the Orkla method used 9 per cent of sodium chloride compared to the 15 per cent in use in Rio Tinto.<sup>46</sup>

Geddes contacted Lenander, the director of Orkla in early 1926, who confirmed that the technological backwardness at the Rio Tinto installations was generating losses in the region of 74 per cent of the mineral's theoretical value. He offered him the patent on the process, but at a price of 50,000 pounds. The Orkla process was forthwith incorporated at Rio Tinto and Wilmington. By 1927 the mine was producing sulphur, while the American plant specialized in the recovery of metals. Three years later, Wilmington was turning out 4,600 tonnes of copper, 3,600 of zinc, 1,400 of lead and 236,000 of iron amalgam a year. Rio Tinto, meanwhile, was producing some 50,000 tonnes of sulphur a year.<sup>47</sup>

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<sup>44</sup> Avery (1985: 310) and Harvey (1981: 207–208).

<sup>45</sup> Harvey (1981: 207–208).

<sup>46</sup> Report on Orkla by Steel of 16 May 1924, ARP, 132AQ 106, 1st folder and Harvey (1981: 207–251).

<sup>47</sup> Harvey (1981: 210–212).

The new directors were keen to complete the mining reforms and they reviewed all the possibilities available in depth. The geologist Vibet Douglas was given the task in 1926 of carrying out a full study of the deposit, which was finally completed in 1933, although in the meantime there were the advantages afforded by occasional discoveries like that of the pyrites of Planes and El Valle, which were immediately mined.<sup>48</sup>

Trade-wise, Geddes soon saw for himself the difficulties of reaching any understanding with the chairman of Tharsis. From its outset, Rutherford had manipulated the Association of Pyrite Producers for his own interests, which included pushing up sulphur prices. Other producers outside the Association like the Cyprus Mines Corp. took advantage of the lack of flexibility among their competitors to increase their market share. Moreover, the Association had proved incapable of organizing the distribution of its purchasing areas and had consequently saved next to nothing in freight and customs duties. The situation was harmful for Rio Tinto; it obtained its copper more economically than anyone else in the world solely because it distributed a large part of its huge production among the sulphuric acid producers, who returned the slag at a cheap price for the metals to be extracted. If, as was starting to occur, the chemical industries moved to systems that obtained the acid from native sulphur, the company could lose a lot more through loss of sales, even selling expensively, than through market competition.<sup>49</sup>

Given this scenario, Rio Tinto announced in 1926 that it would not be renewing the agreement with the Association, which was as good as sounding its death knell. Simultaneously, Geddes took steps to ensure the company gained control of the market and thereby avoid any further surprises from Tharsis. In October 1926 Rio Tinto re-established relations with Metallgesellschaft (see Chapter 11) and formed a new organization – the European Pyrites Corporation (EPC)<sup>50</sup> – to replace the Association, and under conditions that were more favourable to Rio Tinto.

At the time Metallgesellschaft was sales agent for two very large companies: the German chemical consortium I.G. Fabenindustrie and the powerful Rawack & Grünfeld, the world leader in industrial dehumidification processes. As before the war, Metallgesellschaft remained the number-one interlocutor between the huge European chemical industry and the non-ferrous metals sector. The EPC was therefore able in 1927 to persuade Mason & Barry, Orkla and the Spanish company San Platón to cede their rights on pyrite sales in exchange for a drop in production. This was followed by further agreements defining the purchasing areas with the Société des Pyrites and the German mines of Menggen and Oberungarische.<sup>51</sup>

Cyprus Mines made all haste to negotiate with the EPC in order not to be left out of the market, and in January 1927 it achieved a sales share of 500,000

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<sup>48</sup> Harvey (1981: 252).

<sup>49</sup> Avery (1985: 311–312) and Harvey (1981: 208).

<sup>50</sup> Avery (1985: 312).

<sup>51</sup> Harvey (1981: 209) and Avery (1985: 312–313).

tonnes. But Geddes was out for more, and, after negotiations with the owners, purchased for Rio Tinto 51 per cent of the shares on the North American company for 900,000 pounds, something which Tharsis had unsuccessfully attempted in 1919–21. Henceforth, Cyprus Mines would act as a market buffer as, for example, in 1928, when it reduced its production to 225,000 tonnes per annum during the whole of the 1930s.<sup>52</sup>

Hemmed in on all sides, Tharsis was not able to compete for long against Rio Tinto and its united affiliates. Rutherford gave in in 1929 and signed a new contract, in which there was to be no price control and no market shares. Thereafter, the European market would move according to an ingenious system consisting of three lists of customers. The first two lists represented the customers of Rio Tinto and its associates, and those of Tharsis, respectively, and neither company could, thenceforth, touch the customers of the other; on the third list were the free companies – that is, those not bound by contract to either of the others – and these were considered as being up for grabs. The agreement ran until 1934, when, given the good results it had achieved, it was renewed. In April 1936 Geddes and Rutherford went to New York to agree a definitive market share for sulphur in Europe,<sup>53</sup> so dispelling for a time the dangers of pyrite being pushed aside and of trade wars.

With Rio Tinto now master and commander in Europe, Geddes agreed with the Rothschilds that the time had come to embark on international expansion. The board considered that the North American firm, Davison Chemical, offered a good, safe investment option. The company owned 60 industrial plants distributed throughout the United States, which made it the fourth biggest North American producer of fertilizers (600,000 tonnes per annum in 1928) and one of the best purchasers of Rio Tinto pyrites. Conversations with the owner of the company, C.W. Miller, got underway in 1926 with the aim of forging as many links as possible between the two companies. These bore fruit in October 1927, with an agreement that Rio Tinto would sell Davison between 180,000 and 250,000 tonnes of pyrite each year over the next 10 years, and that Davison would hand over 60,000 of its shares (20 per cent) to Rio Tinto in exchange for 420,000 pounds. It marked the beginning of a close collaboration between the two companies that led to further business deals and intense financial support for each other.<sup>54</sup>

Davison had a small subsidiary called Silica Gel Corp., which had been founded to develop the patent on a gasmask filter. In April 1928 Geddes wrote to the Rothschilds informing them that it was a good moment to unite with that company, which needed funds for a technological programme with applications for the oil refineries and for isothermal wagons. To smooth the way, Rio Tinto

<sup>52</sup> Checkland (1967: 200–201) and Harvey (1981: 210).

<sup>53</sup> Checkland (1967: 202–203).

<sup>54</sup> ARP, 132AQ 104, Folder 10 and Harvey (1981: 212–213). In 1928 Buchanan and the Rothschilds set up a syndicate to buy shares Standart Fertilizer Co. shares through Davison.

purchased 80,000 shares from Davison in its subsidiary<sup>55</sup> and began to negotiate directly with Silica to increase its share. In February 1929 Rio Tinto signed an association agreement with Silica Gel, which became known as Silica Gel Holdings, with the head office in Geneva and a subsidiary in the United Kingdom. Other additions quickly followed in France, Germany, Japan and India. More than a million pounds had gone into the company in just one year. Needless to say, its first chairman was none other than Sir Auckland Geddes.<sup>56</sup>

The Rio Tinto directors were more than satisfied. 1929 had been a year of records: the mine had reached its highest ever production, with 2,547,330 tonnes of minerals extracted; it had sold over 1,700,000 tonnes of pyrites at one and half shillings more than the previous year;<sup>57</sup> contracts had increased like never before; the outlook was good and the company had a consolidated new international image. Few could have foreseen just how shaky it all was.

At Peñarroya, meanwhile, the directors' efforts to open up new investments and reinforce its industrial capacity at the beginning of the 1920s were rewarded with a recovery of the lead markets in mid-1921. Chastel reported that sales in Spain had picked up and looked sustainable. Indeed, the company's lead stock was close to minimum circulation levels. The board therefore authorized a return to mineral purchases and an increase in production at its metal mines. The decision brought about a return to full production at Villanueva del Duque and Santa Bárbara. However, aware that the main deposits would soon be exhausted, the company gave priority to speeding up prospections for new metal mines.<sup>58</sup> The recovery of the levels of galenas extracted in the company's Spanish mines was certainly significant, since production jumped from a miserable 37,000 tonnes in 1921 to 50,720 and 53,720 for the following two years.<sup>59</sup>

Improvements took longer in the coal sector, which continued to suffer for some years from the fall in prices and British competition. The system of bonuses brought in by the government as of 1921 and the rise in custom duties would change the situation notably<sup>60</sup> and encouraged Peñarroya to return to its project of building an electricity plant at Puertollano, with the aim of completing the supply to Madrid and the rest of the region. At the time its production was concentrated at the Peñarroya plant, where two turbo-alternators of 10,520 kilowatts had been installed in 1919, and was complemented through a contract for exchange of energy with the Mengemor company, which had allowed Peñarroya to provide electricity

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<sup>55</sup> Report by Geddes of 18 April 1928, ARP, 132AQ 104, Folder 12 and ARP, 132AQ 104, Folder 10.

<sup>56</sup> Avery (1985: 430).

<sup>57</sup> Report from Preston to Weil, ARP, 132AQ 106, 3rd Folder.

<sup>58</sup> With this objective in mind, the Sociedad Bético-Manchega for mineral exploration was set up. ArMetaleurop, PYA-Juridique, 258. PVSCA Book 7, sessions of 26 May 1921, 8 December 1921 and 28 December 1922.

<sup>59</sup> SMMP Reports 1920–1924.

<sup>60</sup> Coll and Sudriá (1987: 171, 409–412).

to practically all its installations, its railway, and the SECEM, in Cordoba, and also to sell off the excess in that old Arab capital and in the surrounding towns.<sup>61</sup> By means of the construction of the thermal power station of Puertollano in 1924, the company was once again the provider of electricity in the area. This was quite profitable and also provided a use for its lower-quality coals.

In line with the policy of finding uses for the growing electricity production, the board sent a mission off to North America in 1924 to sound out the potential for introducing the electrolysis and the electric furnaces that were being tested out at the time in Peñarroya. There, the engineers managed to get Anaconda to cede them its method for zinc electrolysis, which would be used in the two plants planned for the south of Italy (Crotona) and Bayonne in France. They also picked up information about new techniques that could be applied to the bituminous slate deposits of Puertollano. This led to an agreement with the Société Lyonnaise des Schistes Bitumineux, which undertook to restart the distillation of slates to produce consistent greases, light oils and petrols in exchange for 10 per cent of the net profits obtained, assuming a processing of 150 tonnes a day.<sup>62</sup>

Peñarroya went ahead with its programme to expand abroad, with the western Mediterranean as its main target. In 1920 it had had to bring its L'Estaque foundry to a halt, because the fall in production of the North African mines had meant that the Megrine foundry was now self-sufficient. The company therefore had to consider whether it was necessary to increase its supplies of lead and zinc. In 1922 Peñarroya took over the Marseille-based company l'Escalette. Two years later it bought an important share of the Società Miniere di Correboi, which was mining an important sphalerite deposit in the north of Sardinia, and took part in the constitution of the Auet-Bazera company, in Algeria.<sup>63</sup> The company also reinforced its commercial service, in the expectation of a large increase in supply. Peñarroya exercised its options in the increase in capital of *Minerais et Métaux* in 1923<sup>64</sup> and in the conversion of G. y A. Figueroa into a public limited company, taking half the capital.<sup>65</sup>

At this point, the chairman, Heurteau, informed the board that the plan to expand the installations through the costly zinc electrolysis factories, the hydroelectric

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<sup>61</sup> ArMetaleurop, PYA-Juridique, 258. PVSCA Book 7, sessions of 1 March 1923 and 27 December 1913, Bernal Rodríguez (1993: 99) and Sarmiento (1992: 62).

<sup>62</sup> Presumably the Aceites Minerales Españoles, set up by Peñarroya in 1919 to this end, had been unsuccessful. ArMetaleurop, PYA-Juridique, 258 and 259. PVSCA Books 7 and 8, sessions of 18 December 1919 and 30 September 1920 and 27 November 1924.

<sup>63</sup> SMMP Memories 1921 and 1925 and ArMetaleurop, PYA-Juridique, 258. PVSCA Book 7, sessions of 27 July 1922, 30 September 1922 and 3 July 1924.

<sup>64</sup> Its capital increased between 25 and 50 million francs. ArMetaleurop, PYA-Juridique, 258. PVSCA, Book 7, sessions of 1 March 1923 and 31 May 1923.

<sup>65</sup> ArMetaleurop, PYA-Juridique, 258. PVSCA Book 7, session of 29 June 1922 and 29 November 1923.



plants and mining exploration was not viable with the current resources and that an increase in capital was required.

Table 10.3 Shareholders present at the increase in capital of Peñarroya of 1925, highlighting those with holdings of over 1,000 shares

Shareholder	Shares	Shareholder	Shares
Robert Rothschild	16,451	Mirabaud Bank	1,415
Conde de Romanotes	8,775	De Neufize & Cie.	1,354
Edouard Rothschild	5,510	Société Sirius	1,350
Edmond Rothschild	5,218	Henri Rothschild	1,324
Banco Español de Crédito	4,671	Banco Lazard	1,237
Sociedad Oyarzum	4,435	Martín & Cía.	1,185
Donati	2,731	Banco Odier Sauter et Cie.	1,148
Commentry Fourchambault	2,000	Deseilligny	1,114
Banco Vernes	1,913	Lacaze	1,000
Jordaan & Cie.	1,800	Others	165,555
Rothschilds Frères	1,425	Total	233,036
Cahend' Anvers	1,425	Outstanding	59,464

Source: ArMetaleurop, PYA, Titres divers, 117.

The capital was doubled to 146,250,000 francs through the issue of 292,500 shares at 275 francs, with all shareholders having the right to participate.<sup>66</sup> As expected, the subscription was attended by the Rothschilds, who took 10.23 per cent of the total capital and 12.8 per cent of the shares offered, what with those of the House itself and those of its members, which was more than enough to control the assembly, given that the remaining shares were spread out widely. There were some Spanish shareholders like Romanones, Banesto or the Sociedad Oyarzum, but there was hardly a trace of the old founder members. It is surprising to note, too, just how much the representation of the banks associated with the original syndicate had decreased. Mirabaud and Cahend' Anvers held hardly any of their original shares, so unless they were representing any clients with large packets of shares their real power had waned considerably.<sup>67</sup> The predominance of the Rothschilds in the company was stronger than ever.

<sup>66</sup> The price benefited shareholders, as that year Peñarroya sold at an average of 1,358 francs. ArMetaleurop, PYA-Juridique, 259. PVSCA, Book 8, sessions of 12 March 1925 and 19 May 1925.

<sup>67</sup> Some contemporary writings, such as those by anarchist Rudolf Rocker ("The Tragedy of Spain" (1937)), describe Heurteau as one of the most important agents of the Mirabaud group.

Again in 1925, at an extraordinary general meeting held in October, the shareholders voted for the board's proposal for a second increase of 15,000 shares, under what would be known as the "plural vote". This measure, which raised the company capital to 150 million francs, was a response to the concern among management regarding the massive entry of foreign shareholders in Peñarroya over the previous few months, attracted by the high value of the shares. These new, clearly defensive and openly nationalist, shares were *perforce* nominative, and therefore could not be sold without the authorization of the board. They granted double voting rights compared to the ordinary shares at the meetings, although they were entitled to receive only a sixth part of dividends.<sup>68</sup>

In the middle of all these dealings the board decided to take on Etienne du Castel as the new administrator of the SMMP. Castel, a chief road engineer and former general director of the French government railways, had become a key figure in the industrial hierarchy of the Rothschilds. After his appointment he immediately became a part of the management committee, of which René Lisle was already a member, although he would have greater powers given his meteoric rise in the company, which in two years would see him become vice-chairman and, in 1937, taking over the top job from Heurteau.

The directors now had sufficient funds to cover the improvements to its installations, to construct the factory at Crotona<sup>69</sup> and to begin the rebuilding of Noyelles Godault. They also boosted mining prospecting as well as expanding participation in other businesses, mainly in Morocco, which the general director, Chastel, had visited in 1925. At the time, Peñarroya had shares in the *Compagnie Minière d'Afrique du Nord*, but it decided to throw in its lot with the *Société Française des Mines du Maroc* and its subsidiary, the *Société Minière des Rehamnas*, which increased their capitals by 4 million and 1 million francs, respectively. It also participated in the constitution of the *Société Bramrane*, with 8 million francs' capital. The decision was taken to open up other lines of investment in Argentina and Yugoslavia, and the company bought into the *Soc. de Elaboración General del Plomo* and the *Société Minière de la Chomadiya*.<sup>70</sup>

In short, Peñarroya weathered the crisis well, thanks to its tenacious resistance to the poundings inflicted by the market and the fall in production and to its adaptation to technological change. By 1926 it had recovered the average levels of lead production achieved during the Great War, with an average of around 120,000 tonnes per annum for the rest of the decade. A coal production of around 700,000

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<sup>68</sup> *ArMetaleurop*, PYA-Juridique, 259. PVSCA Book 8, sessions of 29 July 1926 and 28 October 1926. These shares were converted into ordinary shares in the shareholder assembly of 4 June 1935.

<sup>69</sup> The Bayona Project was abandoned because of bureaucratic problems.

<sup>70</sup> *ArMetaleurop*, PYA-Juridique, 259. PVSCA Book 8, sessions of 30 July 1925, 29 October 1925, 23 September 1926, 28 October 1926, 27 October 1927, 26 July 1928, 25 October 1928, 29 November 1928, 21 February 1929, 21 March 1929 and 19 December 1929 and SMMP Memory 1928.

tonnes recalled that of its heyday, too. Most important of all, though, were the new areas of production that offered the company wider, richer horizons. Peñarroya was in 1929 an important producer of electricity, with an average annual production of over 100 million kilowatts per hour; it was distilling 50,000 tonnes of bituminous slates, and it continued to produce an important amount of chemical fertilizers. It was also smelting some 20,000 tonnes of zinc and the forecast was for this to grow in the very short term. All these data reflect the company's performance more clearly than profits (see Figure 10.6 below), which had been upward biased in these years by the continual depreciation of the French franc.<sup>71</sup>

*The Sun Sets for the Last Time on the Mining Companies and the Exit Abroad*

The good results achieved in 1929 were for Peñarroya and Rio Tinto, and for so many other companies of the time, illusory. The harshness of the economic crisis bit deep in the lead, chemical and copper industries. In a few brief months years of hard work were undone, and the Rothschilds' companies slumped into deep depression.

World production of sulphuric acid plummeted from 230,096 tonnes to 140,900 between 1928 and 1929. The agricultural crisis, which affected fertilizers, meant that it would not recover for more than five years. Overall the fertilizer industry held up in 1930, but there was a drop of 25 per cent in 1931, followed by one of 37 per cent the following year.<sup>72</sup> The decline in sales for the pyrite producers was even worse because the manufacturers were running at the limit of their stocks, which for Rio Tinto translated into a decrease in raw pyrite sales of 56 per cent over two years.

It was much the same, if not worse, for copper. The end of the 1920s had witnessed a spectacular increase in the number of deposits being exploited in South America and Africa, which had dwarfed the big North American mines. The Association of Copper Producers and Exporters, whose policy of high prices had encouraged these high-cost mines to be opened, now tried to limit production in an attempt to put a halt to the plummeting prices. New copper substitutes like aluminium only added to the problems and jeopardized the sales of the long-standing mines. For the first time in its history, in 1931 Rio Tinto sold copper at a loss.<sup>73</sup>

The prices on the lead market – on a downward trend since 1925 – were hardly any better. The crisis came just when there was a slight recovery and it would not be until after the Second World War that they would return to the 35 pounds per tonne mark.

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<sup>71</sup> From 1914 the franc depreciated on all the foreign exchange markets. The peseta, for instance, had lost up to 76 per cent of its value in 1926, after having kept parity for almost a century.

<sup>72</sup> Hernández Andreu (1986: 76 and 210).

<sup>73</sup> Schmitz (1986: 408) and Avery (1985: 319).

At the same time there were domestic factors in Spain that would substantially enhance the effects of the international crisis. One thing is clear: the worsening political and social conditions of the country dampened the chances of the Rothschild companies of taking advantage of the symptoms of recovery in the world economy. The directors were left with a feeling of being powerless in the face of unavoidable events. Rio Tinto would draw the shortest straw of all, and its troubles in Spain would be alleviated only by the sale of its mines to a Spanish consortium in 1954. In all that time the mine barely covered costs; there was a continuous fall in production that was aggravated further by a series of conflicts with the Spanish government that only ended with the Spanish Civil War.

Since the great strike of 1920 Rio Tinto's public and political image had suffered considerably. Of the numerous contemporary testimonies against the company, the most serious, best informed and most authoritative of those we have found is that of the mining engineer César de Madariaga, whose short article in the *Revista Minera* brilliantly summarized the purely economic roots of the Rio Tinto problem.<sup>74</sup>

Madariaga considered that in the issue of taxes on the pyrites there had been an absurd distortion of mineralogical and commercial names of the product, and that the company had acted mistakenly in its own interests. If the government's intention of taxing only copper exports had been brought in following stricter criteria, it would have realized that the subtle distinction between the copper and sulphur ores lay in the market value and not in any static base. According to Madariaga, the world market showed a difference between sulphur pyrite and copper ore when the value of the copper content was higher than the other materials in the mineral, which was what happened with the Rio Tinto pyrites as of 1.3 per cent copper tenor in 1920, and as of just 1 per cent in the middle of the war. If we take as a reference 1916, the year closest to normalized production, we find that Rio Tinto paid taxes on imports of only 237,144 tonnes of minerals, with 3.48 per cent copper and 36.98 per cent sulphur, while it exported a further 1,240,582 tonne of pure pyrites, which commercially were classed as copper.<sup>75</sup>

What really upset Madariaga, though, was not the harm that this legislative error produced in the public coffers but the negative effect that this policy caused for the other mines in the province and the arrogance with which Rio Tinto acted to uphold it. As has been explained, in the middle of the post-war crisis the large companies seized the opportunity to produce on a bigger scale and to pull down, regardless of consequences, the international prices of pyrite, thereby leaving the other mines of the Iberian Pyrite Belt in a vulnerable position. And if that were not enough, they put pressure on the government and on all the economic institutions of the area by extending their abusive competition into other avenues as well. Apart from the strange stamp duty payments being applied to Rio Tinto, Madariaga had

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<sup>74</sup> C. Madariaga, "Rio Tinto y la minería nacional", in *RM*, 8 \October 1920, pp. 539–541.

<sup>75</sup> *Ibid.*

evidence of another three flagrantly illegal yet apparently State-condoned actions. First, it was well known that Rio Tinto had been in contact with the port authority to offer its services, on condition that it (the port authority) promised thereafter not to favour the other exporters. Second, it had put up every possible obstacle to prevent the construction of the new railway linking Seville to the mining area, by asking exorbitant prices for its lands through which the lines would have to pass or by dumping massive amounts of waste on there. Finally, during the war the State graciously granted the company an exemption on the 3 per cent tax on mining for no good reason at all, as well as a similarly totally unjustifiable reduction on this tax, based on transport costs.<sup>76</sup>

Madariaga's conclusions were of much the same kind as those of his fellow 1916 committee members, although they went somewhat further. This was not because he sought a more rigorous attitude from the government in the face of the abuses, but also because he anticipated the need to recover the deposit in the national interest, either through a rescue made by the new Spanish capitalists or through the final nationalization of Rio Tinto.<sup>77</sup>

Opinions like those of Madariaga made a resounding echo loudly in the political circles of the capital, where the customs reform was held to be imminent event. In respect of the latter, Steel and Milner had trusted that the government would change its plans,<sup>78</sup> but it was not to be. All that was achieved was a certain reduction in the amounts that Cambó's 1922 project for a protectionist customs duty envisaged (see Table 10.4). It could be summarized in two lines: protection against foreign production and retention of national wealth – which could surely stand as a maxim for the development of the Spanish economy in the years to come. The new duty raised all the export taxes on Rio Tinto products. It was the definitive end of an era and it marked the end of the company's political clout in Madrid and of a particular way of doing business in Spain.

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<sup>76</sup> Ibid.

<sup>77</sup> Ibid.

<sup>78</sup> Letter from Anthony Rothschild to Rothschild Frères of 5 October 1921, ARP 132AQ 104, dossier 3.

Table 10.4 The 1922 reform of export tariffs for pyrite and its by-products

Types of copper mineral	Tax approved (pesetas/tonne)	Planned tax (pesetas/tonne)	1912 tax (pesetas/tonne)
From 1 to 1.5 per cent	0.15		
From 1.5 to 2 per cent	0.50	8.00	Tax free
From 2 to 2.5 per cent	1.00		
From 2.5 to 5 per cent	2.00		
From 5 to 10 per cent	5.00	10.00	1.60
Over 10 per cent	10.00		
Copper matte	20.00	100.00	20.00
Copper shell	35.00	200.00	Tax free
Copper lingots and cathodic	50.00	200.00	Tax free

Source: *RM*, 16 February 1922, p. 109.

The changes in tax legislation continued. In 1922 the utility tax was reviewed and the principle of progressive taxation was brought in for dividends and benefits.<sup>79</sup> Stamp duty was also raised from 1 to 2 per cent.<sup>80</sup> The outcome for Rio Tinto was that its tax payments soared over the following years, rising from 1,062,356 pesetas in 1919 to 3,394,788 in 1923 and 11,840,420 in 1928,<sup>81</sup> an appropriate level for a company of its size. The company offered only moderate protests, however – the fear of nationalization more than justified diplomatic dealings with the recently inaugurated Primo de Rivera government.

The political contacts of the company's representative in Madrid, Valero Hervás, which had until then proved so effective, were now on the wane after the new regime had stripped the old politicians of their influence and the new public positions had been given out to young administrators who had played hardly any role in the excesses of the cacique system. All that Hervás could do was to set up a committee of experts that in the main comprised functionaries from the Exchequer, who outside office hours advised the company on tax matters and drew up the most favourable tax return for it to present. For Valero it was clear that the acceptance of this return by the special ministerial jury was the key to keeping a check on taxes, and he made sure that the committee included a member of the jury.<sup>82</sup>

However, the directors of the company had doubts about whether this was the correct line to pursue. Valero's reputation in Madrid was at low ebb and a decision needed to be taken as to whether it was best to continue with the strategy and the

<sup>79</sup> García Delgado (1981: 450).

<sup>80</sup> However, the Spanish–British agreement of 27 June 1925 reduced the allocation in British companies to 1.65 per cent; AHN, Fondo Contemporáneo, section Hacienda, Serie General, File no. 11,393.

<sup>81</sup> Harvey (1981: 186).

<sup>82</sup> Letter from New Court to the Rothschilds in Paris of 10 February 1928. ARP, 132AQ 104, Folder 13.

risk of government inspection. In October 1927 Rio Tinto decided to break its Madrid link, bringing in U.B. Charles, a former employee of the British embassy there with very good relations with the financiers in the capital and a personal friend of Primo de Rivera.<sup>83</sup> Charles's mission was to consolidate the company's political relations with the government along other lines than those hitherto explored. The London Rothschilds therefore got in touch with their cousins in Paris to enquire about the strategy being adopted by Peñarroya and MZA on tax issues.<sup>84</sup>

Whatever the answer may have been, any possible solution would have to wait for better times. In April 1928 a former employee of the company who had worked in the mineral export department of the Casa Colón in Huelva went to Madrid to report the company for declaring false amounts in the tenors of the copper pyrites that it had exported between 1922 and 1925, with the complicity of the employees of the Huelva Inland Revenue.<sup>85</sup> The news fell like a bomb and one month later Charles informed the board that it would be difficult to prevent an investigation committee being set up. Geddes took steps to avoid a heavy fall in share prices through a press release stating that the board was not responsible for the actions of the previous management. He committed a serious error, though, by recognizing that the fraud had actually occurred and by justifying the bribe to customs officials on the grounds that a decree of 1923 had, in his words, legalized any extracurricular funds they received.<sup>86</sup>

The government replied through a prompt second press release that it had taken due note of the argument regarding the change of management, but flatly rejected the interpretation of the decree regarding the conventional customs duties, which solely authorized officials to perform extraordinary tasks paid by exporting companies in adherence to a strict ruling specified in the decree but which in no case exempted articles from being correctly declared.<sup>87</sup> Neither Charles nor Geddes was able to persuade Calvo Sotelo to solve the matter unofficially, after Primo de Rivera had passed the issue on to his minister. The matter was by now public, and would continue to be so, however much it might displease the company. In August 1928 a special administrative board was set up to investigate the documents and decide exactly by how much the State had been defrauded.<sup>88</sup> Rio Tinto hastily dispatched as many of the documents as possible to London and to destroy any

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<sup>83</sup> Avery (1985: 302).

<sup>84</sup> Letter from New Court to the Rothschilds in Paris of 10 February 1928, ARP, 132AQ 104, Folder 13.

<sup>85</sup> Letter from Lionel Rothschild to the Rothschilds in Paris of 16 May 1928, ARP, 132AQ 108, Folder 2.

<sup>86</sup> *RM*, 8 June 1928, pp. 280–281.

<sup>87</sup> *Ibid.* On that day the journal published both communications.

<sup>88</sup> Avery (1985: 315). In reply to an invitation from the ministry, Preston joined other members elected by the Dirección General de Rentas Públicas. A.G.A., Fondo Hacienda, no. 7,240.

and all copies.<sup>89</sup> The special board must, one supposes, have worked exclusively with the papers their confidant had passed to it, although it would be confirmed later that these were enough.

In rue Laffite the situation was being monitored with the utmost concern and with disbelief at the course events were taking. As the day on which the committee was to dictate the amount to be paid drew nigh, Browning, one of the main instigators in the affair, took advantage of Rio Tinto's disconcertment to put the company in a very tight spot by demanding compensation for unfair dismissal.<sup>90</sup> The ex-director of the mine was suing for 20 years' back pay, a figure amounting to 250,000 pounds. The management wanted no further complications and, despite all the cash problems, it paid off the former employee through a bank loan. Meanwhile, the Rothschilds were all too well aware that if the demands of the tax office were upheld, Rio Tinto would be forced into a reform of its business policy and to devote itself to exporting only poor minerals and to reinitiating another onerous industrial development in the mine that would have a negative effect on dividends and share prices.<sup>91</sup>

The committee announced the amount to be paid in October 1928. According to its report, Rio Tinto had failed to pay 293,000 pounds, which along with interest, came out at a total of 366,000 pounds. Calvo Sotelo added a further 456,000 pounds to this figure under the justification that it was a last-minute review of the utility tax for the years in question. The government suggested that the company donate another 300,000 to charity if it wished to avoid being sanctioned for its actions, and the board could only grudgingly agree.<sup>92</sup> The company had to find 1,122,000 pounds (32,908,260 pesetas), an amount that even the Rio Tinto treasury could not come up with. The reserve funds were wiped out and the Rothschilds had no choice but to put up 500,000 pounds.<sup>93</sup> The company presented a legal appeal in 1929 and two years would pass before it was finally rejected.<sup>94</sup> Geddes could hardly have imagined at the time that the worst was yet to come.

It all started with the tax episode that had put the Rio Tinto board on the alert. Just a few months earlier Geddes had put forward a plan to the Rothschilds to gain

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<sup>89</sup> Letter from Robert Rothschild to Edouard Rothschild of 15 September 1928, ARP 132AQ 104, dossier 13.

<sup>90</sup> *Ibid.* To illustrate the point more clearly, Robert told his cousin: "... l'animal de directeur qui était là autrefois, s'est amusé, par des arrangements avec les tiers à retarder des paiements normaux dues comme taxe de capital. [highlighted]: cette année-ci – 'and it was the most unpleasant' – selon son expression, ils ont eu à payer les trois jours 70.000 livres stg. d'arriéré de ce chef."

<sup>91</sup> Avery (1985: 275).

<sup>92</sup> Avery (1985: 302 and 316) and Harvey (1981: 256).

<sup>93</sup> Rio Tinto also had to open a second account for its liabilities called the "emergency account" to the value of 200,000 pounds. ARP, 132AQ 106, 3rd folder and ARP, 132AQ 104, dossier 14.

<sup>94</sup> Avery (1985: 317).



control of their rival, Tharsis. It was very similar to that presented by Steel years before. Geddes was aware that in 15 to 20 years his mine would cease to be what it was and an increase in assets, at the cost of Tharsis, just as had occurred earlier with Cyprus, could keep the company in its strong position a few more years.<sup>95</sup> However, the way things were going, the project had to be shelved.

Things had changed in Spain since the days when the company had reaped and sowed as it chose. The pseudo-colonial system it had enjoyed had finally been broken and digging in Spain would probably entail the worst threat to the company's survival. The new republic would not take long to find even more drastic solutions for the Rio Tinto problem that would be little short of direct expropriation. The company faced a future of constant government opposition to its traditional working methods and institutional control. It had become paramount to find other ways ahead.

Geddes proved enthusiastic about the possibilities of the Rhodesian deposits. These lay in an untouched area that was becoming known as the "African Copper Belt", and seemed to be crying out for large-scale investment. Those in New Court agreed that it was the best moment to buy large packets of shares while they were still at a good price. Truth be told, though, Rhodesia was not an actual investment so much as a way out – a refuge from which the company could take up a strong stance vis-à-vis the Spanish government.<sup>96</sup>

Geddes had on numerous occasions expressed the idea that they would not be well received in Rhodesia but he nonetheless ploughed ahead, in his determination to get a foothold in a country where new mines were still being prospected and where investments could be highly rewarded. Wisely, he chose to buy small packets of shares in strategic companies, focusing on Mineral Separation which, through its subsidiary, Copper Ventures Ltd, had holdings in a number of concessionary firms in the Copper Belt, and on what seemed the two most promising mining companies, Rhodesian Congo Border Concession (RCBC) and N'Changa.<sup>97</sup>

The company capital was increased in May 1929 in order to have ready funds for these operations. It was considered necessary to issue 50,000 ordinary shares (at five pounds nominal) at a price of between 50 and 55 pounds, which would raise some 2.5 million pounds. Trading at the time was reaching 59.9 pounds per share, but Geddes thought that, despite the good outlook, the loss in the dividend of the old shareholders had to be compensated somehow. Of course, it fell again

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<sup>95</sup> Report from Geddes, Buchanan and Preston to the Rothschilds of 18 April 1828, ARP, 132AQ 104, dossier 12.

<sup>96</sup> Letter from New Court to Rothschild Frères of 18 February 1929 and 21 February 1929, and report by Anthony Rothschild of 22 April 1929, ARP, 132AQ 106, 2nd and 6th folder.

<sup>97</sup> Alfort and Harvey (1980), Harvey (1981: 232) and Avery (1974: 431).

to New Court to set up the syndicate to sell the shares. London and Paris agreed to guarantee the sale of 15,000 shares each.<sup>98</sup>

It was a good occasion to ascertain just what percentage of Rio Tinto shares were still in Rothschild hands. The Paris House presented 59,968 shares, out of a total of 375,000, at the subscription (we are talking of ordinary shares here), of which 16,697 belonged specifically to Rothschild Frères and the rest to individual members of the family.<sup>99</sup> Compared to 1905, the portfolio had decreased considerably, but there was still roughly 30 per cent of the shares in the hands of the family. So it seems safe to assume that in the meantime there had been a transfer of shares from the French side of the family to the British side, which was now the main shareholder, even though for practical purposes this was not of importance. Officially, the Rothschilds received 4,481 new shares for their 30 per cent in the syndicate, although in all likelihood the London House got itself more than that.<sup>100</sup> To sum up, the increase in capital increased the Rothschilds' holding in the company, with them now controlling 36.2 per cent of the shares, of which 21.6 per cent was in the hands of the London House and 14.6 per cent in those of the Paris one.<sup>101</sup>

With the resources raised, Rio Tinto continued to buy up shares in companies in the Copper Belt, but always focusing on those where they already had some control – RCBC and N'Changa – until it was in a position to strike a deal with another large shareholder, Anglo-American, to merge and to bring in the neighbouring company, Bwana Mkuba. Talks lasted for two years due to the reticence of Oppenheimer, the chairman of Anglo-American, to consolidate the entry of Rio Tinto in South Africa, but the simultaneous agreements between the Rothschilds and Morgan Grenfell, which either directly or through other companies controlled a good part of Anglo-American shares, and the financial support that was being offered in the middle of a crisis, eventually swayed Oppenheimer. The merger, finalized in early 1931, marked the birth of the Rhokana Corporation, which controlled more than 13 million tonnes of copper reserves. It was under the chairmanship of Geddes, even though Rio Tinto held just 17.2 per cent of the shares in the new business.<sup>102</sup> Thereafter it would be Geddes, as representative of Rio Tinto and Rhokana, who attended the meetings of the Copper Producers and Exporters. The firm looked set

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<sup>98</sup> Report by Anthony Rothschild of 22 April 1929, ARP 132AQ 106, 6th folder; report on the increase in capital of Rio Tinto in April 1929, ARP, 132AQ 104, 15th folder; and statements of the value of shares of Rio Tinto to the Head Stamp Office, AHN, Fondo Contemporáneo, Hacienda, section general, File 1,394 (2nd box).

<sup>99</sup> Rio Tinto. Report on the increase in capital in 1905 and 1929; ARP, 132AQ 106, 3rd folder and “certificate of shares issued by Rio Tinto”, ARP, 132AQ 108, 5th folder.

<sup>100</sup> Report on the increase in capital of Rio Tinto in April 1929; ARP, 132AQ 104, 15th folder.

<sup>101</sup> Alfort and Harvey (1980: 338) and Turrel and Van-Helten (1986: 198 and 205).

<sup>102</sup> Alfort and Harvey (1980).

to return to the world copper arena through the main entrance, and the way was open for it to become a great multinational company outside Spain.

But harsh reality set in as events frustrated the ambitious Rio Tinto plans, as the company reeled under the terrible crisis of 1929. In the aftermath, a chain of ever more baleful events would make the huge problems the company had experienced in Spain pale into insignificance. Not even the Rothschilds could do anything that was remotely of use for their company.

The market relates only two events that link together: how the Association of Copper Producers and Exporters struggled until 1932 to control the market and how from that year on it fought for its very survival.

Through the intercession of the Association, the price of copper stood up better than those of other products, falling just 25 per cent in the first months of the crisis. This was achieved by asking the refineries and the miners to cut back production drastically. But the situation was bad and worsening rapidly, especially in Germany and the United Kingdom. Stocks shot up (250,000 tonnes in December 1929)<sup>103</sup> and world copper consumption dropped from 1,891,100 tonnes in 1929 to 1,276,000 in 1931, with producers at a loss to know how to stimulate demand. In 1932 there was nothing for it but to cut production by a third of the total capacity, although the producers retained 900,000 tonnes in stock as consumption continued to fall. Many important mines opted to close down and others were seriously considering doing so. Anaconda held a third of all the stock and debts totalling 100 million dollars. Rio Tinto was managing to produce just over a million tonnes of pyrites and smelting a mere 18,000 tonnes of copper compared to the 24,000 envisaged. The Willmington factory had ceased to turn out copper and now produced only iron and sulphuric acid. By August the Association's agreement had withered away, just as the price of "Standard" copper in London had sunk to 32 pounds – 55 pounds less than in March 1929. The European governments were obliged to take drastic measures and they prepared to defend their own companies through a variety of means. France reduced its taxes on Katanga, while Great Britain gave protection on its markets to the production from Canada, Rhodesia and Rio Tinto.<sup>104</sup>

Spain cannot be said to reflect what was going on elsewhere in the world because the situation for the company there was still worse. The arrival of the republic, amid social unrest and strikes, was a cause of alarm, although Preston sought to reassure the Rothschilds regarding the fears of a revolution in Spain. What did worry him was again the tax issue, and it would not be long before he was proved totally right. In 1931 the penalty imposed on the company on account of the tax dispute of 1928 was accepted. The republican government seized the chance to announce its intention of reviewing all company accounts for the last 11 years in order to retrieve unpaid taxes. As a consequence of this review

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<sup>103</sup> Report on the copper market. ARP, 132AQ 106, dossier 3.

<sup>104</sup> Reports on the copper market of 1 and 2 April 1934, 4 August 1932 and 11 November 1834, ARP 132AQ 106, dossier 3 and *The Mineral Industry* (1934), p. 119.

Rio Tinto paid out 400,000 pounds in 1931, which brought the total tax paid that year to 700,000 pounds.<sup>105</sup>

In March 1931 Rio Tinto had to issue bonds to the tune of 1,937,000 pounds and pay an insurance of 50,000 pounds to satisfy the Spanish Inland Revenue. The move required a loan of 150,000 pounds in 1933.<sup>106</sup> Geddes decided then to pull out the axe and announced that there was to be no future in Spain unless until things changed. He embarked on an intense programme of cuts: all salaries were slashed by 10 per cent; small and dispensable departments such as research and development went under his axe; he sent a certain Cooper off to the mine with the sole task of making economies; he planned a reduction in production of half a million tonnes and cut 2,000 jobs.<sup>107</sup>

Production-wise the situation had changed a lot in just a few years, and not exactly because of the crisis. By 1932 the north and south cuts at the mine were exhausted and the work on the western part of the San Dionisio mass, known as the Corta Atalaya, had just finished. It had taken 20 years to remove the 20 million cubic metres of soil that had covered it and the company now had 3,000 excess employees.<sup>108</sup> However, the government expressly forbade Rio Tinto to dismiss them, so the company had to move to a five-day week system. It calculated that the losses incurred by this in 1932 ran to 140,000 pounds, despite all the attempts to relocate the workers to other areas and to increase the use of manual labour.<sup>109</sup> On top of everything else, in July 1932 the Rio Tinto geologist, Julien, predicted that there would be a drastic fall in the seam's productivity and the quality of the ores over the next 20 years. In a just a few years the company would cease to export copper materials and production of the metal would not even reach 20 per cent of that of 1929.<sup>110</sup> This and the constant threat of an increase in taxes or nationalization of the mine led Rio Tinto in 1934 to consider seriously the possibility of separating its Spanish assets from those it held elsewhere in the world and engage in a process of nationalization in Spain.<sup>111</sup>

All these factors meant that investors were losing their confidence in a company which had been considered as one of the safest industrial values in the world, and the seeds of uncertainty had been sown even among the shareholders.

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<sup>105</sup> Reports from Preston to Weil of 19 March 1930 and 2 November 1932, ARP 132AQ 106, and report on Rio Tinto, ARP, 132AQ 109. At that time Preston used to complain about the existence of up to 33 different categories of tax in Spain that had to be paid by the company.

<sup>106</sup> Letter from Weil to Robert Rothschild of 10 March 1931 ARP, 132AQ 104, folder 16 and Report on Rio Tinto of 19 May 1933, ARP, 132AQ 107, dossier 2.

<sup>107</sup> Harvey (1981: 261).

<sup>108</sup> Avery (1985: 319).

<sup>109</sup> Report on Rio Tinto, ARP, 132AQ 107, 1st folder.

<sup>110</sup> Harvey (1981: 253).

<sup>111</sup> Report on Rio Tinto of 1934, ARP 132AQ 107, 1st folder.

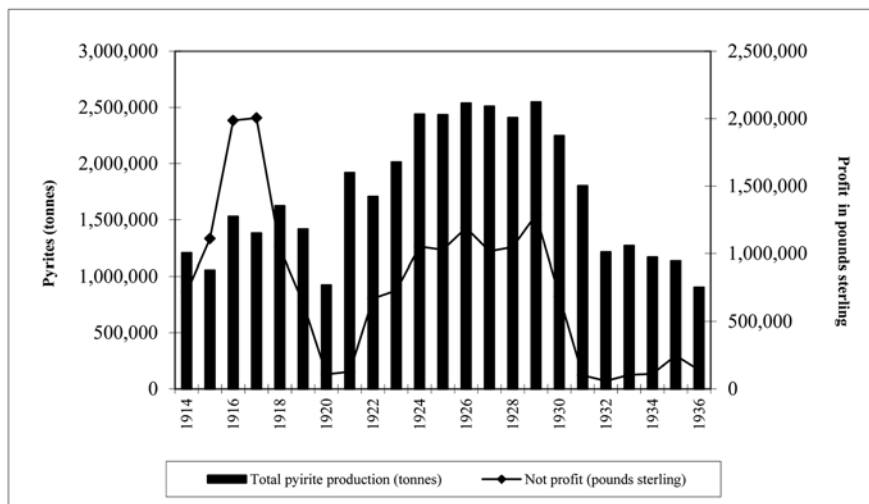


Figure 10.4 Rio Tinto production and earnings, 1914–1936

Source: Harvey (1981: appendices).

A report on Rio Tinto signed by Peninsular Financial Studies, of Madrid, began to circulate in the Paris brokerage houses in September 1935.<sup>112</sup> The report denounced an article on Rio Tinto that had appeared in the French newspaper *Le Temps* and which had without doubt, according to the firm in question, been paid for by the mining company itself. The report claimed that the document contained a vast amount of false information about the state of Rio Tinto's businesses, and that the company had published the article in France in order to circumvent British legislation prohibiting companies from using the press to advertise themselves. According to the Madrid report, it was totally untrue that Rio Tinto had decided to send its surplus of workers to other mines, as claimed, because the other deposits were also saturated. It went on to accuse Rio Tinto of speculating with its own shares, since there was no explanation as to how these could be trading at 350 per cent of their value when for the last four years there had been no dividend. It ended by urging French shareholders to boycott the company and demanded the presence of a representative on the board of directors to monitor events.

The incident brought to light an issue that crops up in the documents and statements of the time, namely, the matter of the ownership of Rio Tinto and the whereabouts of its shareholders. It is, to say the least, surprising to discover that this paradigm of the British company in Spain, which had introduced all the elements of "British Rule" and was both respected and feared in the City for its

<sup>112</sup> Report by Peninsular Financial Studies of 19 January 1935, ARP 132AQ 109, 2nd folder.

government support, should, in fact, have been in French hands. This was the case not only because of the percentage of shares held by the French Rothschilds, but also because the greater part of the French shareholders had held the majority of the shares in circulation for most of the company's history and, therefore, received most of the handsome profits for which it was famed. It was astonishing that the preponderance of the French among the shareholders was never reflected by any specific representation on the board of directors, a point which was laboured by the financial press. However, when the National Association of Bearers of Marketable Security Stocks pushed for a representative of the French shareholders on the Rio Tinto board, the company chose Etienne Castel, chairman of Le Nickel, the Comptoir Sidérurgique de France, vice-chairman of Peñarroya and Caledonickel and board member of other firms with links with the Rothschilds. There can be no doubt that the inclusion of their own was the last great trick played by the House to keep the status quo that the Rothschilds had themselves forced on Rio Tinto.<sup>113</sup>

While Rio Tinto resisted the thrusts of the crisis as best it could, Peñarroya was experiencing the same market problems, similar clashes with the Spanish government (although not for tax reasons) and the identical social problems of the 1930s. The order of events and the decisions taken may have varied slightly but the problems and the general solutions adopted were in essence the same.

From 1925 the lead market suffered from excess production, and this provoked the fall in prices to which we have earlier referred. The delicate situation that most producers found themselves in led to an initial meeting in London in 1927, sponsored by Consolidated Mining & Smelting of Canada.<sup>114</sup> No useful agreement seems to have been forthcoming either then or in the following four years. In fact, the convention of April 1931, to create the Lead Producers' Reporting Association, which intended to reduce production and finance stocks in common, could do nothing to stop the falling prices, and lasted barely a year.<sup>115</sup>

The zinc producers suffered similarly. The first cartel, in operation in 1928 and 1929, did next to nothing to halt the fall in prices, principally because it could not check the new Australian, Canadian and Mexican producers, who had introduced the use of new electrolytic systems on a massive scale. A new agreement was made by the majority of the non-American producers in Ostende in July 1931<sup>116</sup> to cover the next two years. Peñarroya had sought unsuccessfully to keep a contingent of 5,000 tonnes for the second half of 1930 and 12,000 for 1931 for its new electrolytic factory of Crotone, and it had to reduce its annual production to below that of its best three months in the recent years. Elsewhere, Peñarroya accepted an ASARCO proposal to join the Metal Traders, through a share in or an increase of capital of the company, which would be formed on the one hand

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<sup>113</sup> Regarding the nomination of a French administrator in Rio Tinto, ARP 132AQ 104, dossier 20.

<sup>114</sup> *ArMetaleurop*, PYA-Juridique, 259. PVSCA Book 8, session of 28 July 1927.

<sup>115</sup> Gibson-Jarvie (1989: 179).

<sup>116</sup> Gibson-Jarvie (1989: 177–179).

by ASARCO and the Mining Trust, the main shareholder of Mount Isa, and on the other by the Asturiana de Minas and Peñarroya, conjointly with *Minerais et Métaux*.<sup>117</sup> In total, a reduction of 55 per cent in world production and a significant check on prices was achieved, at least for the duration of the agreements. Yet all these agreements were rocked when the pound, the fundamental reference of the markets, left the gold standard in 1931 and subsequently depreciated, as well by the massive adoption of protectionist methods by the majority of the European countries and their colonies.<sup>118</sup>

The situation of Peñarroya was aggravated by the production crisis in Spain, which took on new aspects as the State increasingly intervened in the sector.

In 1927, under pressure from the former ministers Yanguas and Maestre (the former representing the interests of Linares and the latter those of Cartagena), the government announced a series of measures to rescue the sector from the crisis. Under the Spanish Royal Decree of 28 May 1927 it set up a fund of 3,000,000 pesetas to finance the miners through two unions – one in the Linares–La Carolina area and the other in that of Cartagena and Mazarrón – with the idea of enabling them to continue mining and processing through co-operative foundries. The aim was essentially to protect those lead mines that had no foundry, which was the case of some 40 per cent. The smelters, Peñarroya included, protested against an intervention that that devalued even further the mineral market. Others, such as the *Etablissements Sopwith*, proposed the outright sale of their mines.<sup>119</sup>

This fund was insufficient to revitalize the market, although it did avoid the closure of a number of mines. The Conde de Guadalhorce therefore drew up a second project during the second half of 1927 to take over the administration of the whole sector through a body that would be known as the Lead Consortium. The new project proposed a community of mines and foundries that would fix prices, distribute reserves and be in charge of distributing productions in Spain and abroad, with profits to be divided proportionately among all the members. All nine foundries would have to adhere to the Consortium and provide the cash to finance the operation. The companies' sole compensation was to be the obligation on the part of Spanish industry to consume all the products, which were, necessarily, more expensive than those available internationally.<sup>120</sup>

The Peñarroya management strongly opposed the fundamental ideas behind of the Consortium, but had little choice but to sit down and negotiate with the government in an attempt to soften its effects before anything definitive was published. It managed to get some of the conditions relaxed and the government

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<sup>117</sup> *ArMetaleurop*, PYA-Juridique. No. 259. PVSCA Book 8, sessions of 30 July 1930 and 30 October 1930.

<sup>118</sup> Gibson-Jarvie (1989: 177–179).

<sup>119</sup> Report on the industrial policy of the Spanish government, AN F-12-11.744, *ArMetaleurop*, PYA-Juridique, 259. PVSCA Book 8, sessions of 31 May 1927 and 28 July 1927 and González Llana (1949: 43–44).

<sup>120</sup> *Ibid.*

backed down from taking outright control of the foundries. Thereafter, price control was introduced for productions sold domestically (just 20 per cent of the total), for which finished lead prices soon reached over half the prices on the international markets, with the company totally free to organize and fix prices for the export of the rest of its production.<sup>121</sup> Yet Peñarroya was not to have it all its own way.

Frederick Ledoux had contacted the French government to express concern about the plans being aired by Primo de Rivera and Calvo Sotelo, which smacked of nationalization of the mining sector. There was talk of bringing in “military discipline” and of payment of compensations, but strictly no exceptions to the law.<sup>122</sup> The reports by the French ambassador, Peretti, merely confirmed the extremes Ledoux had pointed out. According to the diplomat, the dictator himself had confirmed the imminent expropriation of Rio Tinto and added that Calvo Sotelo had recently stated quite clearly that:

the financial problem of the State is completely solved; but the same is not true of the economic problem of the nation, which does not arouse the same optimism. This matter will not be sold as long as there is wealth in Spain to be exploited or wealth in foreign hands.

The minister’s threat involved extending the nationalization of the oil companies and the telephone to the riches of the earth, especially coal, lead and copper. It was monopoly that would be followed by others in insurance, cars, commercial airways and the trade in dyes, which would exclude Kuhlmann from the Spanish market in favour of a German company. There was even talk of legislation penalizing engineers who held foreign qualifications. All these measures were, in the view of the diplomats and French businesses, clear examples of non-fulfilment of the French–Spanish Convention of 1862, which had guaranteed French firms equal treatment with national firms in matters of public administration.<sup>123</sup>

The biggest fear, however, was that there would be a repetition of the recent case of the Sociedad Marca el León (formerly *Deutsch et Cie.*), which, on being incorporated in CAMPSA, had requested 22 million pesetas for the expropriation of its goods, with the expectation that it would be awarded at least 15 million by the valuation committee. Rumour had it that the figure would be a paltry

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<sup>121</sup> ArMetaleurop, PYA-Juridique, 259. PVSCA Book 8, sessions of 22 December 1927 and 23 February 1928, *The Mineral Industry* (1934), p. 383 and González Llana (1949: 142–144).

<sup>122</sup> Letter from Ledoux to the Foreign Affairs Ministry regarding the nationalization policy of the Spanish government of 21 June 1928, AMFAAEE, Relations Commerciales 1918–1940, Espagne 20–40, 84.

<sup>123</sup> Report by the Management of Political and Commercial Affairs of the French Foreign Affairs Ministry of 12 July 1928, AMFAAEE, Business Relations 1918–1940, Espagne 20–40, 84.



1,200,000 pesetas, even though the firm was willing to reduce its demand to some 11 million.<sup>124</sup>

How and on the basis of what arguments the nationalization projects for the mines were halted is something which does not appear explicitly in any of the documents studied. However, it is commonly known that in the second half of 1928 drastic changes swept through the Spanish economy. The financial problems that Calvo Sotelo had deemed solved some months before now returned in force following a severe depreciation of the peseta. Experts put it down to speculation and the results of public extravagance, and predicted an unsustainable deficit of 910 million pesetas for 1929, between the ordinary and extraordinary budget and that of the Caja Ferroviaria – items which together amounted to a deficit of over 2,600 million pesetas for the previous four years. In a further blow, the trade balance was unfavourable for the same period and hardly picked up at all with the devaluation.<sup>125</sup>

It was then that the government decided to change its monetary and development policies. This took the form of a radical plan to defend the peseta and this perforce needed the support of foreign capital and cuts in public expenditure. In early 1929 the government set up a committee to study the immediate incorporation of the peseta into the gold standard. Presided over by Flores de Lemus,<sup>126</sup> it sought out the services of the French economist Leonard Rist and placed the general manager of the Banco de Bilbao, José Manuel Figuera, at the head of the Bank of Spain.<sup>127</sup> Calvo Sotelo, who had rapidly exhausted his short-term credit in terms of sustaining the peseta, and without significant results, decided to make an issue of 350 million pesetas in Treasury bonds at 6 per cent interest, which was to be raised exclusively in gold, either in pesetas or in foreign currency at a fixed exchange rate. With these the Bank of Spain would be able to defend its currency. The minister could count on the support of the national commercial banks, among which he expected to distribute 150 million, and another 100 million among the public.<sup>128</sup> Calvo Sotelo also trusted that he would be able to sell part of the outstanding amount on the London, Paris and New York markets, with the active participation of the foreign, Spanish-based companies, and with special emphasis on Peñarroya and Rio Tinto, from which some 300,000 to 500,000 pounds (10 to 15 million pesetas)<sup>129</sup> were expected.

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<sup>124</sup> *Ibid.*

<sup>125</sup> Hernández Andreu (1986: 137–157) and García Delgado (1984: 84, 89 and 91–93).

<sup>126</sup> Hernández Andreu (1986: 145).

<sup>127</sup> Letter from the House of Rothschild in Paris to the House in London after the meeting held with Alfredo Bauer, of 6 November 1929, ARP, 132AQ 41.

<sup>128</sup> Fernández Acha (1981: 397–399).

<sup>129</sup> This amount seemed astronomical to the British Rothschilds, who declined to take part as did most of their clientele. Letters from the House of Rothschild in Paris to the House in London, of 3 December 1929 and reply of 4 December 1929, ARP, 132AQ 41.

The Madrid agency had monitored all the previous operations and now acted as a bridge between the government, the Rothschilds and their mining companies in order to negotiate how much each was to put up in the issue. Peñarroya wanted to take a million or a million and a half pesetas, a figure that the government considered to be very low, so the company upped it to 2.5 million. Sir Auckland Geddes met with the Rothschilds to consider what would be the smallest share that Rio Tinto could get away with without upsetting the government while avoiding any extravagance, and they decided to take 5 million. It would not have gone unnoticed at New Court that, while Rio Tinto was deciding, work on the nationalization of the mines project was going flat out at the Spanish Exchequer, but that this was immediately abandoned the moment the figure became known in Madrid. The Paris Rothschilds for their part subscribed to another 3 million and the agency came in with 500,000.<sup>130</sup>

After the subscription, Calvo Sotelo spoke to Bauer to thank him for their and the Rothschild firms' active participation, and, of course, he could not avoid mentioning the withdrawal of the international financing entities, which had barely subscribed to the issue,<sup>131</sup> with the result that almost 45 million had to be withdrawn at the last moment. After this failure, which put a stop to further issues, the foundations of the regime's monetary policy were fatally undermined. The government found itself increasingly discredited and unpopular and would survive just a few months more.

This apart, Peñarroya's recipe for pulling through the crisis would be the same as that applied in previous crises: new investments and consolidation of assets. The first move was to merge all its subsidiaries in which it owned majority capital, with the exception of Sopwith. At the end of 1928 it took over Fonderies de Megrine, which it had controlled since the Great War. The following year it was the turn of Mines de Malfidano and the Société Française des Mines du Maroc. In 1929 a deal was struck for a holding in the new Traitement de Minerais and contacts were made with Société Française du Mines Laurium, which had several mines in Turkey and a foundry in Greece in which Peñarroya was interested.<sup>132</sup> These contacts led to a mutually agreed takeover in 1932. In Spain, the preference was to take control of firms in financial straits that nevertheless still held important industrial and mining assets, such as the Compañía Metalúrgica de Mazarrón and

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<sup>130</sup> Transcript of a telephone conversation between Bauer and Robert Rothschild, of 6 December 1929, letters from the Rothschilds from Paris to Bauer and to London of 11 December 1929 and from New Court to Robert Rothschild of 9 December 1929, ARP, 132AQ41.

<sup>131</sup> Transcript of a telephone conversation of Bauer of 12 December 1929, ARP, 132AQ41.

<sup>132</sup> ArMetaleurop, PYA-Juridique, 259, PVSCA, Book 8, sessions of 29 November 1928, 21 February 1929, 30 May 1929, 26 September 1929, 31 October 1929 and 19 December 1929, and SMMP (1981), p. 94.

the Société Orchardson et Enthoven, although by far the greatest coup was the agreement with the Mancomunidad Zapata Portmán in 1930.

At the time Mancomunidad Zapata Portmán, which had been formed by mining and industrial assets brought together by Miguel Zapata and which his son-in-law, the cacique Jose Maestre, had inherited, owned “La Orcelitana”, the Portmán foundry of the Maquinista de Levante workshops, as well as many other mining concessions in the Cartagena–La Unión area. Maestre had approached Pagézy, the head in Spain of Peñarroya, on several occasions to persuade him to participate in his businesses and even to offer him directorship of them. Belugou, the new general director, went to Portmán to negotiate directly with Maestre, with the idea of taking on the Mancomunidad Zapata as a subsidiary, with almost all its assets. The outcome of the negotiations was the new Sociedad Minero Metalúrgica Zapata-Portmán, with a capital of 26 million pesetas, of which Peñarroya put up 50 per cent.<sup>133</sup>

As had occurred twice before, such exponential growth in investments required the capital to be increased – in 1930. Yet the board did not do this in accordance with needs, but opted for a much larger issue to cover future investments against financial crises. It proposed to double the capital to 309,375,000 francs. Again, as in 1925, the board declared that most of the increase was to be devoted to activities outside Spain – in this case, 492,500 of the 612,500 new shares. In other words, 117,125,000 francs were set aside for investments abroad and 36,000,000 francs were for investments in Spain.<sup>134</sup> This decision to designate a part of the assets for Spain had, as we have pointed out in the case of Rio Tinto, its fiscal reasons, but in the long run it provided the excuse to avoid the uncertain legal status of the investments and the fall in Spanish mines’ profitability when the company was going all out for international growth.

Spanish participation still had important potential, though, and in 1930 Peñarroya had enough holdings to make it, in terms of assets, the largest industrial firm in the country.<sup>135</sup> It was even making high profits in some sectors, especially coal, which had benefited from the State intervention of 1927, and was the biggest earner for the company in Spain, a long time after the foundries had become the focus of the company’s principal operational strategy. Other coal mining related services like electricity supply also showed notable activity and profits.<sup>136</sup>

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<sup>133</sup> ArMetaleurop, PYA-Juridique, 259. PVSCA Book 8, sessions of 30 January 1930, 27 February 1930, 3 April 1930 and 22 May 1930.

<sup>134</sup> ArMetaleurop, PYA-Juridique, 259. PVSCA Book 8, sessions of 22 May 1930 and 25 September 1930 and letter from Heurteau to the Rothschilds of 13 October 1930, ARP, 132AQ 103.

<sup>135</sup> Carreras and Tafunell (1993: 37).

<sup>136</sup> In 1930 the profits in millions of pesetas were: coal, 0.8; metallic mines, 2.9; smelting, 1.1; chemical products, 0.32; electric energy, 3.6; forest estate, 0.16; and shares, 0.72. In total, 16,640,000 August 1931, AMFAAEE, Series Y International, 1918–1940, no. 323.

Table 10.5 Production of galena and coal from the Peñarroya mines in Spain, 1928–1935 (tonnes)

Year	1928	1929	1930	1931	1932	1933	1934	1935	1936
Galena	66,800	56,300	49,300	43,000	33,150	22,500	24,200	21,332	13,400
Coal	681,000	757,000	767,000	780,000	813,000	716,000	660,000	602,000	397,000

Source: Reports SMMP.

A snapshot of 1930 may cause us to lose sight of the real decline these installations were suffering, though. The imminent stoppage of the San Quintín group of mines and El Soldado mine, which had respectively produced 550,000 and 600,000 tonnes of galena throughout their histories, spelled the end of the company's mining production, which from 1928 to 1935 slumped to just a third of its capacity.

The last straw came in 1931 when the Lead Consortium began to run out of funds for the Murcia mines, which meant that the productions of any potential suppliers were lost<sup>137</sup> and the future of the foundries in the area was shaky. Indeed, the coming years would see them close, one after another. Santa Brígida, the Orchardson & Enthoven subsidiary, fell in 1932. That of Portmán closed its doors in 1935 and concentrated all its available ores in the area of the Santa Lucía foundry.<sup>138</sup>

Seeing the more-than-likely demise of the Peñarroya foundry as the mines in the region became exhausted, the management thought it best to build a modern lead factory at Noyelles-Godault that would be able to process between 50,000 and 60,000 tonnes of lead mineral a year, and thus ensure the company remained one of the great lead suppliers. The 1932 budget included a reduction in amounts for new projects in Spain from 8 million to just 480,000 pesetas, so anticipating forthcoming events.<sup>139</sup>

The worsening social situation served only to heighten the firm's industrial difficulties. The arrival of the republic gave an extraordinary boost to the workers' movement, which, while at times flaring up for purely ideological reasons, in the main was responding to the dismissals and closures brought about by the crisis in the sector.

June 1931 saw the first confrontation in many years between engineers and workers, in the mines of Nava de Río Frío, and the Civil Guard were called in to quell it. Pagézy, however, correctly foresaw the imminent strikes. In September a large number of the workers at Puertollano went on strike to demand the

<sup>137</sup> Vilar and Egea Bruno (1990: 333).

<sup>138</sup> ArMetaleurop, PYA-Juridique, 258–259. PVSCA Books 8–9, sessions of 27 October 1932 and 28 November 1935.

<sup>139</sup> ArMetaleurop, PYA-Juridique. 259. PVSCA Book 8, sessions of 22 December 1931 and 26 November 1933.

reinstatement of a fired colleague. The board maintained its right to dismiss individually contracted persons, but the strike ended only when the equality committee announced a wage rise, which was compensated for by a ministerial order to raise coal prices. From October 1931 the government increased the powers of the equality committees and reduced the working day in the coal mines from eight to seven hours. Things were not as bad as feared, however, and the management recognized that work at the mines was continuing at a good pace and that production levels were being maintained.<sup>140</sup>

From 1932 the situation worsened considerably. New Spanish labour laws granted extensive powers to the mixed (workers and management) juries and this led to a series of salary rises that the company deemed unwarranted. The management in Spain aired the view that “the mentality behind these labour laws is reflected from time to time among the workers in the form of revolutionary-style demonstrations, which are difficult to check”, which seems to suggest continual conflict. Yet we have records of only sporadic conflict, such as the workers’ strike at the Cartagena foundry in 1932, with its demands for a 50 per cent pay rise, or that of September 1933 at the Peñarroya and Puertollano coal mines, in solidarity with the workers in Asturias. A thornier issue may have been the legislative changes of 1933 obliging exporters to repatriate to Spain the capital from their sales, with ensuing liquid asset problems.<sup>141</sup>

The outcome to all this was once again affected by the international market problems which, far from being solved, were heightened by the halt of silver sales to the American government, one of Peñarroya’s major clients. The zinc and lead producers held fresh meetings in Brussels and London in 1932 in an attempt to revitalize the markets, but all that came out of these was that the board of directors entered into an agreement with French producers to request the French authorities to introduce customs duties to safeguard the company’s interests.<sup>142</sup>

So many contingencies left their mark on the profit and loss sheet (Figure 10.5), which shows a profound crisis in which Peñarroya was happy simply to avoid losses.

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<sup>140</sup> ArMetaleurop, PYA-Juridique. 259.PVSCA Book 8, sessions 25 June 1931, of 24 September 1931, 29 October 1931 and 26 November 1931.

<sup>141</sup> ArMetaleurop, PYA-Juridique, 259.PVSCA Book 8, sessions of 17 March 1932, 21 November 1932, 23 February 1933, 1 June 1933 and 28 September 1933.

<sup>142</sup> ArMetaleurop, PYA-Juridique, 259. PVSCA Book 8, sessions of 26 May 1932 and 29 June 1933. *RM* (1935), p. 278, confirms the adoption of protectionist measures regarding zinc and lead in France.

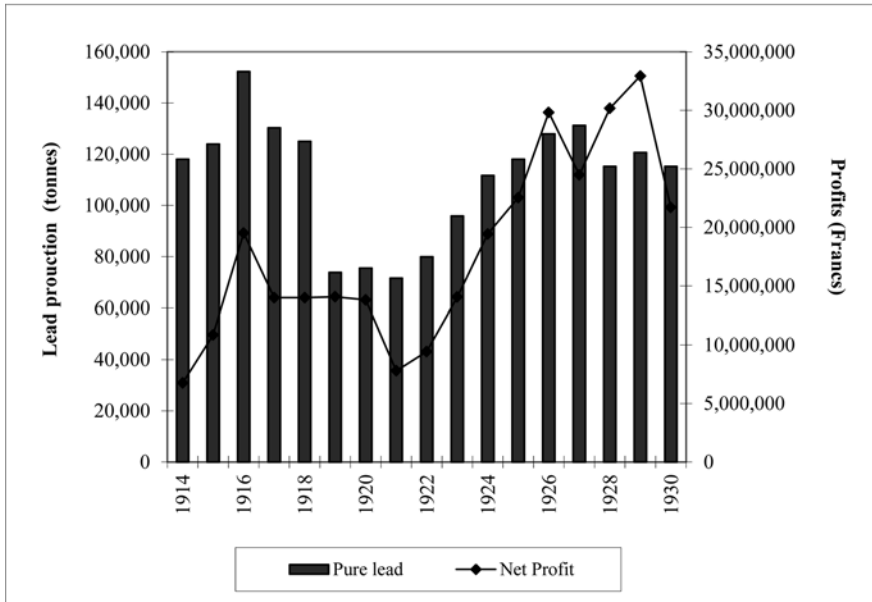


Figure 10.5 Lead production and earnings of the SMMP, 1914–1930

Source: SMMP records.

### The Impact of the Spanish Civil War

The interim period following the elections of February 1936 that put the Frente Popular in power and the coup d'état of 18 July of the same year was a time of huge upheavals, however one looks at it. The belligerent climate created by the swing to the Left meant people were out to settle scores, which made the country all but ungovernable and prevented any normal economic activity. The government's inactivity in matters of order and a series of rushed reforms and a few measures taken for show sowed anarchy in industry and in agriculture. It was, all in all, a sad curtain-opener to the coming war.

Tensions were high in Rio Tinto after the violent clashes in October 1935 between the army and the miners, which ended up as an out-and-out military operation to put down the protests. Six hundred workers had been arrested and immediately dismissed, followed by a further 200 who were deemed superfluous. After a U-turn by the government, the Ministry of Labour forced Rio Tinto to reinstate all the workers and to make up all the back payments due, which totalled 57,000 pounds.<sup>143</sup>

<sup>143</sup> Avery (1985: 327–329).

It was the same story at MZA, which was obliged to reinstate all the employees fired for taking part in strike action since 1934.<sup>144</sup>

In Peñarroya the troubles broke out at the coal deposits in Madrid, where the employees went on strike in April. They took over the installations, confiscated the till and set up a management committee, which was broken up by the police. During the following weeks the protest centred on the San Antolín coal mine, the heart of Peñarroya–Pueblonuevo. Four hundred and fifty miners demanded an immediate pay rise. They staged a sit-in in the mineshaft itself, where they remained for 18 days with five engineers whom they had retained, despite the attempts to intermeditate by the Mayor of Pueblonuevo, who was also chairman of the Jurado Mixto (Mixed Jury). In June they abandoned their sit-in but continued the strike, which by then had spread to the nearby San Rafael mine, to Puertollano, the foundry, the railway, the mines at La Unión, and even to La Garganta forest.<sup>145</sup>

When the military uprising occurred and it was known in Rio Tinto that Seville had been taken by Queipo de Llano, the miners organized an expedition with vehicles they commandeered from the firm. Armed with explosives they set off to overthrow him but the column was stopped by the guards accompanying them just outside Seville, at a junction known as La Pañoleta. They were joined by others from Huelva, who had joined up with the Seville rebels. Twenty-five miners were killed in the ensuing battle and the rest were taken prisoner. The Nationalist army then set off towards Huelva and the mines. The miners in Rio Tinto put up staunch resistance under the attacks from the air and against a professional army. They were defeated after a month and the reprisals were bloody. Several hundred were court-martialled and sentenced to be shot immediately. Mining continued during the following months under the surveillance of armed guards and with a workforce that numbered 3,000 fewer men.<sup>146</sup> The Peñarroya–Pueblonuevo installations underwent something similar, with the workers pushing out the company security guards and the Guardia Civil that remained loyal to the government, until the area fell to the Nationalist forces on the evening of 13 October 1936. The company archives make no mention of any subsequent acts of violence, although they do record that the shortage of workers became the main problem for the management.<sup>147</sup>

Once the military front line had been consolidated, the industrial structure of the companies, controlled by the Rothschilds, was divided in two, with the exception of Rio Tinto. A decree by the Republican government of 3 August 1936 announced the confiscation of all the railway lines, which would be controlled thereafter by a working committee. The rebel generals followed suit with regard to the railways in their territory. The outcome was that the management and board of MZA were

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<sup>144</sup> Juez Gonzalo (2001: 15).

<sup>145</sup> SMMP Memory of 1937.

<sup>146</sup> Avery (1985: 331).

<sup>147</sup> In 1937 the company had to bring miners from Asturias in order to produce at least 12,000 to 15,000 tonnes. ArMetaleurop, PYA-Juridique, 259. PVSCA Book 9, session of 28 December 1937.

effectively dissolved.<sup>148</sup> Most of the board members fled from Madrid and moved over to the Nationalist side. In early September Espinosa de los Monteros, former secretary and board member of MZA, wrote to the Rothschilds giving them precise details as to the where in his house in Madrid they could find his Lukus shares. Perhaps fearing for his life, he beseeched Robert Rothschild to look after his family in Paris during his absence.<sup>149</sup> A week later the Rothschilds decided to free themselves officially of all responsibility for their railway company.<sup>150</sup>

The Peñarroya–Pueblonuevo industrial complex found itself in the Nationalist area, where all its services continued to function, bar the foundry, which was at a complete standstill owing to the lack of supplies. In contrast, the Sopwith, “La Tortilla” factory, in Linares, and that of Santa Lucia, in Cartagena, were now under Republican control, as were the coal mines of Puertollano. They all continued to operate under the technical management of the engineers, who in the main stayed on. As Table 10.6 shows, only the electricity and the distillation plants were able to maintain their usual outputs during the war years. The lead mines, with the exception of Linares, showed considerable drops in output, and the same was true of the coal mines, where only Puertollano held steady. It was the same story for silver, lead and the chemical by-products, which depended to some extent on the foundry.

The quick return to peace in the Rio Tinto area meant that respectable mining production levels were maintained throughout the war (Table 10.7). There was even a slight upturn in pyrite production compared to 1936. The industrial processes of the mine, however, suffered a sizeable reduction, and the company had to resort to exporting greater amounts of non-processed mineral.

It was no easy task to assess the economic losses at the end of the war. Rio Tinto declared no specific figure, while Peñarroya claimed losses of some 8 million pesetas for damages to its installations. Hardest hit was MZA, with losses of over 102 million pesetas in materials and infrastructures.<sup>151</sup>

The old symbols of the Rothschilds in Madrid also took a beating. José Miaja had set up his headquarters at the foot of the hills in the Capricho Gardens, the former leisure residence of the Bauer family, and still in the charge of the liquidation committee, and there he built a huge anti-aircraft shelter. The old house of the Bauers, in the calle San Bernardo, was taken over as headquarters by a militia group, which respected the building but left the documentation there in a lamentable state.

<sup>148</sup> Comín, Martín, Muñoz and Vidal (1998: vol. 2, 1–2).

<sup>149</sup> Letter from Espinosa de los Monteros to the House of Rothschild in Paris of 3 September 1936, 132AQ 352.

<sup>150</sup> Letter from the House of Rothschild Frères, addressed to the Enregistrement des Domaines et du Timbre, in which they relieved themselves of any responsibility for representing MZA in France, 14 September 1936, ARP 132AQ80.

<sup>151</sup> SMMP Memory of 1941 and Comín, Martín, Muñoz and Vidal (1998: vol. 2, p. 4).



Table 10.6 SMMP output in Spain during the Civil War\*

Year	Lead mines (tonnes)	Electric energy (kws/hour)	Slate distillations (tonnes)	Superphosphates and fertilizers (tonnes)	Copper sulphate (tonnes)	Coal** (tonnes)	Smelted lead (tonnes)**	Silver (kg)***
1936	13,400	53,700,000	68,800	21,900	1,590	397,000	26,300	20,732
1937	3,800	51,400,000	67,000	165	500	430,000	21,226	10,010
1938	3,650	60,200,000	71,500	1,480	1,340	388,500	20,980	7,700
1939	4,540	67,000,000	66,600	11,045	2,308	442,000	15,230	5,343

Source: SMMP (1983: 579).

Notes: \* No information is available for the Sopwith foundry “La Tortilla”, which nonetheless continued to operate. \*\* Only in Puertollano \*\*\* Only in Santa Lucia (Cartagena).

Table 10.7 Rio Tinto production and sales during the Spanish Civil War (tonnes)

Year	Total production	Local treatment	Sales of washed pyrites	Sales of crude pyrites	Copper production in Rio Tinto
1936	903,455	247,352	379,089	656,103	12,192
1937	1,153,854	255,355	346,744	898,499	9,354
1938	1,118,527	167,357	252,460	951,170	8,721
1939	828,070	141,848	266,181	686,222	6,667

Source: Salkied (1987: appendix 12, 105–107).

The wealth of the Bauers was heavily diminished and it would not be until 1944 that the bankers received what they were still due.<sup>152</sup>

### 1941: The End of 100 Years of Investment in Spain

#### *Persecution of the Rothschilds in Europe and the Consequences*

The unfortunate coincidence of the end of the Spanish Civil War and the outbreak of the Second World War left the Rothschild firms with little time to recover and prepare any strategy to get back into full production. The Rothschilds had other things to worry about, too. The worrying spread of Nazism throughout Europe and the fear of widespread war threatened to carry anti-Semitic sentiments to other countries and a repetition of the circumstances which had led to the confiscation of the Vienna Rothschilds possessions in 1938. Indeed, the majority of the members of the House of Paris had already abandoned France when the German invasion began. The exception was Guy, the young son of Edouard, who stayed in Paris until the last moment. Others, like his cousins Alain and Elie, Robert's children, were not so fortunate and ended up in the concentration camps of Lübeck and Colditz.<sup>153</sup>

With the change in regime in France, the Vichy government deployed all the Nazi xenophobic slogans against the clearest symbol of French Jewish banking. In a matter of weeks Robert, Edouard, Philippe, Maurice and Henri Rothschild lost their French nationality and the control of their businesses, and the same occurred to other Jewish houses, like that of Maurice Stern. Under a law of 5 October 1940 all the families' possessions were sequestered, which were taken under the control of the Direction Générale des Domaines et du Timbre which then brought in its own officers and firms to manage them.<sup>154</sup>

The House of Paris as such disappeared and its members were dispossessed of their wealth. They fled to Canada, Lisbon, New York and London, where they would wait until the war was over to recover their possessions, or what was left of them.

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<sup>152</sup> Letter by Jorge García, of Cia. del Lukus, dated 12 June 1939, Letter by the liquidator of the House of Bauer of 26 March 1940 and report of 24 Dec, 1944, ARP, 132AQ 25 and 26.

<sup>153</sup> Ferguson (1998: 1003–1004).

<sup>154</sup> *Journal officiel de la République française* of 7 September 1940, AMEFF B- 33,238 and dossier of the seizure of the 50,001 Rothschild Peñarroya shares of 1941, ArMetaleurop, PYA-Titres, 200. In particular, these latter ones were kept in deposit until the end of the war. Cie. Générale d'Electricité.

*Liquidation of the Rothschild Businesses in Spain*

Shortly after the Paris House of Rothschild had been taken over, the Franco government decided to nationalize MZA (Act of 14 January 1941), since it was one of the most important parts of the Spanish National Railway Network.

The Rothschilds had responded to the call to the 1940 MZA assembly in their role as shareholders. Edouard, Robert, Maurice, Henri and Alexandrine did not even attend as representatives of the House but, it seems, as individuals, and they amassed almost all of the 18,458 shares presented in Paris. In the extraordinary assembly the following year, where the fate of the company was to be decided, they could not even be present or represented.

Table 10.8 Nationalisation value of MZA

Book value of the establishment		Market value*		Value according to act of 1943	Difference
Value of private capital	641,242,079	Shares	77,035,930	149,598,806	72,562,876
Value of State capital	465,291,016	Bonds	500,485,157	819,451,936	318,966,779
Total	1,584,987,079	Totals	577,521,087	969,050,742	391,529,655

Source: Comín, Martín Aceña, Muñoz and Vidal (1998: vols 2, 24 and 33).

Note: \* Final value.

The information on how it was decided to carry out the expropriation is rather confusing. Muñoz and Ortúñez<sup>155</sup> differ as to why the Franco government delayed the nationalization and why it changed its criteria two years later, moving from a compulsory expropriation to an agreement to purchase the shares and bonds from their legitimate owners, which was enacted under the law of 27 February 1843. In any case, it seems that the decision adopted by the committee entrusted with valuing the assets and shares of MZA was quite a generous one for the shareholders and bondholders. If we consider that the company had suffered severe losses during the war, that it was hindered by its evidently ageing fleet and installations, and that barely 30 years of the commission remained, one must conclude that they were well compensated.

Unfortunately, we do not have the slightest indication as to what the Rothschilds were doing to monitor the situation. We do not know if they took part in the negotiations with the shareholders or if they sent any representative to the meetings, or, indeed, if the French authorities did either. In fact, we do not even know whether the Rothschilds received the compensation due them.

<sup>155</sup> Muñoz (1995) and Ortúñez (1999).

Ousted from their control of Peñarroya and their chances of running Rio Tinto, which would shortly fall prey to the Franco regime,<sup>156</sup> all but gone, the Rothschilds had suddenly disappeared altogether from the Spanish business scene. Nevertheless, they still had sufficient operational power and initiative to make something out of their last remaining Spanish asset, the Lukus company.

After escaping from Paris and on the run from the Vichy government, Guy Rothschild managed to get to Larache in August 1941. There he had a meeting with José Gomendio, director of the establishment at that time, who assured him he (Gomendio) had the support and the financial backing of the Banco de Bilbao, the Banco Urquijo and the Spanish Residence in Tétouan to purchase the company from him. The price was set at 15 million francs, which would serve to compensate the Rothschild Bank for its investments, plus another 240,000 dollars for the Rothschilds in their own name, as payment for their individual rights and the shares they owned. The debts of the company with the House of Rothschild were valued at 37,321,698 francs, but, given the circumstances, the operation was a great success. Yet it was not the above-mentioned institutions that would take charge of the difficult manoeuvres involved in the purchase, but the Banco Español de Crédito, which took steps to make sure the Rothschilds received their dollars and who went to the French banks to obtain the francs required, which were then left in deposit at the Spanish consulate in Lyon until they were collected.<sup>157</sup>

The Vichy regime was aware of these manoeuvres but was unable to take any firm measures to prevent it and the Spanish government took no measures to delay it, which casts some doubt on any rather mechanical interpretations of the ideological links between the Franco regime and its allies. Curiously, though, the Franco government had tried to instrumentalize the company in 1939, shortly after the end of the Civil War, in order to set up a mutual compensations company with France, like the Sociedad Hispano Marroquí, with which the Spanish government had dodged foreign controls and currency problems to obtain funds from the German government.<sup>158</sup>

Nevertheless, the operation merely confirms the capacity of financial elites like the Rothschilds to manoeuvre successfully to keep their businesses going, come what may.

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<sup>156</sup> Refer to Gómez Mendoza (1994).

<sup>157</sup> AMFEE, B-32.841.

<sup>158</sup> Report of 28 October 1939 by Edouard Rothschild to the French Minister of Finance, AMEFF, B-32,835.

# Chapter 11

## Fundamentals of the Rothschilds' Activities in Spain

Having explored the chronological development of the Rothschilds' activities in Spain, it is time now to analyse and reflect on some of the aspects which, in my view, were instrumental in the Rothschilds' very prolonged presence in Spain. The fact is that, quite apart from any of their specific financial or investment operations or the particular way in which they were monitored, there was a series of behavioural patterns and clearly defined strategies present in all areas of their business. These key elements appeared repeatedly and with hardly any variations from the very beginning of the family's involvement in the Spanish business world. They account, moreover, for a large part of the success the businesses enjoyed. Their disappearance spelt the end of a *modus operandi* which, while quite peculiar, was seemingly highly successful in business terms. Chapter 12 offers some data and reflections on the main economic effects caused by the family's participation in Spain.

### **The Effective Transfer of Information and the System of Agencies and Clients**

One of the underlying reasons for the rise of the Rothschild businesses and for their undeniable predominance in nineteenth-century European finances lay in the somewhat peculiar structure of their agencies. The family had barely 50 employees at the Paris and London head offices in the mid-nineteenth century, but they did have an extensive network of agents and correspondents throughout Europe and America<sup>1</sup> that was the envy of all European banking, since it ensured a supply of information and a managerial efficiency that was rare indeed for its time.

As institutionalist historians have insistently claimed, since Jensen and Menckling<sup>2</sup> described the theoretical problems of agency, the existence of diseconomies has been common in the management of businesses involving delegation of responsibilities when there has been a lack of incentive for the agents

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<sup>1</sup> Along with its five main offices in London, Paris, Vienna, Naples and Frankfurt, the House of Rothschild owned agencies in Madrid, Brussels, Trieste, Amsterdam, Antwerp, Le Havre, Havana, New York and Istanbul, as well as a long list of correspondents all over the world.

<sup>2</sup> Jensen and Meckling (1976).

and when information asymmetry has occurred. It is an anomaly that can lead to a clear lack of synchronization in operations, such as profits being redirected and the risk that the agent becomes independent, on account of the contacts he has made and his knowledge of the business. Such circumstances are not observable in the case of the Rothschilds' network.

The explanation is to be found in the relations and loyalties among the Rothschild agencies that was built on a complex structure of established norms and strict rules of hierarchy that went beyond the realm of purely economic incentives. All employees of the Rothschild agencies were Jews and, furthermore, were bound by tight family relationships, which were maintained and encouraged through extreme endogamy. The agents were trained in their youth at the different agencies around Europe, moving from one to another in a constant process of learning and bonding. Along with the hierarchies, the key to some extent lay in their participating in the business and feeling it to be a part of themselves, so vastly reducing possible transaction costs.

Figure 11.1,<sup>3</sup> showing the trees of the groups of families acting as Rothschild agents in Madrid and Trieste, their two main strongholds of southern Europe, reflects some of these elements. Rothschild family members are highlighted, and, in a larger typesize, we have the people who enjoyed partner status in the Madrid agency (Daniel Weisweiler, Ignacio Bauer, his son, Gustavo, grandsons Alfredo and Ignacio, Mauricio Schey and Alfredo Weil), together with other agency members not in this category, such as Guillermo Ettlring, whose bad health impeded his attaining such a status, and Fritz Perugia, who spent some of his apprenticeship in Madrid before returning to Trieste to take over the reins at the agency there. One can observe how over the years there were constant blood marriages between the Madrid agents and members of the Landauer, Mörpurgo-Parente and Perugia families, and also with members of well-known branches of Jewish bankers such as the Goldsmidt (known in England as Goldsmith), Shey, Ephrussi, Cahend'Anvers or the Rothschilds themselves. It is also highly significant that almost all the families stem from the old Frankfurter Judengasse, from where, apart from those appearing in the figure, a large number of important banking surnames in contemporary European banking have emerged.

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<sup>3</sup> The tree has been drawn up from the database of the Rothschild Archives in London and from specific references indicated in the following footnotes and others taken from correspondence.

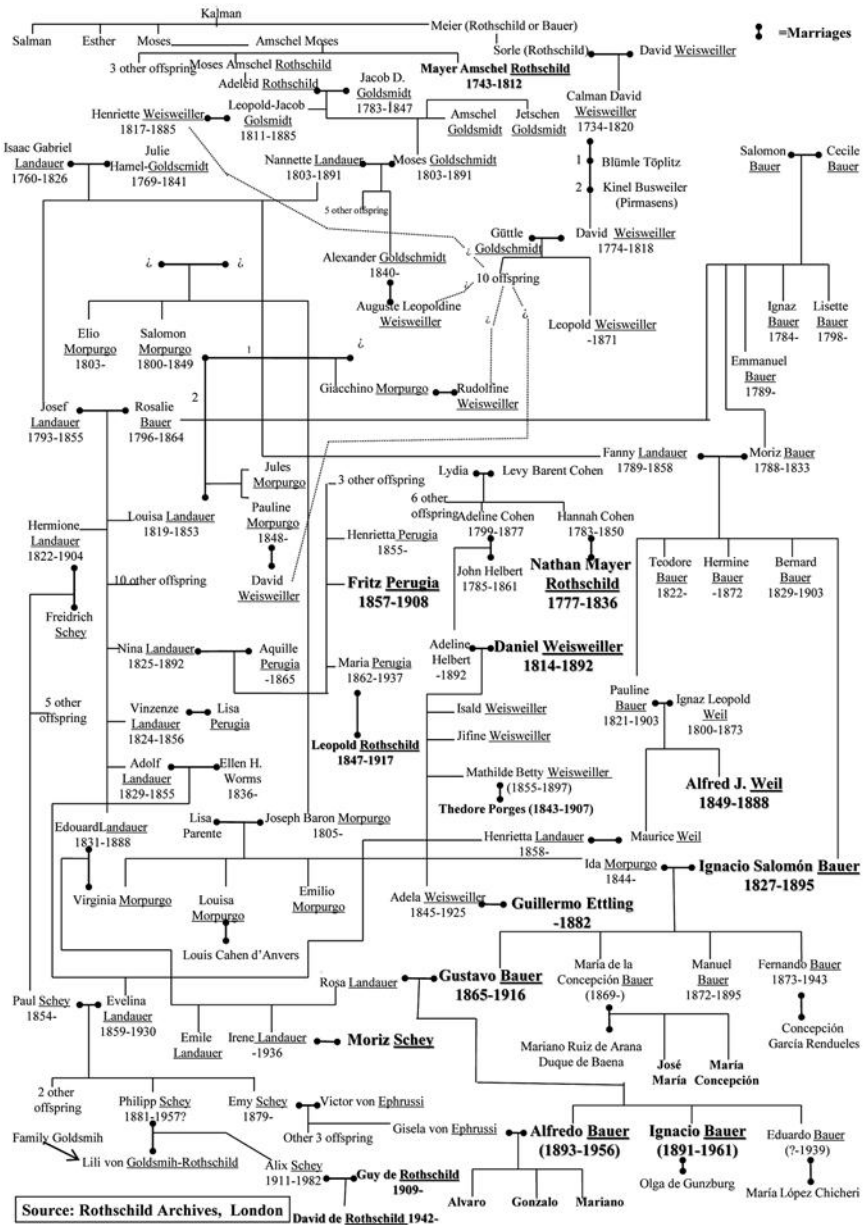


Figure 11.1 Family relationship among the Rothschild Trieste and Madrid Agencies

Source: Rothschild Archives, London.

The Landauer, Morpurgo and Parente surnames appearing on the left were three of the most important business-banking families in and around Trieste. Marco Parente was agent in Trieste for the Vienna Rothschilds from the beginning of the nineteenth century before joining up with Giuseppe Lazzaro Morpurgo to establish Morpurgo & Parente. Parente was the promoter of the *Assicurazioni Generali Austro-Italiche*,<sup>4</sup> founded in 1831 from a group of Jewish families from Trieste and Venice. On the death of Marco Parente, Giuseppe Morpurgo, a Baron of the Empire since 1869 and conveniently married to Lisa Parente, took over the *Generali* until his death, while his brother, Elio Morpurgo, became chairman of Austrian Lloyd.<sup>5</sup> This second generation became closely related to the Landauer family, in turn related by family to the Goldsmiths and the Scheys. We lack specific data about this company but we do have evidence that Gustave Landauer was a partner of Morpurgo & Parente and, in all likelihood, so was his brother-in-law, Aquille Perugia, who married one of his daughters to Leopold Rothschild, the head partner of the London house.

For three generations, the Bauer family married into the Landauer family (the father and an aunt of Ignacio's), the Morpurgos (Ignacio<sup>6</sup>) and again the Landauers (his son, Gustavo). Alfredo Weil, who was an agent in his own right in Madrid from 1877,<sup>7</sup> was Ignacio's nephew and worked from a young age at the agency until his early death in 1888. Another marriage of interest was that between the daughter of Baron Morpurgo and Louis Cahend'Anvers, making him the brother-in-law of Ignacio Bauer. It was a further link between the Rothschilds' network and the Peñarroya chairman, who did business together from the 1850s.<sup>8</sup>

Weisweiler, meanwhile, was married to Helbert Cohen, Nathan Mayer Rothschild's niece, and was also connected on his mother's side with the Goldsmiths and their close ties to the German and Austrian branches of the Rothschilds. It is highly likely that one of the banker's greatest disappointments was to have had no male heir – an essential element for inheritance in the Jewish houses.<sup>9</sup> However, he did marry his daughter Mathilde to the diamond magnate Theodor Porges,

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<sup>4</sup> This company was the forerunner of the current *Grupo Generali*. The name "Austro-Italiche" was dropped in 1848. The Morpurgo family were represented on the board until 1938.

<sup>5</sup> Zimolo (1998).

<sup>6</sup> It seems that James Rothschild arranged the marriage between I. Bauer and Ida Morpurgo, in 1864.

<sup>7</sup> Communication with the Bank of Spain on 1 January 1877, ABE, register, 1st transfer, file 533.

<sup>8</sup> Ferguson (1998: 1010).

<sup>9</sup> The Rothschilds, for example, had stipulated that only male descendants could enter the family partnership and according to the position they held in the succession, while daughters and their husbands were expressly required to renounce the family wealth.



a partner in Ephrussi-Porges,<sup>10</sup> although he was not pleased by Adela, his other daughter, marrying Guillermo Ettlíng.<sup>11</sup>

It needs to be emphasized that the Rothschilds and their partners did not accept anybody outside the family circles as agents or associates. A good illustration of this attitude comes from 1874, when Scharfenberg died and left the Havana agency vacant. Bauer wrote to the Rothschilds regarding a replacement in the following terms:

Messrs. Burruty Chaffraix & Co. of Havana has sent us a circular as successors of Scharfenberg Hohly & Cia. Would you inform us if this new House is to continue as your correspondent, [for] we are well aware that there is no possibility of their acting as an agency.<sup>12</sup>

The missive makes it very clear that the Rothschilds clearly made a distinction between associated agents and mere correspondents.

Many will interpret this organizational system as being over-conservative and dependent on too many variables of an economic nature. Yet the fact remains that it functioned efficiently and that, for a very long period, we have no cases of asymmetric information between the Rothschild and their agencies. This has been offered repeatedly by experts<sup>13</sup> as one of the key reasons for the family's business success and their unquestionable leadership of European finances at that time. There is no issue here of this type of endogamy being particular to Jewish banks and businesses, for it was a widely extended practice among other ethnic groups in the world of finance, and especially so among the German Protestant bankers.

In the case of the Madrid agency, it was Nathan who first granted powers to Weisweiler, although both he and then Bauer and his descendants served the Houses of Paris and London alike. Proof of this is evident in Weisweiler's habit

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<sup>10</sup> Alphonse Rothschild acted likewise with one of his daughters whom he married to the other partner, Maurice Ephrussi. The aim of the union, according to Ferguson (1998: 903), was to extend the links among the Russian Jews.

<sup>11</sup> Adela Weisweiler had a very different life to the majority of Jewish women related to the bank, whose lives were governed by the "strategic" decisions (business alliances) of their parents. Against her father's wishes, in 1863 she married Ettlíng, who would die in 1882. Eight years later she remarried André Caprón, a member of the French parliament and Mayor of Cannes. Her father forthwith disinherited her for such a "scandalous" action. In the following decades, she turned Villa Madrid, her house in Cannes, into a political and cultural focus for the city, which was governed by her second husband for 27 years. This and other biographical data on Weisweiler were offered us by Adela's grandson, Frederic Vincent.

<sup>12</sup> Letter from Bauer dated 4 May 1874, ARL XI/109/115. On 12 June Bauer informed the Rothschilds that he had still not found a "good enough" correspondent in Havana.

<sup>13</sup> Gille (1965 and 1967), Ferguson (1998), Bouvier (1967), among others.

of sending copies of his letters to both cities, and the practice was continued on a daily basis by his successors for 90 years.<sup>14</sup>

This synchronization of central offices and agencies was complemented by an elaborate channelling of economic information from third parties and institutions. These reports, which were of especial importance when trying to make inroads into certain businesses or in taking advantage of favourable market moments, were purchased through the employees of the house, or were obtained through the family's undisguised proximity to the corridors of power and decision-making as well as through a network of elite customers. One truly illustrative aspect is the agencies' monitoring of legislative developments, and it is surprising how easily they were able to obtain confidential information about any law under consideration. Their regular contacts with administration, the court and Cabinet members (of whatever ideology) meant that the door was always open for a continuation of operations. Any business opportunity arising in Madrid, be it commercial (tobacco, copper, lead, mercury, flour, etc.), financial (loans or advances to the government or to the Bank of Spain, opening accounts for the royal family or for Spanish financiers, sales of precious metals, negotiation of debt bonds, etc.) or industrial (mining and railway concessions) was swiftly made known to the Madrid agency's patrons. However, this does not mean that the Rothschilds did not sometimes choose to keep their agents out of some Spanish issues, which they preferred to be managed abroad or by the House itself, as in the case of Rio Tinto.

There were, however, still occasions when the information flow broke down, and led to tensions and misunderstandings. For example, a delay in communications in the middle of the negotiations for the 1868–69 sovereign loan saw Ignacio Bauer writing from Madrid:

Sirs, We were highly honoured to receive your letter of the 8th, inst. and feel obliged to make reference to our own letters sent via Paris which, since the post set out three hours before schedule, made it materially impossible for us to make copies of the same. Given that we send every day, you, too, should receive our letters daily, and if otherwise, then the delay lies in Paris, where it will be easy to receive the exact correspondence. Would you prefer us to send copies of our letters directly via the press? You have but to order so. As regards your observation that our advice of the business was late, please allow us to appeal to your brilliant memory: we have not ceased to write to you for a single day, and your own letters will bear this out. We cannot use this to justify the reproach in your aforementioned letter, and we would express that the circumstances will not improve.<sup>15</sup>

<sup>14</sup> This correspondence was by telegraph where possible.

<sup>15</sup> Letter from Bauer dated 11 January 1869, ARL XI/109/97.

Bauer's sarcasm was a clear indication of the relations between the Rothschilds and their agents was more one of respect than of complete submission, but it also shows that the system worked, and very well at that, and in both directions, too. There are anecdotes that confirm the speed and efficient functioning of the internal communications. As an example we have the negotiations for the 1871 bond issue, in which Alphonse and Gustave expressed their surprise that the Spanish Finances Committee in Paris had received no news of how the talks were going in Madrid, while they already had all the documents.<sup>16</sup>

Within the agency the work was distributed hierarchically and according to the specialisms of the employees: Weisweiller proved most able in financial matters and in preparing the conditions of the advances and the large debt operations; Ignacio Bauer, specialized in political relations and negotiations and railway issues (he was a delegated MZA board member for 30 years); Ettling, and then Weil, did more of the commercial and mining business. The distribution of profits and merits was another matter, though. In theory, Weisweiller and Bauer each had a 50 per cent share in "Weisweiller y Bauer", founded, as mentioned, in 1855. But on more than one occasion Bauer complained that the Rothschilds gave more recognition to Weisweiller's work than to his own.<sup>17</sup> However, as of 1870, Weisweiller's long stays in Paris tipped the scales in Bauer's favour. Elsewhere, Guillermo Ettling's bad health prevented him offering any lasting services to the agency, and we know that he spent some years in retirement in Bordeaux and Cannes before his death in 1882. Weil proved to be a tireless worker and well versed in Spanish politics and economics, and would undoubtedly have followed on from his uncle but for his early death in 1888. So bit by bit Bauer was left on his own to run the agency and he demanded that his dedication be rewarded. When Weil died, therefore, the deeds of the company were rewritten to give him a 62.5 per cent share and Weisweiller 37.5 per cent, with an almost token capital of 750,000 pesetas, which remained unchanged until the company was dissolved.<sup>18</sup>

The agency also had a string of employees whose names and exact dates of admission we do not have. What we do know is that, after the departure of Estanislao Urquijo, Moreno and Barcaiztegui, who had worked in the early years with Weisweiller, the most trusted employee was José de Endara y Goñi, who was given powers by Bauer in 1872, along with Weil. The agency's cashier, Pedro Rodríguez González, together with Vicente Esquivel and Federico Perugia, would receive similar powers in 1885, although only Pedro Rodríguez would still hold them in 1888, on this occasion along with Gustavo Bauer, who had begun working with his father from an early age. Both saw their powers

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<sup>16</sup> Letter from the Paris House to that of London dated 1 September 1871, ARL XI/109/107.

<sup>17</sup> Letter from Bauer dated 10 May 1869, ARL XI/109/98.

<sup>18</sup> Liquidation deed of the Weisweiller y Bauer company, dated 30 January 1892, ABE, register, 1st transference, file 553.

renewed in 1890.<sup>19</sup> The sons of Pedro Rodríguez, José and Jesús Rodríguez Ferro, continued, through the 1920s, to perform the functions of their father until the agency's bankruptcy. Alongside these, we find other officers who did not belong specifically to the House, such as the lawyer and politician Venancio González, the civil engineer Rafael Clemente and Miguel Martínez Campos. The firm referred to them as "employees" but, it seems, only in matters referring to MZA.<sup>20</sup>

In general, the Rothschilds laid down that agents should act on their behalf but otherwise allowed them quite wide powers in their representation and when doing business. The system, though, was based on loyalty and trust, and the areas of decision making and of profits were clearly defined. The agents could do as many deals as they liked and, according to the importance of these, they would keep the Head Office informed, which was where the final decision always rested. When acting on behalf of the House of Rothschild, all the profit was for the Rothschilds and no commissions were paid. In exchange, the Rothschilds were responsible for all the agency's costs and paid their agents a fixed sum as well as offering incentives of small shares in the deals they closed, preferential access to issues made by the House and profits from some of the services to family-controlled companies. Thus, for example, the London House set aside an eighth part of the net profits from Almaden for the Madrid partners, which was broken down in turn to 50 per cent for Bauer, 26.35 per cent for Weisweiller and 23.65 per cent to Ettlting.<sup>21</sup> They also received for themselves the financial services in Spain of MZA, Deutsch & Cie.<sup>22</sup> and Peñarroya, which brought in a tidy regular income.<sup>23</sup>

Regarding incentives outside the agency, peddling influence and bribery were widely used methods both in closing or speeding up specific operations and rewarding favours or assuring personal loyalty.

We mentioned earlier the very substantial bribes wielded during the first Almaden contract, in 1834, and the practice was widely repeated, albeit with due discretion, in the following years. In 1846 Weisweiller sorted out the delays in the

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<sup>19</sup> Copies of the powers granted on 15 June 1872, 28 July 1885, 2 July 1888 and 17 May 1890. ABE, register, 1st transference, file 553.

<sup>20</sup> Letter from Gustavo Bauer dated 12 June 1895, ARP 132AQ24.

<sup>21</sup> Letter from Weisweiller and Bauer dated 15 March 1872, ARL, 000/374/1. When Weil took up his post as partner in 1877 the percentages changed as follows: 50 per cent Bauer, 25 per cent Weisweiller, 12.5 per cent Ettlting and 12.5 per cent Weil. In a letter of 15 August 1878 from London to Madrid it was expressed that the amount to be divided among them was 4,005 pounds, 14 shillings and 5 pence, on the basis of the percentage each held. ARL 000/374/1.

<sup>22</sup> In letters dated 22 and 23 June 1888 Weisweiller requested some remuneration from Deutsch & Cie. in payment for services rendered by the agency in Spain. In a letter of 1 August 1895 Gustavo Bauer recognized having received 51,000 francs a year from Deutsch. ARP 132AQ24.

<sup>23</sup> ArMetaleurop, PYA-Juridique, 257. PVSCA, book 1, session of 14 November 1881.

Treasury operations with a timely bribe to Mon,<sup>24</sup> and we know of other similar payments made in the government bond issues of 1868–69 and 1871<sup>25</sup> and when preparing the 1870 Almaden contract. These “premiums”, which were nothing but bribes, usually went into the pockets of high officials at the Exchequer, or even to the ministers themselves, although Weisweiller and Bauer were at pains to maintain the anonymity of those involved, and would not even inform the Rothschilds of any names. In the specific case of the Almaden operation, the middleman in question received no less than 61,524 pounds<sup>26</sup> (1,497,494 pesetas), which was equivalent to a quarter of the immediate profits from the operation we referred to in Chapter 6. The agency also had the custom of setting aside two-thousandths of the net profits of the precious metals businesses for small bribes to informers and friends in government.

There is an enlightening anecdote that also has to do with the 1870 Almaden contract and which perfectly illustrates the level of corruption among the Spanish politicians of the time. On 4 June, two months after signing the agreement, Bauer received Alejandro Mon in the office in the Plazuela de Santa María. The old politician barefacedly asked for “a small bit of this Almaden business, for his spadework”. Two weeks later he went back to Bauer, reminding him of “the great services he had given to the House over 35 years in the matter of mercury [...] and what an excellent opportunity it was for him to gain a little extra from the issue”.<sup>27</sup> Bauer finally wrote to the Rothschilds to ascertain their intentions towards the politician, although it would seem that they wasted little attention on the request. It may be that Mon was already a political has-been but the event offers us a clear view of how public matters were viewed by most nineteenth-century Spanish politicians. Another more subtle, and perhaps less scandalous, way of rewarding and paying occasional collaborators or of buying favours was a seat on the boards of the companies controlled by the family.<sup>28</sup>

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<sup>24</sup> Otazu (1987: 275).

<sup>25</sup> Letter from Bauer 17 November 1871, ARL, XI/109/107.

<sup>26</sup> Letter from Bauer dated 27 June 1870, ARL, XI/109/102. Bauer had proposed offering a new sovereign bond issue in order to guarantee the business, but Weisweiller insisted that “assure the mercury business you have to come up with a fat bribe (which he wrote as *Judendeutsh*)”. Letter from Bauer dated 20 March 1870, ARL XI/109/101.

<sup>27</sup> Letters from Bauer dated 4 and 19 June 1870, ARL, XI/109/102.

<sup>28</sup> Yet it was not always possible to keep everybody interested satisfied. In a letter of 4 December 1868 (ARL XI/109/96) Bauer passed on a request in another letter from Prim that asked for his close friend, Fernando Guerrero, to be found a place on the MZA Paris Committee. The agent had replied that vacancies on the board would not be occupied until the accounts had been sorted out. This was true, since various seats were not filled for years, although it is hard to believe that the Rothschilds would have allowed the presence of a stranger on the Paris Committee, even if they did in Madrid.

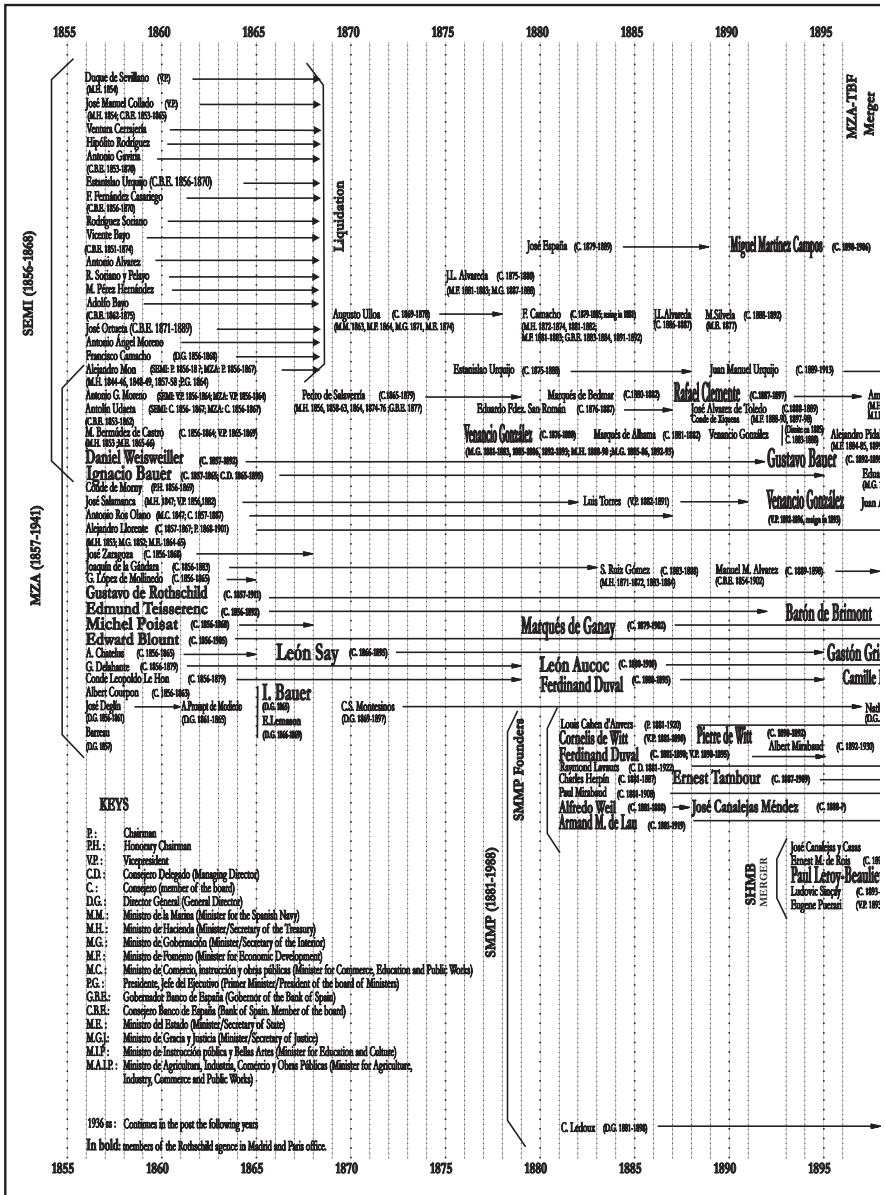


Figure 11.2 Members of SEMI, MZA and SMMP boards of directors (1856–1936)

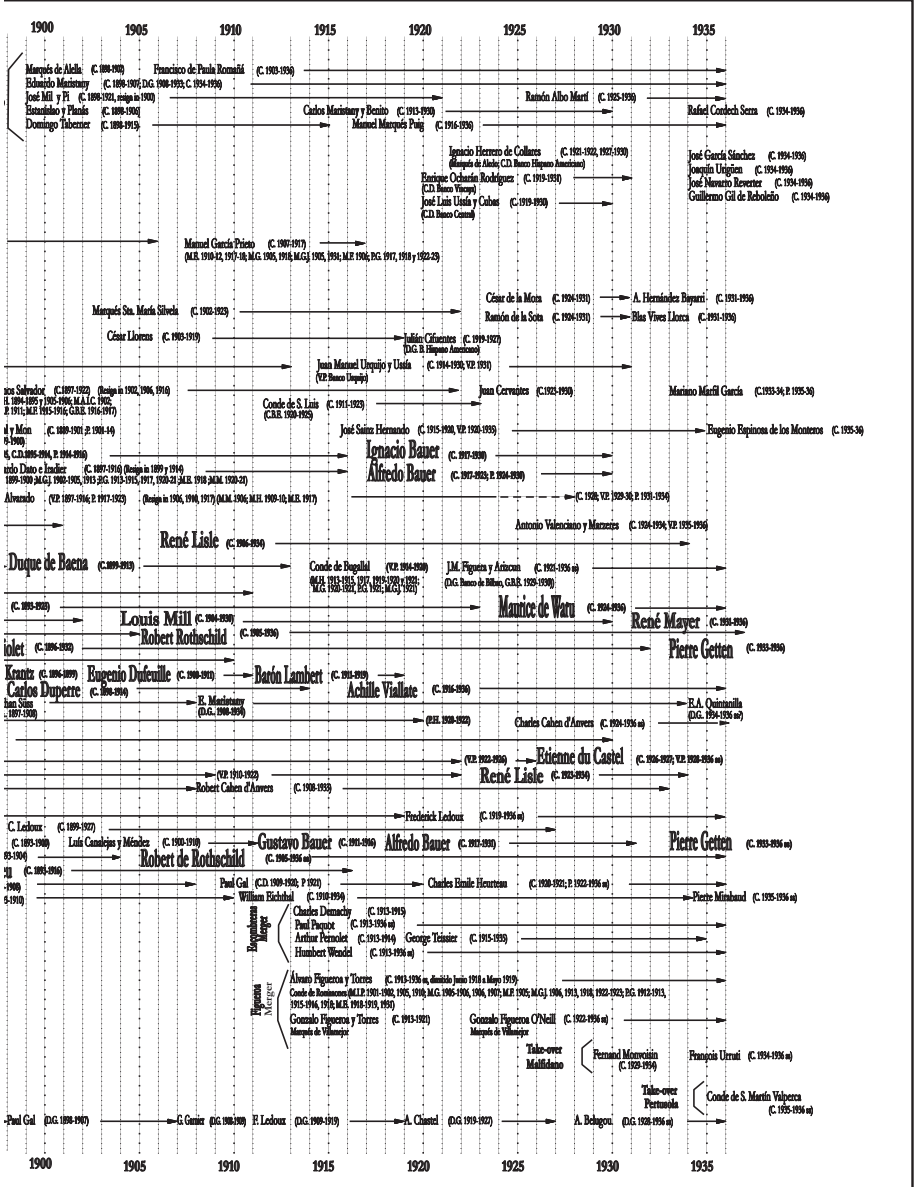


Figure 11.2 offers a recomposition of how the administrative boards of MZA, the SEMI and Peñarroya, evolved from their beginnings through to 1936. As complementary information, the inherent duties are indicated, as are those that are related to political positions, especially those of the Treasury and the Ministry of Economic Development, along with membership of other boards of financial institutions. Among the Spanish politicians we find 13 Ministers of the Treasury – Juan Alvarado, Manuel Bermúdez de Castro, José Manuel Collado, Venancio González, Alejandro Llorente, José Salamanca, José Canalejas, Amos Salvador (twice), Juan Francisco Camacho, Pedro Salaverría and Gabino Bugallal (no fewer than four times each) – nine Ministers for Economic Development – Albareda, Augusto Ulloa, Camacho, Salvador, García Prieto, Alejandro Pidal, Romanones and the conde de Xiquena (twice) – and no fewer than six presidents of the Board of Ministers: Mon, Romanones, Canalejas, Dato, García Prieto and Bugallal. As can be observed, presidents of the government and ministers alike came and went as board members according to whether or not they were in office, although some quite barefacedly sat on the board of the MZA at the same time that they were ministers.<sup>29</sup> It is in any case confirmed that politicians alternated their government responsibilities with their membership of the boards of the same companies on which they were legislating. The privileged treatment that was given to these companies in the Cortes is proof of how far their influence stretched and the moral standing of the country's leaders at that time.

As for board members from other firms, we can see that those from the Bank of Spain had a greater presence in the SEMI and that they had all but disappeared from MZA as of 1868. There are some significant exceptions: Salaverría and Camacho, who were both governors of the Bank of Spain, Manuel María Álvarez, who was on the board of the Bank and of MZA between 1889 and 1898, and García Prieto, who was in the same position from 1920 to 1925. From the Banco Hipotecario we have Albareda, Dato, Romanones, García Prieto, Alvarado and Llorente, who all joined after the struggles between the bank and the Rothschild agency had ended, with the exception of Alejandro Llorente, who sat on the MZA board from the beginning and who in any case always adopted a very accommodating posture in the disputes between the Rothschilds and the Banco Hipotecario-Paribas. Finally, there is a large number of directors from the new commercial banks, such as the Banco de Vizcaya, the Hispano, Banesto, Banca Sáinz and the Urquijo, along with some prominent businessmen like Ramón de la Sota, in MZA, from the end of the First World War.

Although not explicitly apparent from the Figure 11.2, there is a noteworthy coincidence of members of the MZA board and chairmen of the *Compañía Arrendataria de Tabacos*. While there were no objective links between between the two companies, other than those between the Bank of Spain, the main shareholder, and the agency in the CAT foundation, we do find as many as five MZA board

<sup>29</sup> This was the case of Salaverría, who was asked on one occasion not to resign from the MZA board during his term as minister.



members who were also chairmen of the CAT – Camacho, Ruiz Gómez, Alejandro Pidal y Mon, Venancio González and Amós Salvador, the last of whom was chairman of this institution on three different occasions.<sup>30</sup> It seems more relevant to talk about some interconnection between the two firms rather than mere chance, although the issue is worthy of further study.

Elsewhere we find families of members sitting on the boards over two or more generations. Apart from the Bauers and the Rothschilds, in MZA, and the Cahend' Anvers and Mirabauds, in Peñarroya, the longest lasting were the Urquijos. The first of these was Estanislao who, after sitting the on the SEMI board for all of its short history, joined MZA in 1875, where he remained for five years before leaving his seat to his nephew Juan Manuel, the same who had been in charge of the Casa Urquijo y Arenzana and the Madrid Syndicate. He in turn was succeeded by his second son, his namesake. The Figueroas came on to the Peñarroya board and brought all their industrial wealth with them. They held their seats and those of their sons until after the Spanish Civil War. The Mons, Alejandro Mon and his nephew Alejandro Pidal y Mon, held the chairmanship of MZA between 1857 and 1868 and 1901 and 1914, respectively, and also that of the SEMI, which Mon occupied until the company was dissolved. Special mention should be made of the Canalejas, who stood at the very heart of Peñarroya. The father, José Canalejas y Casas, and his two sons, José and Luis Canalejas y Méndez, were senators and active in politics, although José Canalejas the younger was by far the most active. He was a great reformist at the dawn of the twentieth century. The three occupied the same seat in turn on the Peñarroya board after similar experiences at the Badajoz, as we have mentioned.<sup>31</sup> Surprisingly though it was the son, José, who was first to occupy the seat when he replaced Weil at Peñarroya, taking on the function of consultant lawyer in Madrid and a salary of 1,500 francs a year. July 1891 witnessed all three Canalejas defending the proposal for the Peñarroya–Fuente del Arco line in the Senate on behalf of the SMMP. José Canalejas did his work well and managed to get most of the demands and conditions rejected, such as the obligation to have mail and prison vans and the need to make the service amenable to the requirements of the Post Office. The second of the brothers, Luis, a civil engineer, in turn received 5,000 pesetas for the good services rendered in the construction of this railway line.<sup>32</sup>

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<sup>30</sup> Comín and Martín Aceña, (1999: 14, 138–139, 174 and 214).

<sup>31</sup> José Canalejas senior had been general girector of the Badajoz, and his eldest son, José, the secretary.

<sup>32</sup> *ArMetaleurop*, PYA-Juridique, 257. PVSCA, book 2, sessions of 20 June 1888, 18 March 1891, 19 October 1892 and book 3, session of 12 September 1895.

Ideologically, the tendencies of the members were somewhat irregular, although it has been commented that there was an inclination at the agency to surround itself with progressive liberal politicians or those from the old Unión Liberal or Liberal Party if we are talking about the Restoration. Among these were Alvarado, Romanones, Salvador, Canalejas, Camacho and Montesinos, Espartero's son-in-law. Among the conservative politicians of the Isabeline regime, or the moderates of the Restoration, we find Llorente, Dato, Bugallal, Pidal or well-known supporters of Cánovas, such as the conde de Xiquena. There are even some rival politicians on the same MZA board such as Martínez de Castro and Alejandro Mon, or García Prieto and Dato. But they were always politicians who were firmly pro-monarchy and loyal to the regime.

Yet we should insist that in spite of the influence the politicians may have had on the boards, the managerial positions were always given to specialist trusted experts. In this respect, the Rothschilds were even more selective.

Cipriano Segundo Montesinos, a renowned and respected technician and the number-one industrial engineer in Spain who also participated in drawing up the 1855 Railways Act when he was General Director of Highways, would be the man chosen to run MZA on a day-to-day basis, under the watchful eye of first Ignacio and later Gustavo Bauer. As of 1899, following the retirement of Montesinos, the incorporation of TBF meant management became a more complicated task, so MZA decided to set up a specific management committee that would, together with the Paris Committee, hold executive power in the company. The committee was to be made up of the Bauers and the new general director, Nathan Süß, who would be replaced in 1908 by the indefatigable Eduardo Maristany, who would hold the post until 1934. The other members included a series of highly trusted board members (never more than two), including Eduardo Dato, Alvarado, Manuel Marqués, Bugallal and Antonio Valenciano.<sup>33</sup> Other men from the House, such as Rafael Clemente and Martínez Campos, collaborated closely in these tasks.

Away from the boards, the company showed a preference for contracting the most prestigious law practices. The first to work in this capacity on a continuous basis was Manuel Cortina, who was not an MZA board member but who acted from the start as a legal consultant. Cortina, who rapidly quit politics, was dean of the Madrid College of Lawyers from 1847 and was, without any shade of doubt, the most prestigious lawyer in Madrid until his death in 1879.<sup>34</sup> He was substituted for some years by Venancio González, a man of the House, and then in the twentieth century by the Dato firm of lawyers, possibly in tandem with that of Gabino Bugallal, although there is no document to prove this. It was also mentioned that the Rothschilds contracted a former Minister of Justice, Vicente Piniés, to support them in the thorny issue of the Bauer's bankruptcy.

This criterion of excellence that was sought in Madrid was likewise applied by the Rothschilds to the Paris MZA Committee and at Peñarroya. The MZA

<sup>33</sup> MZA Railway Annual and Reports.

<sup>34</sup> Santos Torres (1996).

Committee was where the strategic decisions of the railway company were taken, and here we find such renowned figures as the economist Léon Say.<sup>35</sup> The grandson of the politician Jean Say, this liberal politician who was very close to Gustavo Rothschild and who had been French Minister of Finance on many occasions, was also the director of the *Compagnie du Nord* and arguably the most important technician on the committee in its initial period. Say was influential in putting the former Inspector of Finances and Cabinet Chief of Staff, René Lisle, in the administration of MZA and Nord. After some time in the lower echelons of the company, Lisle would take up the role of his mentor on the Committee, working closely with Maristany. Lisle also joined Peñarroya in 1923, with the same function of looking after the bankers' interests. Lisle, along with Gustavo and Alfredo Bauer, Robert Rothschild, Ferdinand Duval and Pierre Getten (who replaced him in the 1930s), were the only people to have seats both at Peñarroya and MZA. Other employee-associates of the firm included the engineer Leon Aucoc, who worked alongside Say, the prestigious economist Paul Leroy-Beaulieu, who joined the Peñarroya board in 1893, and Gastón Griolet, chairman of the Paris Committee after the death of Gustavo Rothschild. As well as these, there were other people, close to the Rothschilds, such as Baron Lambert or René Mayer, who would become Prime Minister in the 1950s, and the already-mentioned representatives of the House at Peñarroya, Cornelis and Pierre de Witt, Ferdinand Duval and Armand de Lau.

In mining matters the Paris House contracted the services of a renowned expert, Jules Aron, a very capable mining engineer whose job was to advise his new employers regarding the most beneficial investments and also to coordinate and oversee the industrial and business policies of the companies they worked with. Aron was made assistant engineer to the Peñarroya management, a position he held until 1917, when René Weil took over (he would continue in the role through the 1920s and 1930s). In London, these functions were assumed by Hamilton Smith, director of the Exploration Co.<sup>36</sup>

Rio Tinto has not been included in the figure because it always acted with some degree of independence in Spain, in contrast to the usual system of string-pulling employed by the Rothschilds,<sup>37</sup> and also because the structure of its boards was

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<sup>35</sup> Say became the father-in-law of Bazile Parent, although it is not known whether this relationship was influential in the negotiations on the merger of the Badajoz or in the creation of Peñarroya.

<sup>36</sup> Mckay (1986: 108), Ferguson (1998: 876) and Turrel and Van-Helten (1986).

<sup>37</sup> This means that the Rothschilds did not intervene in the day-to-day running of Rio Tinto. There are accounts by former employees of the company that remark that the bankers were in the habit of going to the Rio Tinto head office for lunch, so there was no need for them to be on the board or even for them to receive specific reports. This is hardly surprising when one considers that New Court, the head office of N.M. Rothschild & Sons, was barely 50 yards from 3 Lombard Street, where the Rio Tinto head office was located for many years, on the same premises occupied today by Jardine Matheson.

very different from that of the large railways or of Peñarroya, which incorporated the directors of the companies with which it merged. Nevertheless, the policy adopted was similar to that described above, as we have described in Chapter 9. Given the success of the institutional control initiatives the Rothschilds imposed in 1905, it was deemed best not to change these, even if it meant going through with them to the very end.

### **The Rothschilds' Superiority in Financial Services**

Apart from inherent benefits of efficient diversified management, there are other purely competitive variables that gave the Rothschilds their absolute advantage over potential rivals when it came to both public financing and company financing. We can point specifically to the family's proven capacity to raise their own and others' capital at a speed, volume and cost without match in the Spanish economic sphere. This capacity was evident in all their activities, not just in public finance or investments. Nevertheless, we will analyse each separately, since in our view the services and financial requirements covered differed substantially from one field of business to another.

#### *Services to the State and to the Bank of Spain*

As was laid out in Chapter 1, the Rothschilds held the advantage of having been first in the field of public finance from the time of the Napoleonic Wars. More importance lay, however, in their superiority on the London and Paris bond markets, in the trade discounts and in international bullion arbitrage, which was the key to the consolidation of their influence in Spanish finances as a whole. This would in itself have been sufficient to explain a large part of their success and their being the firm choice of the Treasury and Bank of Spain, especially in times of crisis, such as those in the mid-1860s or early 1890s, when nobody else seemed willing or able to lend to the Spanish government.

As could not have been otherwise, both the Treasury and the Bank of Spain had to pay interests on these services, which were valued in direct accordance with the growing risk that each initiative involved. The classic historiographical argument and that put forward by some contemporary analysts states that the conditions of the contracts became positively harmful to the interests of the Treasury. Yet, even taking into account the waning negotiating capacity of the successive governments from 1864, closer analysis of the contracts reveals that the phenomenon was not so terrible as has been made out. A look at Figure 11.3 shows that the cost of the Rothschilds' operations barely differs from the going market prices in the first years of the sample. As of 1866, however, the Spanish capital market became polarized and the price of money on the ordinary market (official discount) became much cheaper than what the Treasury was actually paying to its occasional lenders.

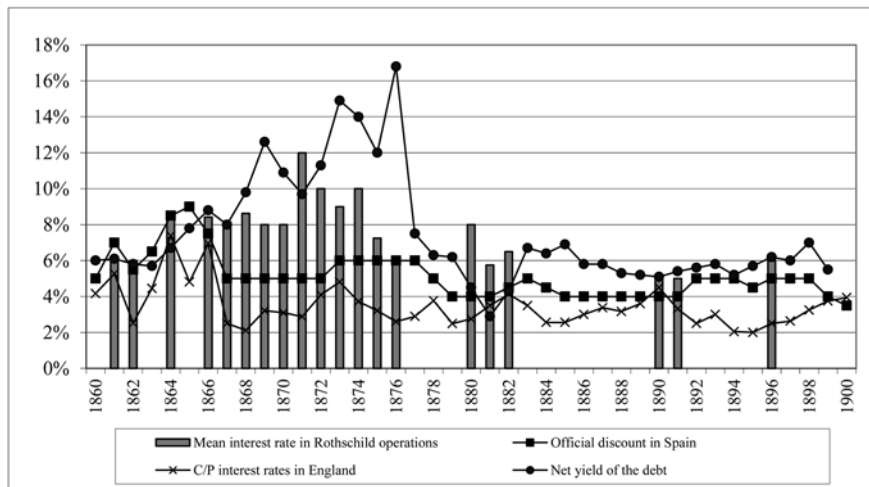


Figure 11.3 Interest rates on Rothschild loans to Spanish public institutions, compared to other reference rates, 1860–1900

Source: García Ruiz (1996: 245–246), Tafunell (1988: 481–482) and Homer and Sylla (1991).

We do not have a series of interest rates for the floating debt during these years, but the figures that we have been able to cite confirm that the mean interest rates on these operations followed, at best, the net yield rate (or real interest) of the consolidated debt. In such a scenario, one cannot overlook the fact that the Rothschilds were able to offer a rate no less than four points below that of the competition in the most critical moments.<sup>38</sup> One cannot, therefore, claim that the conditions of the majority of the operations were usurious or “leonine”. They were basically the product of the times. Surprising as it may seem, their tenders were almost always the cheapest option for most of the operations, and that is the reason for their continued contacts with the public institutions which, after all, were looking for the most efficient way to raise capital. Even so, the Rothschilds showed great skill in weighing up the risks and reducing them by mixing classical credit operations with their mercury, metal sales and railway businesses in Spain. It is highly significant that the State never failed to pay for their services.

<sup>38</sup> For example, the contracts signed during the Sexenio with the Bank of Paris or the numerous advances made by the Madrid Syndicate during these years. These operations were never below an annual interest rate of 12 per cent and some reached 22.6 per cent, while in extreme cases this figure was quadrupled. The Rothschild operations, by contrast, fluctuated between 8 and 12 per cent. Letters from Weisweiler, Bauer and Alfredo Weil dated 8 January 1871, 15 May 1871, 14 and 16 August 1872, 25 to 27 April 1874, 27 May 1874 and 2, 3, 5 June 1874, ARL XI/109/104, 109 and 115.

As to whether any alternatives existed, the answer would be a “Yes, but ...”. Certainly they existed, but they proved to be more expensive for the State and none could match either the volume or the speed offered by the Rothschilds. Had the government opted, for example, for exclusively national capital before the 1880s, the outcome could have been counterproductive for the public economy. It would have cost more, but perhaps worse still, it could have led to a cooling down of the Spanish economy as a result of general deflation and a lack of exchange mediums.

It was a similar story for the precious metals market, which was closely linked to Treasury operations, to the country’s monetary requirements and to the Bank of Spain’s need to bolster its reserves. A very elementary analysis of the prices applied by the Rothschilds to their sales of gold in Spain shows that the profit made from such operations was at best around 1 per cent,<sup>39</sup> which was achieved by making use of the lower costs of their own foundries, which offered gold for re-melting at a slightly lower price than available on the free market. Such a tight margin did not include the costs of transport, packaging, insurance and brokerage, which were included in the final price, and so any worthwhile profit could only be made through large quantities of exchanges. The Spanish mint, in contrast, produced gold coins at 900 parts per thousand from the pure 24-carat gold the Rothschilds sold it, thus making an immediate 10 per cent net gain on the purchases.

It is clear, then, that the Spanish government generally emerged on a positive footing from its relations with the Rothschilds or, if not, it got the least negative option. That the Treasury never regretted its operations with the family is proof of this, as is the fact that successive governments, whatever their political tendencies, all went to the Rothschilds, often to find their petitions rejected. With all its imperfections and misguided economic policies, the State took the most efficient line when seeking capital, even when its sole objective was at times merely to continue to totter on the brink of bankruptcy.

### *Financing the Companies*

In all the industrial and transport companies the Rothschilds were involved in, the area in which they had most influence was clearly that of financing. They were constantly aware of the direct and indirect benefits to be had from providing these large companies with finance, be it through commissions on increases of capital, loans and advances of funds or through managing the payment of dividends. However, the benefits were mutual and these companies gained continual benefit from having sufficient resources and the Rothschilds’ influence on the stock markets, which was crucial for the successful issuing of shares and bonds either when setting up or during expansion.

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<sup>39</sup> Calculated on the price of the gold deliveries by the Rothschilds to the Spanish public institutions and on the price of gold in Paris between 1860 and 1870, which can be found in Flandreau (1995: 351–352).

This is a widely undervalued but crucial aspect when analysing the historical underdevelopment of Spanish industry, for there is no doubt that it was the availability of capital that marked the difference between the foreign companies in Spain and their domestic counterparts. Part of the explanation lies, of course, in the long tradition found in the European stock markets of financing businesses, unlike the Madrid and Barcelona exchanges,<sup>40</sup> but also responsible was the lack of financial institutions committed to industrial growth available to Spanish businesses until well into the twentieth century.

Looking at specific cases, and without going again into the Rothschilds and MZA's initial financing problems, nor the resources they ploughed into it, unmatched in any other Spanish company in Spain, it is important to underline the collaboration that was offered again and again to the other industrial companies the family supported in Spain.

As co-owners in *Deutsch et Cie.*, the Rothschilds provided the company with all the capital and cash resources it required for solvent management. The first 3 million pesetas of capital was used by *Deutsch* to finance setting up in Spain, which was an extremely swift process. Regarding the financing of day-to-day expenses, the Rothschilds set up a short-term credit account which stood at around 2,500,000 francs. In 1897 they made no objections to increasing the amount to 4 million during a sales crisis, and again to 5 million, when the company overhauled its installations and built new factories in Baeza and Badalona.<sup>41</sup>

Peñarroya's short-term financing was covered by a similar line of credit, but shared by the three banking houses that had participated in its founding: the Rothschilds offered up to 1 million francs; *L. et R. Cahend'Anvers et Cie.* provided half a million; and the *Mirabaud Puerari et Cie.* did the same.<sup>42</sup> However, the real contribution of these entities to Peñarroya was in the increases of capital made to finance the continual takeovers. In all these operations the banks went three ways in a syndicate that guaranteed the selling and the price of the shares in each issue, thus earning a substantial premium on each occasion.<sup>43</sup> In cash terms the figure was 64,575,000 francs, but one must also include the savings from the acquisition of the assets of the companies it merged with, which were paid for in favourably revalued Peñarroya shares.

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<sup>40</sup> As Hoyo (1993 and 2001) has shown. I study the problems of the capital market in the mid-nineteenth century in López-Morell (2002).

<sup>41</sup> ARP, 132 AQ 139 and 354.

<sup>42</sup> All of these were at a single interest rate of 5 per cent, including expenses and commissions. *PYA-Juridique*, 257. *PVSCA.*, book 4, sessions of 28 June 1899 and 26 July 1899.

<sup>43</sup> ARP, 132AQ103.

Table 11.1 Increases in SMMP capital and corresponding issue premiums (in francs)

Year	Motive	Capital	Increase	Shares issued	Issue price or evaluation	Issue premiums			
						Per share	Cash	Contributions	Totals
1881	Initial capital	5,000,000	–	10,000	500	–	–	–	–
1893	Bélmez merger	10,000,000	5,000,000	10,000	500	–	–	–	–
1897	Subscription	11,000,000	1,000,000	2,000	1,500	1,000	2,000,000	–	2,000
1900	Division	11,000,000	–	(44,000)	–	–	–	–	–
1900	Subscription	15,000,000	4,000,000	16,000	1,150	900	14,400,000	–	14,000,000
1900	Contribution of “El Porvenir”	15,437,500	437,500	1,750	250	–	–	–	–
1912	“Escombreras” merger	22,250,000	4,812,500	15,000	1,100	850	–	12,750,000	12,750,000
1912	Subscription			4,250	1,100	850	3,612,500	–	3,612,500
1913	“Figueroa” merger	23,500,000	3,250,000	4,250	1,300	1,050	–	4,462,500	4,462,500
1913	“l’Estaque” merger			2,500	1,250	1,000	–	2,500,000	2,500,000
1913	Subscription			6,250	1,250	1,000	6,250,000	–	6,250,000
1914	“Charbonnages” merger	24,375,000	875,000	3,500	1,350	1,070	–	3,745,000	3,745,000
1917	Free subscription	48,375,000	24,375,000	97,500	250	–	–	–	–
1917	Subscription	73,125,000	24,375,000	97,500	250	–	–	–	–
1925	Subscription	146,250,000	73,125,000	292,500	275	25	7,312,500	–	7,312,500
1926	Subscription “B” shares	150,000,000	3,750,000	15,000	275	25	375,000	–	375,000
1929	Malfidano merger	156,250,000	6,250,000	25,000	250	–	–	28,750,000	28,750,000
1931	Subscription	309,375,000	153,125,000	612,500	300	50	30,625,000	–	30,625,000
Total	–	309,375,000	–	1,237,500	–	–	64,575,000	52,207,500	114,384,500

Source: ArMetaleurop, PYA-Titres, 117.



Rio Tinto, by contrast, barely needed to draw on these funds after the moves to deal with its debt in 1895–96, although this did not stop the Rothschilds from undertaking a second manoeuvre in 1905 to pay off the 2,989,740 pounds in the company's bonds that were still in circulation and which entailed an annual cost of 120,000 pounds. The aim of the operation was twofold. It sought to take advantage of the good share prices and to increase yields as much as possible by placing all the assets in the hands of the shareholders.<sup>44</sup> The Rothschilds opted to issue 50,000 new ordinary shares at 63 pounds pershare (3.25 million pounds or 106,957,500 pesetas), which would be distributed at a ratio of one share per seven old shares.<sup>45</sup> We should recall that the nominal value of Rio Tinto shares was just five pounds and that the issue was being made at over 20 per cent above the last market price. In spite of the risks, the operation was a success and there were no problems selling the issue. From then on Rio Tinto would boast one of the healthiest balance sheets in European business and this would lead to the enormous dividends that were to make it so famous. No further increases in capital were needed for 24 years.

### Market Control

The third element in understanding the framework of the Rothschilds' businesses in Spain was the ease with which they controlled and intervened in the markets in order to amass supply and fix prices. The monopoly was their natural and preferred way of operating in their out-and-out quest for income, and they systematically avoided any activities in which they would have to compete on equal terms by carefully selecting which businesses to move into. The markets they chose were invariably temporally or permanently rigid, characterized by few suppliers (like mercury or financial services in times of crisis) or ones with very high product demands (copper, lead or sulphur) – in short, situations in which they were able to influence prices greatly, as had occurred with the Almaden mercury, the multinational Le Nickel, the diamond merchants De Beers and, by extension, all the companies they controlled in Spain. We will look now at some of the most relevant examples during the years running up to the Great War, when the Rothschilds' monopolies were at their most effective.

Almost from the outset, Deutsch et Cie. had promoted and participated in a group of producers whose aim was set up a cartel for the sales of oil by-products. From the end of the 1880s, the group comprised the 19 Spanish refinery businesses, and among its most important members were Deutsch et Cie., with a 29 per cent

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<sup>44</sup> Letter report from James Rothschild to the London House dated 3 September 1905, ARP 132AQ 104, dossier 1.

<sup>45</sup> Report on the increase in capital of 1905 dated 23 April 1929, ARP, 132AQ 106, file 3.

holding,<sup>46</sup> Fourcade & Provot, 24 per cent, followed by Demarais Hermanos and La Mutua, and then, some distance behind, some smaller producers such as Villela & Cía. And Catusas & Cía.<sup>47</sup>

This cartel, or syndicate, as it preferred to call itself, kept prices high and established production quotas according to the share held in the association. It also handled the purchases of crude oil by its members through a central entity known as the Sociedad Española de Compras y Fletamientos, in which Deutsch held 290 shares at 2,000 francs, which matched its holding in the syndicate.<sup>48</sup> The syndicate's insistence on high prices was such that it did not hesitate to buy up any uncontrolled refineries that appeared on the market in its all-out attempt to eliminate any type of competition. There is evidence that in the early 1890s it had paid for the closure of two factories, in Malaga and Valencia. However, in 1896 a new refinery in Tarragona refused to be bought out or to join the syndicate. It held the association in check for eight months before the owners agreed to sell for 490,000 pesetas. The factory itself went to Villela et Cía., since it was better located than its own one in Reus. Again, the members as a body bore the cost of the purchase, which was made over seven years.<sup>49</sup>

In principle, the practice was an explicit attempt to improve margins in the face of scant demand, since the syndicate claimed the refining capacity was three times what it was supplying to the market. Yet by fixing prices by region through the assignment of a greater figure according to the potential demand in each area, it was able to improve profits notably. In the north and the west, for example, a container of refined product was selling in 1896 at 20.75 pesetas, while in Seville and throughout the southern area it was fetching 21.25 pesetas. The increase cannot be attributed to any additional costs in transport for there were refineries in both areas in question. In Catalonia, meanwhile, the syndicate had to bring the price down to 19 pesetas/container when faced with competition with the Tarragona factory, although prices shot up to 21.75 pesetas/container immediately after the purchase.<sup>50</sup>

Far from combatting this strategy, the Spanish government, yet again fettered by the requirements of its Treasury, proved willing to strengthen the cartel and offered it a formal monopoly on the supply in exchange for a fixed annual fee of 18.2 million pesetas. The Treasury plan did, however, include an increase in the

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<sup>46</sup> Deutsch et Cie., however, voiced its disapproval in the Association regarding this holding, since it understood that given its real weight in the sector it should have been awarded at least 34 per cent.

<sup>47</sup> ARP 132AQ139.

<sup>48</sup> *Ibid.*

<sup>49</sup> Report of 28 December 1896, ARP 132AQ139.

<sup>50</sup> Annual report 1896–97 from Deutsch et Cie. to the Rothschilds, ARP 132AQ139.

entry of crude, something which the companies deemed unlikely to happen, and no agreement was forthcoming.<sup>51</sup>

In fact, between the late 1890s and the arrival of the automobile in Spain in the 1920s, the competition in gas and electricity created huge problems for the Spanish oil refineries, which were unable to find any productive alternative. The syndicate's activity assumed ever greater importance in obtaining minimum profits on its production, which ground to a halt during these years. Spanish oil imports fell to below 30,000 tonnes a year and remained unusually low until 1914, when there was a spectacular increase, although it was not the traditional producers but the large multinationals that dictated the tempo of the new market until the constitution of the CAMPSA monopoly.

In the area of the non-ferrous metals the implications were more complicated since the markets were alternately highly inelastic and speculative and the large companies were working with relatively narrow margins. This did not prevent the Rothschilds from pushing both Peñarroya and Rio Tinto into making oligopolistic agreements, either through deals with the competition or simply by amassing productions, which is what one infers from the companies' takeover projects.

When the House of Rothschild gained control of Rio Tinto, it found that the pyrite producers had for decades been manipulating the markets. Back in 1878 (five years after Rio Tinto arrived on the market) the producers, among others, Rio Tinto, Tharsis and the likewise British-owned Mason & Barry, which operated in Portuguese Alentejo, had signed the first agreement to put up prices and to divide the market up among the interested parties. After a break in 1884, the agreements were resumed in 1905, but this time they dealt exclusively with distributing the sales regions. They were renewed in 1911 and in 1916 through to the end of 1921.<sup>52</sup>

At the same time, the Rothschilds continued to push international copper prices to obtain bigger margins. After the turbulence of the early 1890s, in which their manipulations of the market played no mean part, exchanges could start again, leading to a considerable increase in sales which continued until the war. The creation in 1898 of Amalgamated Copper Co., which united all the Montana copper producers, the increase in demand from the war industry and the definitive widespread adoption of electricity heralded the golden age of copper, and no restrictions on sales were necessary. The Rothschilds now joined forces with the Metallgesellschaft to speculate in the copper market from as early as 1901.<sup>53</sup> Both companies had enjoyed a close relation years before when, with the American producers, they had organized a profitable nickel cartel, in which the Rothschilds

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<sup>51</sup> ARP 132AQ139 and letter from the embassy of the Main Office for Commercial Affairs of the French Ministry for Foreign Affairs to the French Minister of Finance dated 27 August 1897, AMEFF, B-31.186.

<sup>52</sup> Harvey (1981: 171) and Checkland (1967: 192–196).

<sup>53</sup> There are numerous letters and reports in the Rothschild Archives from the Metallgesellschaft which always relate to the copper market. The earliest is dated 25 February 1901. ARP 132AQ 117, 2nd folder.

had played a leading role as owners of the biggest non-American mines (the mines of Le Nickel), while the Metallgesellschaft had been the main organizer. In the copper sector the situation ran much along parallel lines. Hotchschild, the owner of the Metallgesellschaft, kept the Paris and London Rothschilds regularly updated on the ups and downs of the market, thanks to the subsidiaries and his contacts who were well placed in the markets and who were close to the big producers. Sharing this privileged information meant that the Rothschilds and the Metallgesellschaft were often one step ahead of the general trends on the London Metal Exchange and they could speculate with copper sales and mining shares. The German consortium had an associate in Henry Merton, who was probably the most influential of all the London Metal Exchange brokers. It also possessed a large worldwide network of subsidiaries devoted to mining and trading copper which included the important American Metal Co. (founded in 1887) and the Australian Metal Co. (1898).<sup>54</sup> Even in Huelva, it managed, through the Société des Métaux-Cuivres & Pyrites, three of the most important medium-sized mines – San Platón, San Miguel and Peña Copper.<sup>55</sup> The Rothschilds, as we have seen, controlled Boleo and Rio Tinto, the largest European producer of copper and, of course, they had wide experience of the market. In short, while each looked to its own interests, the Rothschilds and the Metallgesellschaft were together, at the beginning of the twentieth century, the only ones capable of standing up to the giant Amalgamated Copper Co.

It is highly likely that the Rothschilds were instrumental in the Metallgesellschaft's winning the contract for the sale of the Rio Tinto washed pyrites in 1903 to all the manufacturers of sulphuric acid in continental Europe. Such was its efficiency that the Metallgesellschaft guaranteed Rio Tinto that it would sell 200,000 tonnes a year between 1911 and 1915. The Great War temporarily interrupted the agreements, but they would be remembered when the European Pyrites Corporation was set up in 1926.

Peñarroya took somewhat longer to approach the Metallgesellschaft, and only after some preliminary negotiations. The Rothschilds had taken the exclusive sales rights of all the Peñarroya products in 1881 through a sales contract which was renewed in 1890, 1891, 1898 and in 1904,<sup>56</sup> through to the end of 1909, the year in which the Anglo-German company had initiated a series of meetings at the Peñarroya head office to set up a cartel of lead producers. The idea was not to restrict production but to establish sales areas and to manipulate the market so that the price of lead in Europe would rise. After two months of deliberations, the proposals were formalized in an agreement<sup>57</sup> signed by the Metallgesellschaft and Henry Merton, and the companies in Table 11.2.

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<sup>54</sup> Bouvier (1967: 258), Broder (1981: 1498–1499) and Schmitz (1986: 398).

<sup>55</sup> Letter from Carl Chrambach to Aron dated 6 March 1907, ARP 132AQ 105, 1st folder; Broder (1981: 1501).

<sup>56</sup> ARP, 132 AQ 354.

<sup>57</sup> ARP, 132 AQ 103 dossier "Peñarroya 1909".

Table 11.2 Participants in the 1909 negotiations for the lead cartel 1909 and their European market productions

<b>Producer</b>	<b>Annual lead production (tonnes)</b>
G. & J. Figueroa	28,000
Société des Anciens Etablissements Sopwith	24 to 28,000**
Société La Cruz	2 to 3,000
Société Minière & Metallurgique de Peñarroya	53 to 58,000
American Smelting & Refining Co.	60 to 72,000
American Metal Co. Ltd*	25,000
Broken Hill Proprietary Co. Ltd	55 to 70,000
Usine de Desargentation, Sté Anonyme, Hoboken*	60,000
Sté Anonyme G. Dumont & Frères*	18,000
Bleihuetten Call*	22,000
Compagnie Métallurgique de Mazarron***	20,000

Source: ARP, 132 AQ 103.

Notes: \*Companies controlled by the Metallgesellschaft \*\*Excluding argentiferous lead \*\*\*Withdrawn from the final agreement.

However, when the time came to sign, the Rothschild declared that they were only willing to cede 20 per cent of their rights on the Peñarroya lead, as they did not wish to withdraw from their commitments to many longstanding customers, and the company was obliged to pull out of the agreement. Before the year was out, though, the cartel was selling on average at 11 francs more than the Rothschilds, who voluntarily rescinded their contract and returned to negotiations with the Metallgesellschaft to sell it the whole lead production for 1910 and, potentially, that of 1911. In every extent, then, Peñarroya became part of the cartel. Thereafter, the Metallgesellschaft bought the whole production and distributed the leads on the German, British, Italian, French and Russian markets while also sending the silver to the London Rothschilds and to various French and Russian purchasers,<sup>58</sup> in exchange for a commission that rose in line with the official market prices. The agreement was extended until the end of 1912 and provided an important boost for Peñarroya, thanks to the rise in lead prices from 12 pounds and 8 shillings in 1910 to 18 pounds and 15 shillings in 1913, when the contract had to be adjusted to the new capacity that the acquisition of the Figueroa and Escombreras properties brought.<sup>59</sup>

<sup>58</sup> ARP 132 AQ 103, dossier Peñarroya-1909, ArMetaleurop PYA-Juridique, 258, PVSCA., book 5, sessions of 23 December 1909 and 26 May 1910 and report from the French Consul in Cartagena (1913), AMEFF B-31193.

<sup>59</sup> ArMetaleurop, PYA-Juridique, 258. PVSCA., book 6, session of 29 May 1913 and Gibson-Jarvie (1989: 174).

During the Great War and the subsequent years the company regained effective control of its sales through *Minerais & Métaux* and had an important holding in international cartels from the mid-1920s. Neither should one forget the effectiveness in Spain itself of the Lead Consortium, which, despite complaints from Peñarroya, increased domestic lead prices by 50 per cent.<sup>60</sup>

Other agreements were made regarding the rest of the company's outputs in Spain, such as the superphosphates or zinc, at times seemingly running totally against the competition. One example is the agreement signed in 1925 by Peñarroya, A.G. Figueroa and the Asturiana de Minas, under which the first two agreed not to build a zinc-sheeting factory in Spain in exchange for a part of the Belgian company's sales profits on these products in the country.<sup>61</sup>

The case of MZA was very different from that of the mining and industrial companies, since the railway transport business had been conceived in Spain from the outset as a natural monopoly given the radial structure of the network and the companies' insistence that no parallel lines should be laid. The idea was further reinforced through the tacit agreement in 1875 between Norte and MZA, under which goods would as a norm be transported along the line which provided the shortest number of kilometres between origin and destination.<sup>62</sup>

When this did not occur, as in the case of the southern lines and the approach to Barcelona from the Submeseta, MZA solved the issue through two quite different strategies. In the south it progressively took over alternative lines and incorporated them into its network, as described earlier, while in the case of Barcelona it formed an agreement with Norte in 1896 which established a series of combined tariffs and a proportional share-out of profits.<sup>63</sup> As of 1906, a new agreement institutionalized a mixed committee of MZA and Norte took charge of the general policy of the combined transports and of making agreements for the transport of specific merchandises.<sup>64</sup> Thus, MZA consolidated what was an absolute monopoly on the traffic from Madrid to the Levante Coast, Andalusia, La Mancha, Badajoz and Saragossa, and from there it shared the traffic with Norte. It only remained for MZA to battle for some stretches of line in Andalusia, for we have no knowledge of any specific pacts made with *Ferrocarriles Andaluces*.

In any case, MZA's strategy paid off handsomely. From 1898 the increase in traffic following the incorporation of the TBF Catalan Network produced an important increase in profits for over a decade – the largest in the history of the company.

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<sup>60</sup> *The Mineral Industry*, 1934, p. 383.

<sup>61</sup> Agreement of 2 June 1925, *ArMetaleurop*, PYA-Juridique, 247.

<sup>62</sup> Gómez Mendoza (1989: 59) and Comín, Martín Aceña, Muñoz and Vidal (1998: vol. 1, 216).

<sup>63</sup> Tedde (1978b: 71–77) and Pascual (1999: 465–469).

<sup>64</sup> AFPE, Minutes of the Mixed Committee of MZA and Norte (1906–1918), L/0454–0458.

## Flexibility in Industrial and Financial Strategies

One should also highlight that the Rothschilds were laudably flexible in setting targets for the firms they controlled. They did not hesitate to introduce different models of capital and production management in a single-minded quest to optimize yields in each case.

At Peñarroya, the family opted for a model that favoured continuous growth of the company assets. The Rothschilds thus permitted a management composed entirely of technicians, who were given wide scope for manoeuvre. During the first third of the twentieth century they imposed an up-to-date growth pattern based on continual mergers and an astonishingly broad network of more than 50 subsidiaries as well as shares in other firms which they completed by connecting all the production and distribution processes. This aspect was confirmed by an on-going obsession with technology and intelligent adjustments to the production (of the company and of its suppliers) and refining and distribution. The ensuing network meant that, as of the second decade of the century, Peñarroya was the world's leading producer of lead nitrate ("sweet lead"), and the main supplier of electricity, superphosphates and coal and its derivatives in all the immediate region, none of which would have been possible without the financial support mentioned here.

At Rio Tinto, on the other hand, there was no dynamic drive like at Peñarroya, and the management limited its efforts to exploiting to the full what was an advantageous deposit that allowed them to reap all the benefits of scale production easily. The option taken here, therefore, was to keep the number of shares as it was, so renouncing any ambitions for expansion, and to foster bigger dividends and encourage more effective speculation in the company shares.

Clearly, the "low business effectiveness" of the company that had been the hallmark of its early years had been remedied in part by the arrival of the Rothschilds. Indeed, the majority of the changes made to the company's internal organization as well as the important technological reforms were made after 1898, in particular under Fielding.

Yet the technological development requires clarification. The increase in copper refining had more to do with tax than technology and other, possibly better, options were not even considered. Electrolysis, which had been in use in Montana since the 1880s, was never put forward as a possibility, nor were other metal-mining processes such as flotation. This fundamental method used in modern mining systems was introduced in Rio Tinto ten years later than in Peñarroya, which had bought the patent in 1918 from Mineral Separation.<sup>65</sup>

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<sup>65</sup> ArMetaleurop, PYA Juridique, 247.

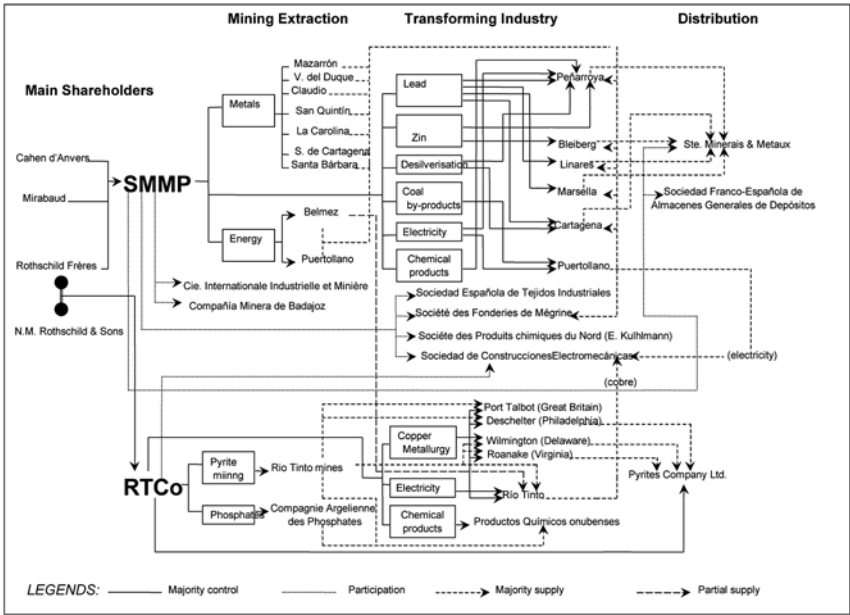


Figure 11.4 SMMP and Rio Tinto: ownership, production and distribution integration in 1918

Figure 11.4 shows the discordance in the processes of vertical integration between SMMP and Rio Tinto. Observe how Peñarroya had by 1918 integrated all its production and distribution to the point of its being practically self-sufficient, thus saving itself the transaction costs involved. Both at the input and the output of the two main scales of production, mining and transformation, the interaction is continuous and the product passed through at least three establishments before reaching the final consumer. Also of interest is how Peñarroya approached associated businesses or subsidiaries in its search to complement some production lines or to find possible strategic alliances.

It was at Deutsch & Cie. that the Rothschilds' negotiation skills in the financial and political structure of their investments really came to the fore. The original contract of the partnership set out that the 3 million francs in capital put up by the family would generate an interest of 5 per cent per annum, to be made on a six-monthly basis; this was apart from the 50 per cent of net profits to which they were entitled, once 30 per cent of the profits had been set aside to amortize up to 50 per cent of the total price of the factories.<sup>66</sup> The Rothschilds also provided Deutsch et Cie. with a 1.5 million franc line of credit.

<sup>66</sup> Copy of the contract of the constitution of Deutsch et Cie. dated 31 December 1979, ARP 132AQ354.



After a highly encouraging start and two spectacular years (see Figure 8.5), in 1887 the Rothschilds reduced their contributions to the partnership. It was decided not to distribute the profits from the current year and to pay back the bankers 1 million of the 3 million they had put up. In exchange, the limit to the line of credit rose to 2.5 million francs, with the only proviso being that a reserve fund be set up with 25 per cent of the profits from each tax year. It was also established that, once this fund reached 1.5 million francs, the company would continue to set aside 25 per cent of profits as repayment on the Rothschilds' initial contribution.<sup>67</sup> Finally, without much explanation, it was decided to transfer almost half a million francs of the capital to the reserve funds. Obviously, such a system supposed a number of advantages for the Rothschilds. Apart from recovering 33 per cent of their capital, they gained much more flexible returns than from a credit account, and these could be managed with total freedom. It also opened up the possibility of reducing the amount of their initial stake while not losing profit rights.

In 1893 the Deutsch family attempted to alleviate the company's financial system by taking advantage of a small enlargement of the installations and the purchase of a tanker to request that the partnership account be returned to its original 3 million francs in order to reduce the amount of credit.<sup>68</sup> The Rothschilds refused and merely limited themselves to increasing the cash account from 2.5 to 5 million francs; moreover, they stipulated that payment of dividends would be withheld until the figure returned to 2.5 million. The capital remained, therefore, at 1,568,358 francs.<sup>69</sup>

In 1896 the Deutsch family repeated their request using identical arguments, but this time rather more vehemently expressed. According to a report they prepared, the operating profit for the first 16 years was 15,375,014 francs, for which the Rothschilds had received, on account of their half share of the distributable profit, a total of 3,920,676, in other words an average of 12.4 per cent per year for its initial 3 million francs. On top of this there was the 5 per cent interest on the capital put up, so the real figure was 17.4 per cent and even 28.8 per cent when taking into account the reductions in the capital of the partnership. Deutsch complained that the Rothschilds had distorted the *raison d'être* of the partnership by mixing up the account for the advances with that of the company's capital and argued that they had created a reserve account using funds that were actually needed in the capital. They also accused the Rothschilds of not fulfilling their commitment to use 30 per cent of the profits to amortize assets between 1888 and 1892, until these were fully paid off, and of assigning this amount as distributable net profit.

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<sup>67</sup> Copy of the contract to increase the company dated 4 March 1887, ARP 132AQ354.

<sup>68</sup> Letter from Deutsch to the Rothschilds dated 14 June 1893, ARP 132AQ354.

<sup>69</sup> Reply from the Rothschilds to the above of 19 July 1893, ARP 132AQ 354.

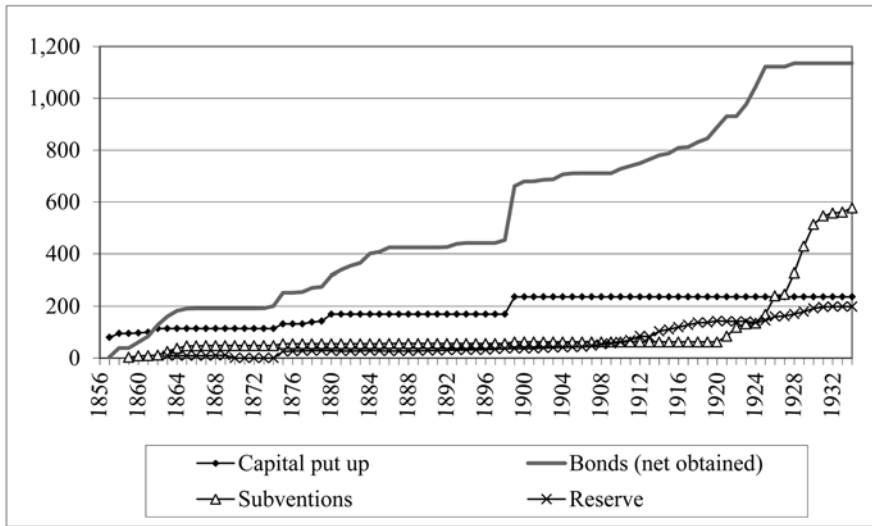


Figure 11.5 MZA capital, 1856–1917 (in millions of pesetas)

Source: Tedde (1978a: 353–354).

They therefore demanded that the amortization payments be continued, that the capital be restored to the original 3 million francs and that the loans account be reduced to just to 1.5 million.<sup>70</sup> The bankers remained adamant, however, in refusing to change the capital and again limited themselves to extending the limit on the credit to 4 million and to increasing the reserve amount.

The Deutsch family would have to wait until 1911 for the Rothschilds to agree to any changes to the basis of the partnership, when the bankers' investment was reduced from 1,500,000 francs to 750,000 francs, with the surplus being transferred to Henry and Emile Deutsch, with each brother taking half. All these amounts continued to be paid at 5 per cent. Profits were shared out at 50 per cent for the Rothschilds and 25 per cent for each of the Deutsch brothers, after a deduction of 30 per cent of the net profits for the amortization of the factories up to 80 per cent of their total value.<sup>71</sup> The Rothschilds' real interest in keeping their partners on a par with them was really just a clever way of avoiding any change in the organization. Financially, it was clearly more profitable, but closing the door on higher capital and investment may well have been the cause of the company's stagnation.

<sup>70</sup> Letter/report of 1 December 1886 from the Deutsch family to the Rothschilds, ARP 132AQ 139.

<sup>71</sup> Copy of the contract to enlarge the partnership of 30 December 1911, ARP 132AQ354.

The MZA model differed radically, since its liabilities were totally tied up in the share capital paid, the more so following the takeovers between 1874 and 1898. In consequence, the dividend, when it was paid, was tiny for much of the company's history. The Rothschilds' merit lay in controlling the company with just a small shareholding and no control at all among the bondholders. So, although their promotion of MZA was an undeniable success, their real participation was relatively modest, and they took on little risk. After a small initial boost, in which James dragged his London cousins into the business, the Rothschilds' input gradually dwindled still further, reaching very moderate levels indeed. Yet their control over the company remained unaffected and was exercised authoritatively until the railway lines passed to the State in 1941.

In summary, the shared account of the of the two Rothschild Houses at MZA had reached its peak in terms of numbers of shares in 1857, shortly after laying down the first line. From then on the number gradually reduced from some 45,000 shares to about 24,000 (of a total of 240,000 shares in the first MZA issue), a figure that would remain more or less stable over the following years.<sup>72</sup> Even after the large increase of the 1870s and 1880s, when the railway companies were at their zenith in terms of capitalization and the size of the networks, the shareholding remained proportionally modest. Taking a midway date, in this case 1906, the value of the holding in Rio Tinto in the Paris portfolio was just over 105 million francs, while it held just 10.3 million in MZA.<sup>73</sup> The railway company boasted a capital at the time of over 1,000 million pesetas, taking into account the capital shares, subsidies and the reserve.

In short, the value of the Rothschilds' contribution to MZA lay more in their capacity to sell large share and bond packages on the Paris Stock Exchange and in their early political intermediation than in the supply of capital and participation in management. Indeed, the company ran itself commendably well and it is likely that the involvement of the French engineers had more to do with this than that of the bankers, whose contribution was purely financial. As in other industrial businesses, the Rothschilds never favoured directly managing the company, preferring to delegate these functions to others and to devote their own efforts to handling the political side of things and, of course, the financial aspects (not to mention the very handsome profits). So they were content to oversee the Paris Committee, to handle the payment of dividends and coupons to the French investors, and to keep the Bauers and other employees on the boards of directors, as this guaranteed a continuous flow of capital to run the companies and the family's continued prestige among the Spanish business and political classes.

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<sup>72</sup> ARL I/I/31-38.

<sup>73</sup> ARL RFamFD/5.

### **Diversification or a Global Investment Strategy?**

Finally, it would be interesting to provide some data that could help us to clarify whether all this panoply of investment was part of some grand project in the field of business or public finance, or whether the presence of the Rothschilds as shareholders of the businesses might have triggered collaboration or preferential treatment.

I have insisted throughout that the Rothschilds' business success in finances was due, in a large extent, to their combining many parallel activities and connecting them up as the occasion demanded in order to minimize the risks inherent to financial crises and market fluctuations. This wide range of businesses would have allowed the Rothschilds to mix businesses that at first sight had little to do with each other. Practically, this meant that the contractual networks became more complex and odd situations occurred in which a loan, advance or sale of currency would figure as income in the mercury accounts in London, or where emergency sovereign loans could be negotiated to the benefit of the railway companies. This concurrency of operations is perfectly in line with the traditional "predatory" theories about the Rothschilds' activities and the supposed "perverseness" of some of their contracts with public institutions, with the idea that they sought to hold Spain to ransom in order to gain benefits in return.<sup>74</sup> However, the general feeling of the information we have gathered here and the actual course of events do not bear out any such hypothesis and at least point to a need to look at things in closer detail.

In the first place, it should be said that the Rothschilds always erred on the side of prudence in their dealings with the Spanish Treasury and there was in no way any sense of a project to control its operations. Notwithstanding the amounts the Rothschilds put up, even when the returns were assured, they never sought to bear the full weight of the floating debt. Nor is there any documented evidence of their drawing up a plan to control the development of Spanish politics or to provoke any of the operations, though this is not to say that the bad state of the country's accounts did not mean that contracts had to be renegotiated under increasingly less favourable conditions and that State assets to pay debts had to be found. Only the 1869 issue can be considered as being imposed or forced by the bankers. The rest of the operations were always the fruit of requests by successive ministers, who, truth be told, saw the majority of such applications refused.

Much the same can be said of the sphere of the industrial investments. Again, there was no grand plan behind investments in specific geographical locations, nor was there any effective connection between the activities of the various businesses. There was little fostering of integration or productive cooperation and contacts between them were few and on occasions strained.

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<sup>74</sup> Comín (1994: 64 and 74), Nadal (1975: 27–28), Tortella (1994: 165–166) or Sardá (1970: 257), among others.

The only instance of continued business relations was between Peñarroya and MZA. The way had been paved by the takeover of the Badajoz company and was moreover, inevitable, since the mining company needed the railway to take its output to its markets and to get the mineral into its foundry from La Mancha, while MZA had high hopes of benefiting from the traffic. We also know that from the finishing of the Fuentedel Arco line until 1931, Peñarroya and MZA negotiated special contracts to transport the lead from the Peñarroya foundry via Seville. They had previously used the port of Malaga.<sup>75</sup> MZA volunteered rolling stock for the transportation of the lead and even sent an engineer to organize it.<sup>76</sup> Elsewhere, after its merger with the Hullera de Bélmez, Peñarroya offered preferential contracts to MZA with prices that undercut even those it offered to its subsidiaries. In 1898 Peñarroya respected its contract with MZA even when it increased the price of coal by 50 per cent for the rest of all its customers,<sup>77</sup> although it should be said that the amounts involved were relatively small, no more than 25,000 tonnes per year, in terms of MZA's total consumption. The firm may have used these contracts as a way of partially compensating for the production of its Minas de La Reunión, which MZA used for the traffic on its southern railways, and which provided some 150,000 tonnes at the beginning of the twentieth century.<sup>78</sup>

For its part, Rio Tinto took three years (1903 to 1907) to decide between MZA and Peñarroya for a coal supply contract. There was a nonaggression pact between the latter two companies for the southern coal market and Rio Tinto contracted 19,000 tonnes per year with Peñarroya, and used the MZA railways to deliver the product, which meant linking up the MZA branch line in Niebla with the Rio Tinto line.<sup>79</sup>

Eleven years would pass before Rio Tinto and Peñarroya had any further business contact of note. It occurred in 1918, with the founding of the Sociedad Española de Construcciones Electromecánicas. In essence, it was an agreement of convenience which enabled both companies to sell their products – Rio Tinto its copper and Peñarroya its excess electricity – and to build a modern machinery and metal transformer factory in Cordoba. The new firm had a capital of 12.5 million pesetas and, beyond that between Peñarroya and Rio Tinto, also involved the collaboration of some of the Rothschilds' old friends such as Alfredo Bauer, the Urquijos and the Figueroas, Fourcade, who appears in the minutes as the banker, the Unión Madrileña, the Banque de la Union Parisienne, the Bilbao and the French manufacturer Le Creusot, which was in charge of the technical side.<sup>80</sup>

<sup>75</sup> AFFE, MZA, Board Secretary's Office, file 016-03.

<sup>76</sup> ArMetaleurop PYA-Juridique, 257. PVSCA, book 3, session of 24 October 1895.

<sup>77</sup> ArMetaleurop PYA-Juridique, 257. PVSCA, books 2 to 5.

<sup>78</sup> Tomás (1991: 174–178).

<sup>79</sup> ARP 132AQ 103 and ArMetaleurop PYA-Juridique, 257. PVSCA, book 5, session of 18 June 1908.

<sup>80</sup> Sarmiento (1992).

Yet both the above were isolated incidents, decided upon by the managers of the installations and never imposed on them by either their boards or by the Rothschilds, who, at most, acknowledged their awareness of what was going on.

We have, however, found numerous references in the documents of the companies themselves that point not only to an arm's length, but also highly competitive relationship between them.

In 1897 Peñarroya showed deep concern about the Rio Tinto plan to take over the Bético–Manchega–Vizcaína coalmines that lay near to its own deposits. Peñarroya had even received a proposal regarding the concessions, which it had turned down, but the company was quick to recover its interest the moment it learned of the Rio Tinto plan. This would probably have included a link between its railway line and the Zafra one, so laying down a route that would have meant serious competition to both the MZA network and the Peñarroya–Fuente del Arco line. Rio Tinto finally did not go ahead with the project, but then conflict flared up with MZA, which was also showing interest.<sup>81</sup>

In 1912 the reason for the discord lay in some disagreements between Peñarroya, the Unión Ibérica and Rio Tinto in sharing out the superphosphate market in southern Spain. Rio Tinto refused to sell pyrites to Peñarroya so as to prevent its gaining any advantage, which led to the latter acquiring its pyrites from the Sociedad de Piritas de Sevilla. The slump in the market in 1913 was such that the rivals were driven to having talks. Not that the results could have been very good, for in 1914 the negotiations were still going on, and the situation had worsened.<sup>82</sup>

MZA, at first sight Peñarroya's closest ally, expressed its fears regarding the development of the mining company's railway. A confidential report had been presented in 1906 to the MZA board which highlighted the negative consequences of a connection between Peñarroya and Puertollano, although the most alarming detail it included emphasized that a complete Peñarroya concession would allow the lines to be extended from Puertollano to Linares and from Conquista al Hoyo again to Linares. Peñarroya had never publicly expressed any intention to exercise this right, but such a possibility does not seem to be a particularly wild one taking into account the assets Peñarroya had acquired since 1903 (El Correo mine) and that it was that same year engaged in setting up the Compañía Minera de Linares with the managers at Sopwith. Were the situation to arise, MZA foresaw annual losses of 4,334,986 pesetas on the mineral, coal and wood transports alone. Things could take a further turn for the worse, though, if the incumbents at the place Vendôme decided to join up with the Andaluces. Losses would then rise to at

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<sup>81</sup> ArMetaleurop PYA-Juridique, 257. PVSCA, book 3, sessions of 1 October 1897 and 26 May 1898.

<sup>82</sup> ArMetaleurop PYA-Juridique, 258. PVSCA, book 6, sessions of 26 September 1912, 21 June 1913 and 26 March 1914.

least 5,487,466 pesetas on direct traffic, with another 1,649,696 pesetas on indirect traffic.<sup>83</sup>

MZA also gave favourable terms to Deutsch et Cie., allowing it to build a store at its Atocha station and purchasing some of its products for its workshops and its traction department. Nevertheless, this preferential treatment was not at the expense of its own interests as a customer when the need arose. An example of this was in 1912, when Lisle wrote to Maristany regarding a purchase of lubricants provided by Deutsch et Cie. to MZA, since Deutsch itself had been in touch with Robert Rothschild asking him to intercede. Maristany replied that the technical reports from the workshops showed that the artificial fuel oils from Sabadell-Henry were just as good and cheaper than the natural ones supplied by Deutsch, and so he had decided to purchase the former, unless the Paris Committee indicated otherwise. Lisle and the Committee made no objection and delegated decisions of this nature to Maristany.<sup>84</sup>

In short, all these examples and many more that could be included cast doubts on the supposed collaboration of the Rothschild firms in Spain. It is, in any case, questionable whether the family had any great interest in such cross-company operations. Obviously, we cannot know what their response would have been to initiatives aimed at greater integration, but we can imagine that there would have been a fair amount of resistance in Spain as well as on the boards of the companies themselves.

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<sup>83</sup> AFFE, MZA, Secretary's Office, file 299-1.

<sup>84</sup> Letter from René Lisle to Maristany dated 20 January 1912, replying to the latter's letter of 27 January 1912 and further reply of Lisle dated 12 February 1912, AFFE, MZA, Board Secretary's Office C/149/101.

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## Chapter 12

# The Consequences of the Rothschild Years, 1812–1941

The time has come to reflect on the possible effects of the Rothschild's activities in Spain over the period of time we have considered. There is no question that their presence in areas as far flung as those we have seen serves as a series of windows through which to view and analyse the effect of their activities from various perspectives. For the sake of simplicity we will try now to broach this issue via two approaches. In the first case, we will make a brief reference to the earnings of the Rothschilds in terms of the returns on each of their investments and their performance as a financial entity; in the second, we will analyse the importance their contributions had for the management of the Spanish public finances as well as the development of some specific macroeconomic variables with the aim of shedding some light on what their role was in the development of the Spanish economy.

### **The Profits for the Investor**

In order to take as rigorous an approach as possible to the profits the Rothschilds made from the operations in Spain, the net profits that have been and can be calculated have been plotted on the same graph for each area of business, and are detailed as follows. In the case of the credit operations and bond issues, the interests, commissions and discounts are totalled; in the case of the commission sales of mercury, only the commissions, discounts and interests for the seller are reflected, omitting the freight, insurance and warehousing; the section dealing with the firms includes the profits from dividends and interests on Rothschild-owned shares as well as indirect profits, that is, those from the companies they controlled, in the main through cash advances and the 1 per cent commission on the payment of dividends and bond coupons (the last have only been included when they appear expressly in the documents). We cannot include the figures before 1855 owing to a lack of information as to the outcome of the majority of the credit contracts, whose maturities are in the main unknown. There is evidence, moreover, that the larger part of these were informally renewed, paid off or incorporated in other operations, which makes it impossible to calculate the capitalization of these operations or their real returns.

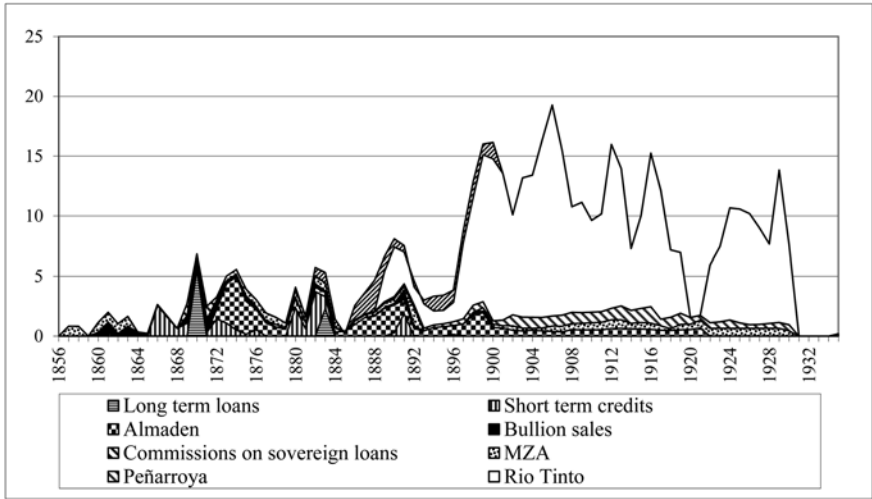


Figure 12.1 Estimate of the net profits that can be measured from the Rothschilds' activities in Spain, 1856–1936 (millions of pesetas, 1913)

*Source:* Appendices 1 and 2 and information from the text. Deflated from Reher and Ballesteros (1993) and Ballesteros (1997).

Two fundamental elements stand out from these figures. First, that the shift from public finance operations to the business investments, which as we have seen took place from the end of the 1870s, did not bring about any hiccup in the House of Rothschilds' income statement, with profits being continually reported throughout the period. We may deduce, therefore, that their overriding business strategy in Spain was a resounding success from the investment point of view. Second, it is abundantly clear that all the Rothschilds' activities in Spain produced tidy profits but that, in terms of investment and assets, it was Rio Tinto, rather than MZA or Almaden or even the famous loans to the Treasury, that provided the most handsome returns. The financial profit of this investment averaged a very respectable 14.6 per cent a year over the period they were in control of the company, with the highest returns between 1896 and 1913, when the average profits stood at a massive 28.8 per cent. Added to this was the fact that the Rothschilds did not have to come up with the 1,000 million pesetas that MZA needed to finance itself.

There were further sources of profit that do not always appear in the official statements of the companies, but which were part of the family's business. I refer to activities like the business draft, the management of private portfolios (such as that of the Royal Family), the exclusivity on certain business deals or the speculations with the shares of their own companies, the debt issues, and a long etcetera. The records, though, do not offer any specific data in these instances,

either because they have been lost or because they figure elsewhere in the accounts of the House. Fortunately, we do have some valuable records of accounts that serve as an example of some of the purely speculative operations, like the London House's portfolio of Rio Tinto shares.

Figure 12.2 shows the record of purchases and sales by the House of Rothschild between 1892 and 1914, both in terms of the amount and also how the House was able to combine large deals while maintaining significant shareholdings. These speculative manoeuvres, which were not without their dose of insider information, proved highly profitable, with the British Rothschilds showing a profit and loss account of 1,912,646 pounds (65,505,488 pesetas) for the period. The figures of the Paris House, with an even fatter portfolio of Rio Tinto shares, would surely have surpassed the London figures.

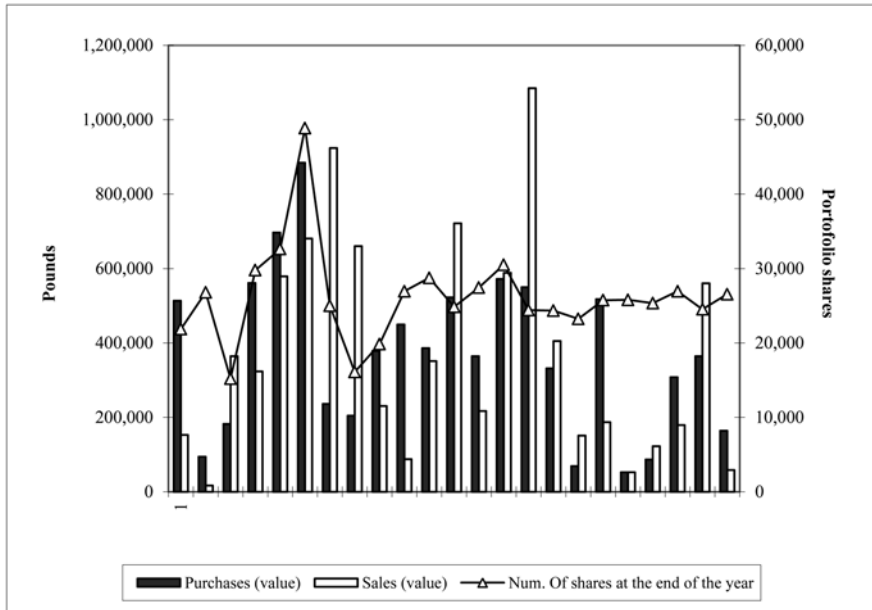


Figure 12.2 Record of House of Rothschild stock market operations with Rio Tinto shares, 1892–1914

Source: ARL, Stock Ledgers, 1/12/0-22.

There were other portfolios such as the MZA one, although that allowed the Rothschilds little opportunity for speculation other than in the early years. The records even point, at times, to the Rothschilds having to operate at a market price

that would have meant losses,<sup>1</sup> in all likelihood so as to avoid a slump in share prices at the time of launching – something that would have been unthinkable in other portfolios held by the House.

### **Effect of the Rothschilds' Actions on the Spanish Economy**

The other side to this process of investment is to be found, or at least sought, in the Spanish economic sphere, which requires us to study the cost–profit ratios of the process and its various implications.

To do this, we will start from a general explanatory framework and then move on to more specific questions. We will first offer an overall quantification of the investments generated by the Rothschilds in order to compare it with investment in Spain as a whole and, in particular, with investments coming directly from abroad during the period. We will thus obtain a more accurate measurement of their contributions within the general context of the Spanish economy. We will then look in greater depth at the effect of the family's actions in the specific fields of the Spanish economy in which it was present with the aim of drawing some firm conclusions about the immediate consequences, positive and negative, for Spanish economic growth or stagnation.

#### *The Overall Value of the Investments*

Table 12.1 shows the total annual influxes of capital in Spain produced by the investments and financial activities of the House of Rothschild, as collected by Carreras, compared to the total investments in Spain, compiled by Broder, and the data on public debt collected by Fernández Acha for the period prior to World War I. The table expresses the volume of capital flow into Spain through Rothschild operations and investments for both public finance and private business. This includes not just the amounts that the family invested of their own money, but the amount of capital they managed. The total public debt and investment that did not come from outside the Spanish economy are excluded so that solely foreign capital is taken into account, that is, by deducting the percentage of capital of Rothschild investments held by Spanish naturals which remained in the country, as was the case, for example, with the MZA bonds and shares in Spanish hands from 1898.

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<sup>1</sup> ARL, I/I/31–58.

Table 12.1 Total public and private investments in Spain of foreign capital proceeding from House of Rothschild operations (millions of current francs)

Origin of the investment		1851–1860	1861–1870	1871–1880	1881–1890	1891–1900	1901–1913	Totals and average percentages	
Inversión privada	National total (a)	2,282.9	4,443.5	5,148.8	7,374.5	6,814.8	15,137.8	41,202.3	
	Foreign (b)	338.9	609.9	488.1	718	382.7	737.6	3,265.2	
	Rothschild(c)	165.9	147.7	270.3	106.6	52.6	173.1	916.2	
	% (b) over (a)	14.8	13.7	9.5	9.7	5.6	4.9	7.9	
	% (c) over (b)	50.4	24.2	55.4	14.8	13.7	23.5	28.1	
	% (c) over (a)	7.3	3.3	5.2	1.4	0.8	1.1	2.2	
Public debt – State loans	National total (a)	L/P	267	1,318	1,189	435	0	45	3,254
		C/P	994.3	374.5	2,359.5	328.5	0	0	4,056.8
	Foreign (b)	L/P	0	256.45	593.6	0	(200)	0	1,050.0
		C/P	?	?	?	?	?	?	?
	Rothschild (c)	L/P	0*	142.5**	182	0	0	0	324.5**
		C/P	0	165	151.2	156.4	55	0	527.5
	% (b) over (a)	L/P	0	19.4	49.9	–	0	0	32.2
		C/P	?	?	?	?	?	?	?
	% (c) over (b)	L/P	0	55.6	30.6	0	0	0	30.9
		C/P	?	?	?	?	?	?	?
	% (c) over (a)	L/P	0	10.8	15.3	0	0	0	9.9
		C/P	0	44.1	6.4	47.6	–	0	13

Sources: Carreras (1997: 42), Broder (1976: 45 and 62, corrected by Chastagnaret (2000: 754) for 1851–1860), Fernández Acha (1976) and Appendix 1.

*Notes to Table 12.1:* L/T = Long-term (operations lasting over a year). S/T = Short-term  
 I have kept the franc as the reference currency for the series because it is not possible to break down Broder's annual figures, which were prepared in francs and by decades, so the annual peseta/franc exchange is inapplicable. In any case, during the first four decades the franc/peseta parity remained practically identical and distortion only occurred as of 1891 (by 1901 there had been up to a 30 per cent swing in favour of the franc). From that year on parity progressively recovered until 1914.

Under public debt the upper row of each section represents the net capital income on long-term operations while the lower row represents amounts taken over the short term, under the denomination of the Treasury's floating debt. From 1880 the latter were financed exclusively through the Bank of Spain.

From 1881 to 1900 the budget accounts do not include the net income of 3,917 million pesetas from the Cuban and Spanish Treasury, derived from the various issues which were remitted directly to Cuba and the Philippines to finance the war. However, the 200 million pesetas in mortgage notes from Cuba which were sold abroad are included (Roldán de Montaud 1997: 651).

\* Does not include the loan of the SEMI to the government of 1856 for 9.2 million.

\*\* Including the sovereign loan of 1870 against Almaden.

The results show that the percentages arising from a comparison of our figures with those of Broder, Carreras and Fernández Acha are rather high. The conclusions to be drawn are evident.

Chronologically, it can be seen that the flows of capital peak with the influxes coinciding with the first large injections of capital for the railways in 1856 and 1878, the recovery of operations with the Treasury and the Bank of Spain during the Sexenio and the specific support provided in 1876, 1882 and 1891 for the growth of the MZA network and the setting up of mining companies.

In terms of private investment, the chart indicates that the amounts in play were at all times hefty, between 5 and 15 of the total investment in Spain, and up to 55 per cent of the whole foreign investment. The figure assumes still more weight when we consider that these investments were concentrated in the most dynamic sectors of the economy. Gross influxes hit highs in the 1870s and the first decade of the twentieth century, although in relative terms those made at the outset of the railway building were of the greatest importance.

The lower part of Table 12.1 shows, for the same periods, the direct contributions to the State from abroad over the short-term (floating debt) and the long-term (consolidated debt), and likewise for the capital flows corresponding to Rothschild investments. In the former case, it has proved impossible to calculate the percentages controlled at each given moment by foreign investors and financiers as it was often the case that these were operating through Spanish nationals. Nevertheless, the short-term amount freed by the Rothschilds stood at nearly half the total Treasury debt for the two decades indicated. Under consolidated public debt it can be seen that the aggregates for the 1860s and 1870s reached

very important amounts which were in the main part items from abroad and more than significant in relation to the State's overall long-term debt overall. Neither should it be forgotten that these figures are the monetary values that were actually collected and not the nominal value of the issues, which were used to calculate the interest payments. These values would, depending on market fluctuations at the time of each subscription, suppose between two and four times the amount of the quantity collected on account of the sharp depreciation of Spanish debt abroad during the period in question.

From this first review, which may validate the features and time-scale in question here, it is clear that the financial activities of the Rothschilds and their firms were not merely of significance but accounted for the principal part of foreign investments in Spain. We run no risk of being wrong when we refer to them as the most important investment effort in the history of Spain and of unrivalled duration through to the present day.

## **Contributions of Rothschild Capital and Firms to Spanish Economic Growth**

### *Public Finances and Monetary Markets*

Figure 12.3 gives the year-by-year aggregation of all the financial and business operations with Spanish institutions that we have described, with the sole exception of precious metals. From 1830 to 1900 the House of Rothschild lent Spain a total of 764 million pesetas, through the Bank of Spain and the Treasury; it sold public debt issues to the tune of 306 million pesetas and transferred a sum of 346 million pesetas to the country in net profit from the commission sales of the Almaden mercury. There is a clear growth in activities during the early years of the First Carlist War and, especially, during the Democratic Sexenio, when most of the transactions were carried out, which is not to say that the volume of operations before and after that moment were inconsiderable.

From the point of view of the budgetary deficit there seems to be a direct relation between capital influxes and the imbalances in the accounts of the liberal governments. The simplest interpretation is that the capital put up by the Rothschilds served to assuage in part the difficulties successive Spanish governments had in covering their basic expenses and the extraordinary expenses of the budget at critical moments in the history of consolidation of liberalism in Spain. It also seems clear that these imbalances lessened thanks to more constrained public expenditure and to the participation of the Bank of Spain, and that the levels of dependence of the foreign bankers slowly disappeared and that their presence in Spanish public finance became harder to justify.

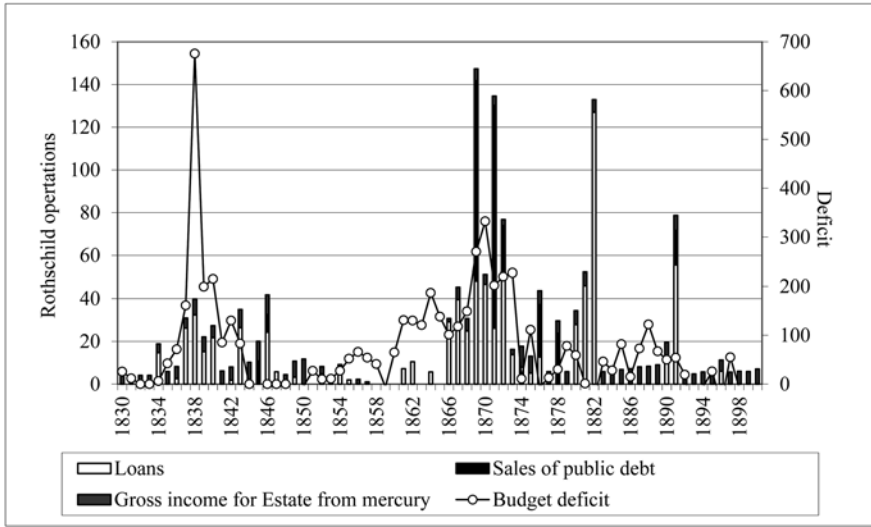


Figure 12.3 Accumulated capital flows from the House of Rothschild to Spanish public institutions and the relation with the deficit, 1830–1900 (millions of pesetas)

Source: Appendix 1. Deficit in Comín (1989), except 1840, 1843 and 1848, taken from Artola (1986: 111, 158, 199 and 256).

Note: Budget balances prior to 1850 are in most cases badly accounted for in the official figures.

The almost 700 million pesetas of bullion that the Rothschilds sold to the Bank of Spain and to the Treasury in the second half of the nineteenth century, particularly in the 1860s and 1870s, represents a huge amount of bullion and needs be taken into consideration. At a time when issues of paper money were scarce and the banking structure in Spain so weak, there can be no question that notes were crucial for monetary circulation and as elements of exchanges. The massive influxes of ingots shipped in by the Rothschild group directly affected the monetary mass and helped to avoid the fiduciary currency so feared by the Spanish liberal governments,<sup>2</sup> precisely at a time when the country was debating which metal standards to adopt.

<sup>2</sup> The Rothschilds always understood that this measure would have been extremely harmful for the financial interests of Spain, especially after the Italian and Austrian experiences (letter from Alphonse to Lionel Rothschild dated 19 October 1869, ARL XI/109/100).



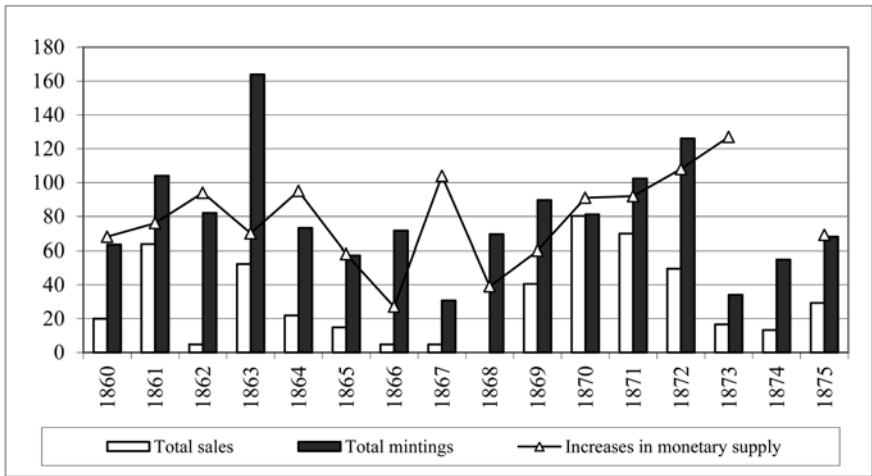


Figure 12.4 Bullion sales of the Rothschilds to the Treasury and to the Bank of Spain in relation to the net mintings of coin and the increase in the monetary supply, 1860–1875 (millions of pesetas)

Source: García Patón (1903: 86), Sardá (1970: 333–342), Tortella (1974a: 120), García Ruiz (1996) and Appendix 1.

Note: 1874 has been omitted from “increase in monetary supply” since in the original source it appears as strongly negative.

Yet the use these funds were put to by the various liberal governments of the nineteenth century clamours for careful analysis. Most specialists have, quite logically, insisted that the string of adverse political and economic conditions left little room for alternatives. Neither would it be reasonable to expect modern spending policies from those governments. Nevertheless, any shallow analysis of the financial management of the State accounts runs the risk of instant dismissal. The almost total neglect of development policies, and excessive spending on defence, on the administration of ministries, and on the servicing of debt do not seem to have been addressed in the fiscal reform, and the only alternative open was to plough ahead with the debt issues and to seek the help of occasional international lenders and of the Banco de San Fernando and the Bank of Spain. It is therefore apparent that the State spent decades generously remunerating the national and foreign financial systems for the capital that it was unable to raise itself, at a time when financiers were seriously competing for business.

*Productive Sectors and Markets*

In order to get some idea of the contribution made by the businesses controlled by the Rothschilds to the production network and the Spanish markets, in Figure 12.5 we have compared the family's respective productions and participations in corresponding economic subsections. The graph shows how these businesses held a more than significant share in the key strategic sectors of the Spanish economy. MZA represented some 30 per cent of the railway network, and this was clearly a qualitative issue as it controlled the most important radials in the country and was responsible for a similar percentage of goods and passenger transport. Rio Tinto had the lion's share of the national copper and pyrite production, while that of lead was in the hands of Peñarroya,<sup>3</sup> which also had an important share of coal production. In the case of the *Deutsch et Cía.*, we only have figures for the last five years of the century, but these point to its controlling a third of the national production of refined oil.

We have not included other important products of these businesses such as sulphuric acid, superphosphates, electricity or coal by-products, where the share was also noteworthy. These were productive subsectors that, by chance, coincide with those to which Concha Betrán<sup>4</sup> attributes the greatest lag effects on the industrial indexes at the turn of the century. This partially belies the argument that mining industries developed only an isolated exploitation model that preyed on the land and had no clear economic relation with its environment.

Such a frenetic activity, which employed such huge resources, could not but affect the Spanish economy of the time and, although there were purely speculative processes, its development inevitably had both positive and negative knock-on effects for associated sectors. Figure 12.6 below shows the powers in the industrial and services network controlled by the Rothschild for the years 1919–1920, when these firms are considered to have reached their production ceiling and when they were employing over 70,000 people.

If we focus, for a moment, on the contribution of MZA to the Spanish economy, a glance at the map suffices to reveal its importance in articulating and connecting the Catalan markets to the centre of the Iberian Peninsula and, in turn, to the east, to Badajoz and Lower Andalusia.

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<sup>3</sup> We cannot provide the lead production figures for Peñarroya after 1916 because they are mixed up with the reports on the production from the foundries abroad. Nevertheless, up till 1936 the contribution remained steady and even became more predominant thanks to improved production and to the acquisition of new foundries in the face of the general crisis the sector was facing.

<sup>4</sup> Betrán (1997).

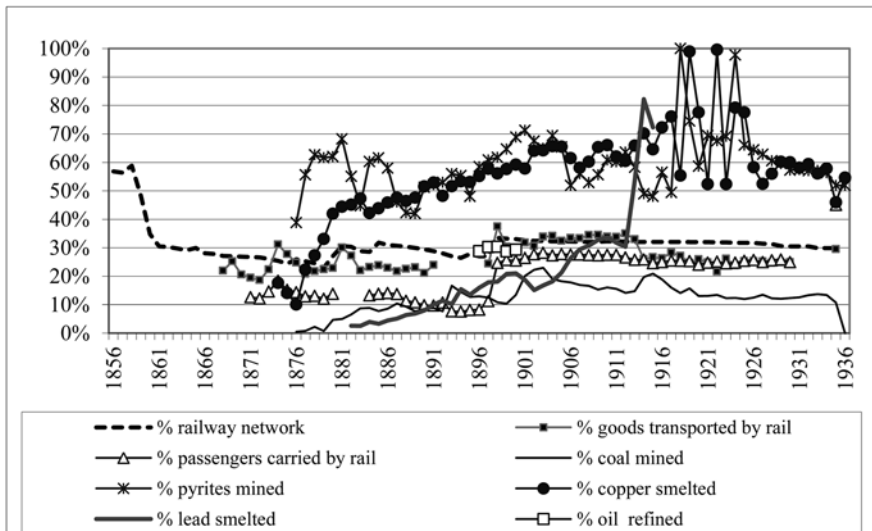


Figure 12.5 Percentage of the share held by Rothschild firms in each of the subsectors of the Spanish economy, 1856–1936

Sources: Artola (1978a), Tortella (1973), Salkied (1987), Carreras (1989), Tomás (1991), Coll and Sudriá (1987), Nadal (1975), Pérez de Pérez de Perceval Verde and Sánchez Picón (2000); Reports from MZA and Peñarroya; ARP, 132AQ139.

Arguments that reject the idea that the railway networks were developed in such a way as to serve a “colonialist” programme of mineral exploitation<sup>5</sup> lose weight in the light of recent research and the latest historiography. Analyses of the goods transported by MZA at the height of mining production clearly indicate that minerals were in no way the core component transported since they never accounted for more than 20 per cent of the value of the goods transported, while manufactured products and, most of all, agrarian produce represented almost the total value of the goods transported.<sup>6</sup>

<sup>5</sup> Nadal (1975: 50).

<sup>6</sup> Comín, Martín Aceña, Muñoz and Vidal (1998: vol. 1, 226–228) and Anes (1978).

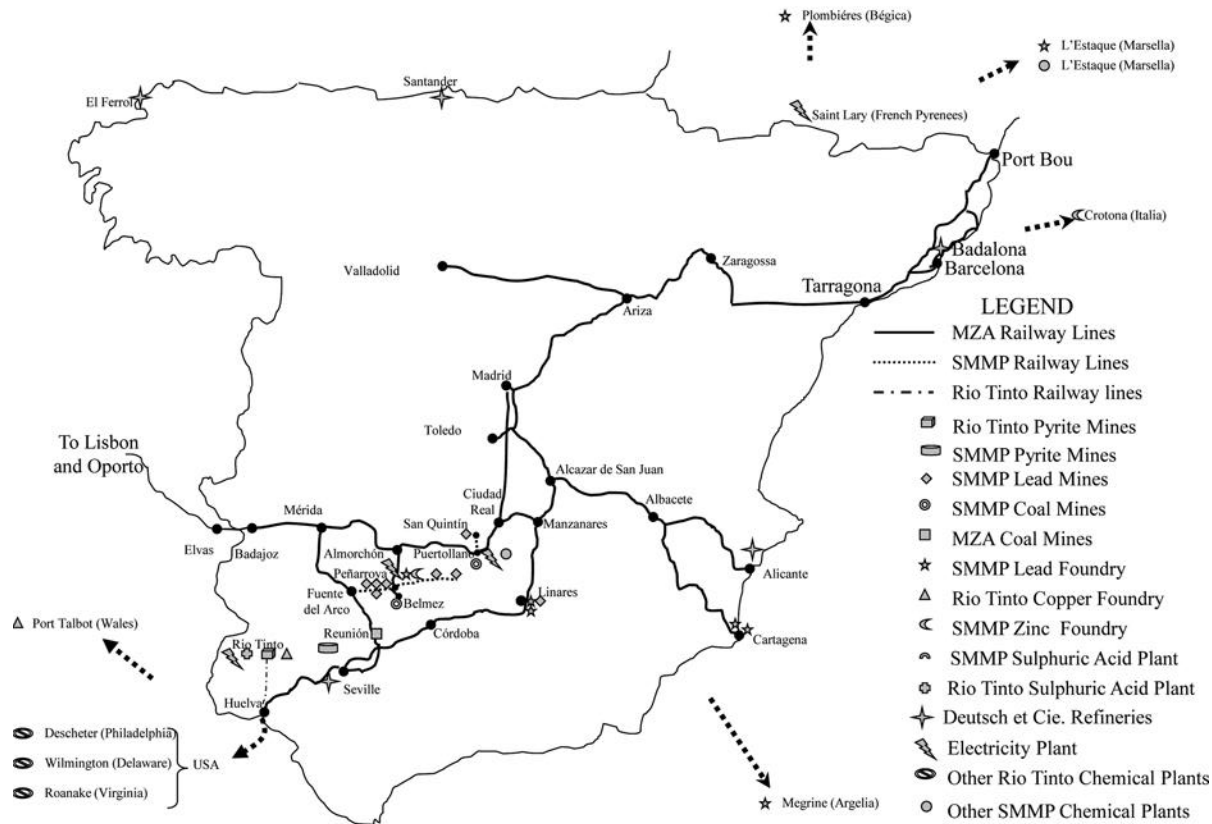


Figure 12.6 Installations of the firms or subsidiaries under the control of the Rothschilds in 1919–1920

It is a difficult task to quantify the contribution of industrial and agrarian production to the national income with any real accuracy. Gómez Mendoza,<sup>7</sup> when analysing the “Social Savings” of the railways for Spain of the G. Fogel company, stated that the savings generated by the arrival of the railways in Spain were in the region of 10–11 per cent of national income in 1878 and between 19 and 23 per cent in 1912, although the methodology he employed has sparked off a lot of controversy and has even led to conflicting results.<sup>8</sup> Whether or not it is valid, nobody today doubts the decisive effect of the railways in integrating the domestic market or on the overall development of the contemporary Spanish economy.<sup>9</sup> One must also consider the origins of the finance for the construction of the lines. Almost from the start, the capital clearly came from abroad, especially from France, and the amount of foreign capital would only increase with the passing of the years. In the case of MZA, all the capital was put up by French investors who, driven by the prestige of the House of Rothschild, ploughed their savings into an activity that would have a direct effect on the course of the Spanish economy. This was an evident saving for the country, which saw its communications network grow without having to draw on private national resources.

The appropriateness of the investments, especially the foreign investments, in mining for the historical growth of the Spanish economy has been interpreted both “pessimistically” and “optimistically”, as Escudero<sup>10</sup> has so brilliantly shown. However, it is not necessary to adopt a Manichaeist vision of the problem – the positive and negative arguments need not be mutually exclusive for any analysis.

The “pessimists”<sup>11</sup> have insisted, and to some extent quite rightly, that the exploitations created very little actual national income, oriented as they were towards exports and under the control of foreign capital. The amount of profit that ended up staying in the country, the “retained value”, was scarce in comparison with the returns made by the brokers and the shareholders of the large foreign mining consortia. According to these pessimistic authors, the figure stood at barely 30 per cent in some cases,<sup>12</sup> and its participation in the system of production and contribution to the Spanish balance of trade has been exaggerated. Their case has received support from recent research which underlines the very minor contribution made by this subsector to the economy. Indeed, there is a growing band of specialists who uphold that mining, even in its most industrialized form,

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<sup>7</sup> Gómez Mendoza (1982: 93–97).

<sup>8</sup> Barquín (1999) provides lower figures than those given by Gómez Mendoza using the same methodology.

<sup>9</sup> Garrabou and Sanz (1985b: 29–67) have highlighted the importance of the railway in reducing transportation costs and in evening out agricultural prices around the country.

<sup>10</sup> Escudero (1996).

<sup>11</sup> Nadal (1975), Broder (1981), Chastagnaret (2000), Muñoz, Roldán and Serrano (1976 and 1978) and Escudero (1996), among others.

<sup>12</sup> Prados (1988: 192–195) gathers the estimates given by most authors, although he calculates that the total amount retained was 89 per cent between 1875 and 1913.

is a branch of production which has little effect on the surrounding economic environment. Dobado<sup>1</sup> has shown this to be the case for Almaden, a highly profitable mining exploitation but one that had few repercussions on the local economy. There are further examples, from the Almeria coast, from Andévalo in Huelva, from the basin of the river Guadiato, from La Mancha or Asturias, that confirm the absence of any technological transfer from the exploitations, and this is reflected in the decline of these areas today where no industries have arisen to take over from the mining. Furthermore, a great many of these areas had inherited important environmental problems.

On the other hand, arguments can be marshalled in support of the “optimists”<sup>2</sup> in that there is evidence of advantages that arose out of the investments: that the small, at times minimum, percentage of retained value was still much higher than the zero results produced by the agrarian sector in traditional mining areas. And, of course, the fact that the investment came from abroad meant that money did not have to be brought in, in detriment to other, harder-hit sectors.

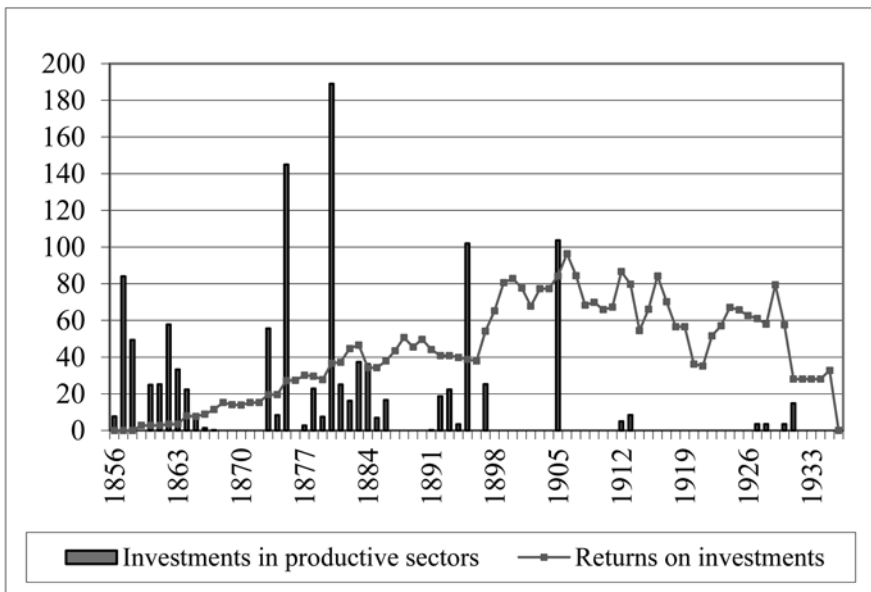


Figure 12.7 Capital entries from abroad through investments generated by the Rothschilds and their remuneration, 1856–1936 (millions of current pesetas)

Source: Appendix 2.

<sup>1</sup> Dobado (1999).

<sup>2</sup> Tortella (1981 and 1994), Prados (1988), Coll (1985) and Harvey and Taylor (1987).

As in Table 12.1, it should be considered that we are not just talking here of the amounts specifically invested by the Rothschilds, but of the total capitals they raised from abroad, compared to overall foreign figures. Chronologically, it can be observed that the high points of capital influx coincide directly with the large injections of capital for the railways, between 1856 and 1864 and 1875 and 1884, the big operations with the Treasury and the Bank of Spain during the Sexenio and the occasional specific supports in 1876, 1882 and 1891, as well as the operations mentioned in setting up and extending the capital for the mining companies. The record of the capital outflows is, in contrast, very different in both cases. In the area of public finances, they were linked to the rapid return payments on the short-term loans and to the interest payments on the debt, which spread outgoing capital over four decades, until these items were nationalized in 1914. In the private sector, however, there was a gradual growth in the volume of outflow from the second decade of the investment onwards. This area was heavily affected by the huge weight of the MZA shares, which accounted for an annual outflow of between 25 and 30 million pesetas during the first third of the twentieth century, and the spectacular returns on the Rio Tinto capital, which in 1906 actually paid a 110 per cent dividend, and average dividends of 69.05 per cent between 1897 and 1913.

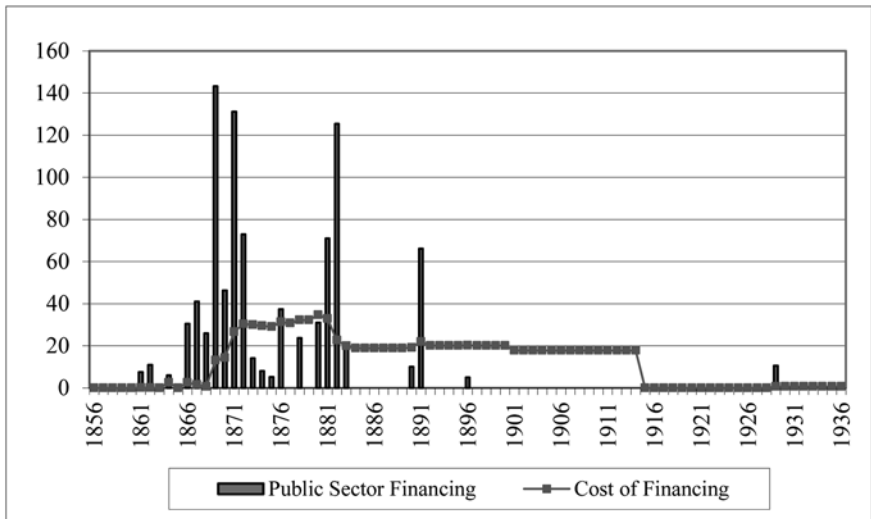


Figure 12.8 Annual capital flows from abroad to Spanish public institutions through Rothschild operations and their financial cost, 1856–1936 (millions of current pesetas)

Source: Appendix 2.

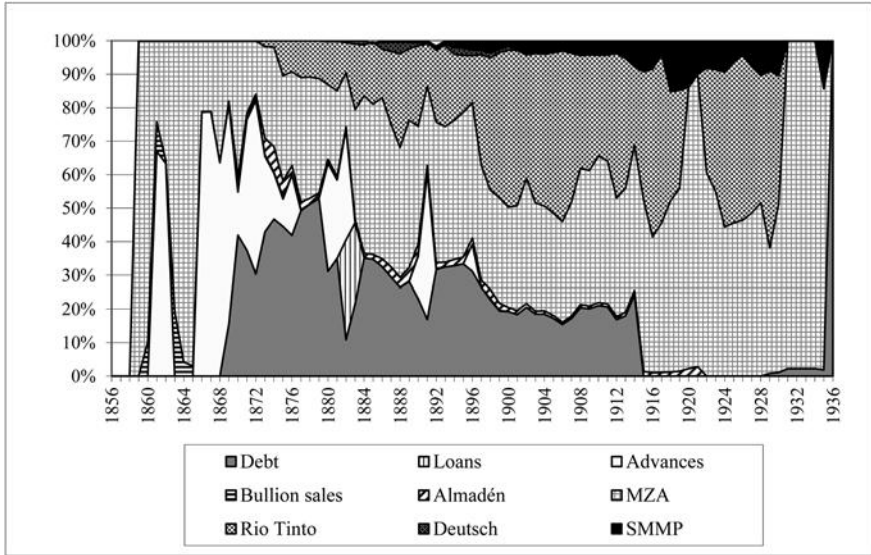


Figure 12.9 Percentage breakdown of the returns on Rothschild investments in Spain, 1856–1936

Source: Appendix 1.

## The Cost of Investment

### *Effects on the Balance of Payments: Incoming and Outgoing Capital*

An overview of the price the Spanish economy had to pay for the influxes of capital is provided by Figures 12.8 and 12.9, which show the annual aggregates from the Rothschilds' investments and financial activities. The capital flows into Spain are indicated separately for both the public finances and for the private businesses. Over the long term, this would mean a negative net balance, if it were just a case of subtracting yearly influxes from outflows, with a maximum in the period immediately prior to the Great War that would continue to remain significant for two decades, during which there was practically no alternative to the returns. Yet to apply a net balance to these capital returns in relation to the respective influxes and, even more so, to relate it directly to the evolution of the country's overall balance of payments lacks, in my view, economic sense.

If we are to be more rigorous, we need to take into account other variables in the business investments that will noticeably affect the value of these outflows, such as the taxes paid by the firms in question, the salaries paid out, the reinvestments made which it has been impossible to measure, along with a host of other elements that would all add information to this bleeding of capital. As an example, MZA paid out in tax between 1918 and 1936 a much greater



amount to the State in the form of taxes, rates, rights and franchises than we noted under interest payments and amortization of shares and dividends paid to shareholders, although, obviously, this figure cannot be seen as reinvestment.

As regards the specific nature of these returns, Figure 12.9 shows the breakdown of the outflows over the same period. The graph reveals noticeable differences in the results from those we offered in Figure 12.1 for the profits of the Rothschilds as investors simply because the bankers barely included in their portfolio the public debt values and the long-term railway bonds that they issued themselves, and which represented the most part of the capital outflows in the process in question. From this perspective, the payments to the MZA bond holders were the fundamental reason for the capital outflows. However, it can also be seen that Rio Tinto was responsible for a large part of the capital outflow during its years of highest productivity and the best market conditions for the mine.

### *The Importance of Indirect Compensations*

A final element, which we have not yet mentioned as an investment cost, but one on which historiography has insisted strongly, is the “indirect compensations”. This term, coined by Jordi Nadal,<sup>13</sup> encapsulates the phenomenon by which, thanks to their negotiating power with the unstable liberal governments, foreign investors sought, demanded and achieved extraordinarily favourable facilities for their ventures in Spain. At the top of the list were the Rothschilds, who had made good use of their position with respect to the authorities to gain a monopoly on the sales of the Almaden mine production, privileges for their railway company, and facilities in setting up their huge mining emporia through Rio Tinto and Peñarroya.

This argument seems correct in principle, if not so much for the reasons behind it, which are not always to be gleaned from comparing the original archives.

The railways are a highly significant case. The underlying error is to see the boom in railway construction as the fruit of the banking and railway legislation apparently imposed by specific foreign groups or Spanish politicians. Nothing could be further from the truth. As we saw in Chapter 3, there was nothing in 1855, when the railway legislation had been in place for some months, to presage such a spectacular increase in construction as was to occur in the following months. Indeed, there had not even been any applications for concessions that might have justified it. The ones that did exist could well have been of a somewhat speculative nature, like those of the 1840s. Yet, in December, the Pereire brothers put in an explicit application to set up a credit bank in Madrid through which they hoped to implant in Spain their model of industrial and railway promotion that they had

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<sup>13</sup> Nadal (1975: 33–34). The concept, albeit with some variations, has gained credence among distinguished writers, including Comín (1988: 372–373 and 429), Comín (1996: 74–75) and García Delgado and Jiménez (1999a: 14).

been trying out all over Europe.<sup>14</sup> The Spanish politicians, in their eagerness not to miss out, took just a few weeks to prepare a banking law to meet the request. There were no pressures or bribes on the part of the Rothschilds or their agency to make either this law or the previous one take any particular form or another. If any pressure was applied by any foreign promoter it must have been the Pereires, who at that time had no firm agreements and had made no loans to the Spanish government. Neither did they have any known earlier commitment of such a nature. Had it not been for this sudden transfer of powers by the Rothschilds and the Pereire to Spain, railway construction would very possibly have dragged along at the same tiresome pace as it had in previous years, even in spite of the facilities afforded by the law. Put another way, there are well-founded reasons to believe that, without the progressive revolution, the moderate governments would have developed the same or similar legislation. So we need to distinguish between the real reach of the influence wielded by the foreign investors and the apparently stagnated Spanish economy in the face of the international economic cycles.

The Spanish mining boom was similar in its beginnings. We have already stated that the framework law of 1868 triggered off the phenomenon. Nevertheless, these legislative measures did not have an immediate effect and, in any case, investment would not be consolidated in this sector until the end of the 1870s, when the great European powers finally emerged from the political and financial crisis of the beginning of that decade and their foreign capital flows were reactivated. Likewise, it is evident that it was the sudden rise in the European demand for Spanish raw materials, and not the liberalizing legislation, that was the real instigator behind the arrival of the most important businesses in the mining sector, such as the Real Compañía Asturiana de Minas, with its Belgian capital, or Tharsis Sulphur & Copper Co., with Scottish capital, which came into being under the previous legislation (1853 and 1866, respectively).<sup>15</sup> Other investments, in contrast, stemmed from different motives and were not associated with the liberating spirit of the democratic Sexenio, but did meet the needs of the Inland Revenue. The most significant example was the birth of Río Tinto, which was not the result of any concession under the framework mining law, but came about through the sale of what was essentially State property in unprecedented conditions under Spanish legislation.

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<sup>14</sup> This request has its antecedent. In May 1853 the *Crédit Mobilier* made the same request; however, both the situation and the economic policy of the government at the time were very different, and the request was rejected. Cameron (1961: 166–167). For everything regarding the *Crédito Mobiliario Español*, see Sánchez-Albornoz (1977: ch. 8) and Tortella (1973).

<sup>15</sup> Dolores Ferrero (2000: 199) places the main efforts in the concession of the Huelva manganese from 1860, for copper as of 1880 and iron in 1890. Peñarroya, the great Spanish lead company, came into being in 1881, while its predecessor, the *Sociedad Hullera y Metalúrgica de Bélmez*, had been set up in 1865.

Escudero, and before him, Nadal,<sup>16</sup> have continued to insist that the framework law favoured foreign capital over the small Spanish businesses, which, had it not been for the competition, could have exploited the mineral wealth of the country under their own steam. This is a position that we do not share.

My view is that the endemic entrepreneurial shortcomings of the Spanish economy<sup>17</sup> were also present in the mining sector, since – regardless of whether we share the belief in the existence of economic and institutional obstacles to the development of the business class in Spain, as posited by Tortella<sup>18</sup> – foreign investors held a series of advantages over their contemporary Spanish counterparts which need to be spelled out.

First, they had solid sources of finance and easy access to the capital markets in their own countries. This was partly because of the tradition of the European stock exchanges in this aspect, as opposed to the very limited financing of Spanish firms found on the Madrid or Barcelona exchanges, but it is also to be explained by the presence of the investment banks and financiers among the promoters of a large part of the foreign investments in Spain. A further point of note is that the foreign businesses and entrepreneurs had better contacts on the international markets, and these were fundamental when it came to opening up overseas channels for their products. It has also been demonstrated that, on many occasions, foreign entrepreneurs integrated their activities with companies from other countries, of which they were mere subsidiaries, and this was a determining factor in being able to take advantage of a larger scale of production and in reducing the risk of distribution.<sup>19</sup> Finally, these entrepreneurs were better at adapting their businesses to the arrival of new technologies, which meant they could heavily undercut their Spanish competitors. The Rothschilds were able to incorporate all of these advantages. We find it hard to accept, therefore, that a greater protection of the sector or specifically reserved rights for Spanish entrepreneurs or the State would have brought any gain or improvement in the position of the Spanish businesses or have led to the important position that Rio Tinto and Peñarroya were to occupy in world mining. Let us again recall the case of Peñarroya and how it was the result of a merger of a huge number of Spanish companies that in most instances were willing to be taken over, and always for the same reasons – their incapacity to

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<sup>16</sup> Escudero (1996: 86–88), and, before, Nadal (1975).

<sup>17</sup> Tortella (1994: ch. 7) and Tedde (1985) have insisted on the importance of this aspect. We have sought to prove this point for the beginnings of the railways in López-Morell (2001).

<sup>18</sup> Tortella (1994: 193) systematizes these historical obstacles “The old aristocratic prejudice to work; the traditional Catholic mistrust of capitalism; intellectual passivity; low levels of education; the long mercantilist tradition that favoured state intervention in the economy; and the vicious circle of poverty.”

<sup>19</sup> Escudero (1998) has, effectively, demonstrated the importance of this factor for a good part of the Biscayan mining businesses.

self-finance, technical problems and the difficulties in selling their products in the best conditions on the international market.

Yet Escudero<sup>20</sup> is right to criticize the traditional tax system in the area of mining and that its excessive laxness exacted a heavy toll in lost opportunities for the Spanish economy, which was woefully inept in taking advantage of the yields available during the country's mining golden age. It only remains to say that the Rothschild firms steered their courses with skill and were able to push forward, much in the line of the Basque steel lobby groups.

Finally, we should remember the other, well-trod classical route of the indirect compensations granted to foreign capital, which, in this case, was exclusively for the Rothschilds in the form of the long-lasting monopoly on the Almaden mercury sales. It is argued that the Rothschild monopoly, which they enjoyed almost without interruption from 1830 to 1921, was obtained through the continuous blackmail of the Spanish State so as to assure the continuity of the loans on which it depended so much, and this is true. Such an argument could posit that the contracts signed would have deprived the State of considerable profit and would have forced it to remunerate the bankers handsomely over 30 years, following the famous loan of 1870.<sup>21</sup> This is, however, questionable. A series of clarifications is needed regarding the nature and consequences of such a controversial agreement and of the overall process surrounding the transfer of sales.

In the first place, let us recall that the loan alluded to was not exactly imposed by the bankers on the revolutionary government, or was even the result of a proposal from their side. Rather, it was Figuerola himself who asked the Rothschilds to increase the loans on the sales from the Almaden mines substantially or even to consider purchasing them. This did not strike the Rothschilds as convenient, but they had no qualms about negotiating new loans until that of April 1870, which was somewhat smaller than the minister would have wished.<sup>22</sup> The conditions of the agreement were tough, but it is manifestly wrong to talk of a profit or "bonus" of 203.6 per cent.<sup>23</sup> As Figure 12.10 shows, over the 30 years of the contract the State received around 80 per cent of the profits from the Almaden sales. Subtracting the payments on the loan – 121,138,500 pesetas – the Treasury would have obtained a percentage of profits that was still almost double that received by the Rothschild – 63,714,709 versus 36,330,572 pesetas. There is no doubt, then, that the Spanish government had a share in the profits from the Rothschilds' mercury monopoly.

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<sup>20</sup> Escudero (1993 and 1996).

<sup>21</sup> Nadal (1975: 109–115) and Anciola (1873).

<sup>22</sup> See Chapter 6.

<sup>23</sup> Nadal (1975: 113). Tortella (1981: 60) calculates that the real annual interest was in the region of 15 per cent.

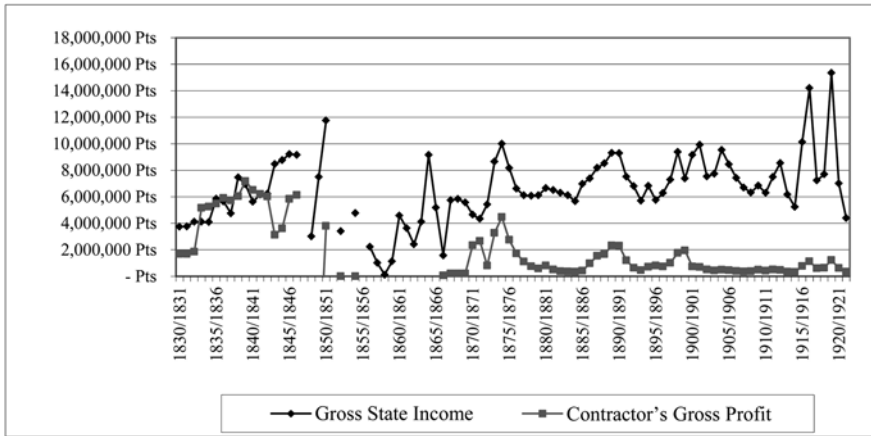


Figure 12.10 Distribution of profits from the Almaden mercury sales, 1830–1921  
*Source:* Martín (1980) y ARL VII/15/0-2 Quicksilver account, núm. 2.

A similar comment is pertinent following the analysis of the whole period covered by the Rothschild agreements, although any assessment of these contracts has to be measured over time, as Figure 12.10 shows. In the years covered by the successive contracts won by auctions (1830, 1835, 1838 and 1843) it has been confirmed that there was some bias in these contracts in favour of the Rothschilds who, by selling the mercury in Seville two or three times cheaper than the price in Mexico and London, all but equalled the profit made by the State, helped in part by the corruption that they brought into play. This goes to show that the commission sales system employed from 1870 worked much better than the auctions. This is not to say that the Treasury would not also have benefited from the advantages afforded in those years by a monopoly which it was not in a position to handle from 1823 through to the first auction. As the graph shows, the participation of the Spanish Treasury steadily improved thanks to maintained production and more favourable contracts. However, in the years in which the government sought to regain control of the market (1847–66), sales ground to a standstill and it had to resort to the Rothschilds in the few cases where any sales were made. It was precisely in the years after the 1866 and 1870 contracts that the monopoly enabled a sustained growth in production that more than compensated for the long-term stagnation of prices. The government could not have been so disappointed with the run of contracts when it renegotiated them with the Rothschilds in 1900 and again in 1911, even if, by then, it was in a much better negotiating position than it had been in the nineteenth century, and so ensure better conditions.

No contemporaries, including Nadal, appreciated the very high-risk premium assumed by the Rothschilds when they signed such a long-term contract as that of 1870. From the reports received from their agents at that time, the market at the time was anything but promising. There was a generalized stagnation of mercury sales in Mexico<sup>24</sup> and exchanges all over Europe were in a trough. Lastly, it seemed that nobody has really considered that the future of mercury sales was also at the mercy of any technological reform that could have spelled the end to the use of mercury in many of the industrial processes in which it was employed. Yet the fact is that the Rothschilds made good their financial wizardry, issuing a sovereign mortgage loan alongside the normal loan, and so compensating for the dangers by spreading the risk over the long term.

### Some Final Reflections

Throughout these pages we have sought to review some of the characteristics, determinants and consequences of the workings of foreign capital for the history of the Spanish economy.

In the case of the Rothschild investments, we have tried to show how these bankers often had a hold on the reins of the Spanish economy and were clearly influential in developing some of the main industrial sectors as well as public finances. They had a huge and far-reaching influence that they wielded through efficient investments that were, without exception, financed from abroad. Taken as a whole, the benefits of their actions for the Spanish economy were unquestionable, but, individually, they require closer scrutiny.

The Rothschild involvement in public finances did not prevent the bankruptcy of the Spanish State, although it did delay it for nearly half a century. The efforts proved fruitless, though, and the high cost they imposed would in the long run be harmful to the overall development of the economy. If we wish to point to anything positive in this process, we can say that their intervention at least served to offset the errors in monetary policy committed by a succession of Spanish governments, which leant more towards “seigneurial” tax collections than any real fluid planning to meet the situational needs and monetary vicissitudes of the nineteenth century.

In the area of productive investment their contribution was certainly important for economic growth. Their business conglomerate in Spain mobilized idle resources, provided and accelerated access to technology, and increased the human capital stock in the country. These activities generated fewer drawbacks than possible benefits for the Spanish economy as a whole and frequently fostered the massive egress of profits rather than reinvestment.

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<sup>24</sup> Letter dated 28 April 1869 from José María V. y Baz from Mexico, on behalf of N. Davidson (Rothschild agent), ARL, XI/109/98.

Nevertheless, when it comes to assigning responsibilities for the economic growth in Spain in the nineteenth and early twentieth centuries, it seems clear that the actions of the State had more retardatory elements for economic development than those that are normally attributed to the foreign capital. Fundamentally, these affected the high opportunity cost paid by the economy as a whole for the huge waste caused by maintaining a constantly inflated and increasing volume of public debt, originated both at home and abroad. It was an absurd whirlpool of debt that had a massive negative impact on private investment in Spain on account of the excessive remuneration on capital, and, in the case of the investor countries, it was, as Cameron has put it, “capital thrown overboard”.<sup>25</sup>

In legislative terms, the State was forever compensating the ruling class and the small number of business interests with highly questionable economic incentives that fostered monopolistic structures and continuous collusions between the railway, mining and industrial companies, not to mention other measure that imposed a huge social cost. It was a system of corruption and widespread chasing after profits in which foreign companies were masters at exploiting things for their own benefit themselves, and not infrequently involving their collusion with the Spanish political and economic elite.

The twentieth century saw a new, totally opposite, economic policy, erroneously closing down production and foreign capital. It reached its zenith under the first period of the Franco regime but did not bring about any long-term profits. Again, the State must bear the brunt of responsibility for the economic underdevelopment – it was yet another brake on development insofar as it supported the partisan wishes of certain economic groups that merely sought, and obtained, a simple substitution of the actors in the production system.

What comes out of this process first is that the country and its leaders opted for a highly conservative growth model in which the State neglected to combine a correct accumulation of wealth with the search for balanced, modern, socioeconomic growth.

As bankers, the Rothschilds sold their banking services, especially in respect of their liquidity and efficiency, as a specific product. This should have been enough in itself to cover the Treasury in terms of public finance if there had been some coherent economic policy respecting other institutions of the country. It was a role that would finally be taken by the Bank of Spain, but in the meantime the Spanish economy had to pay the price of its immaturity and it was obliged to try out organizational and institutional development models that were more in line with the economic reality that was being created. But the Rothschilds also revealed the business opportunities that Spain could offer in terms of industry. It enjoyed huge operational advantages over neighbouring countries, and all that was needed was sufficient entrepreneurial spirit and access to the means available on the markets.

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<sup>25</sup> Cameron (1961).

In short, the massive presence of the Rothschilds is evidence of the sad fact that Spain lagged behind the other countries of its sphere. Progressive independence from the family was one of the clearest symbols of the country's definitive economic modernization.



# Appendices

**Appendix 1: House of Rothschild financial and business operations with Spanish public institutions, 1834–1900 (annual totals)**

Year	Short-term loans*	Advances to the Royal Household	Long-term loans*	Debt operations*	Gross incomes from the State from quicksilver auctions**	Annual bullion sales*
1830	–	–	–	–	3,743,998	–
1831	–	–	–	–	3,757,856	–
1832	–	–	–	–	4,112,584	–
1833	–	–	–	–	4,105,553	–
1834	14,718,750	–	–	–	4,104,199	–
1835	–	–	–	–	5,859,149	–
1836	2,561,000	–	–	–	5,652,812	–
1837	8,625,000	5,083,333	12,500,000	–	4,755,135	–
1838	23,625,000	8,750,000	–	–	7,462,125	–
1839	12,683,535	2,500,000	–	–	6,928,650	–
1840	21,500,000	250,000	–	–	5,619,375	–
1841	–	–	–	–	6,162,075	–
1842	1,758,000	–	–	–	6,230,925	–
1843	13,950,000	–	12,500,000	–	8,474,370	–
1844	1,437,500	–	–	–	8,767,464	–
1845	–	–	–	10,833,333	9,222,234	–
1846	16,030,073	8,250,000	–	8,333,333	9,167,833	–
1847	5,754,000	–	–	–	–	–
1848	1,672,140	–	–	–	2,774,253	–
1849	3,595,132	–	–	–	5,911,746	–
1850	–	–	–	–	11,754,750	–
1851	–	–	–	–	–	–
1852	4,836,000	–	–	–	3,395,764	2,901,600
1853	832,500	–	–	–	–	9,400,000
1854	4,375,000	–	–	–	4,775,508	–
1855	1,962,995	–	–	–	–	–
1856	–	–	–	–	2,218,352	–

1857	–	–	–	–	1,011,635	–
1858	–	–	–	–	–	–
1859	–	–	–	–	–	–
1860	–	–	–	–	–	19,950,000
1861	7,200,000	–	–	–	–	63,694,278
1862	10,450,000	–	–	–	–	14,250,000
1863	–	–	–	–	–	52,250,000
1864	5,700,000	–	–	–	–	21,850,000
1865	–	–	–	–	–	14,837,928
1866	29,140,000	–	–	–	1,578,229	4,789,979
1867	39,600,000	–	–	–	5,744,841	14,250,000
1868	24,903,000	–	–	–	5,824,354	–
1869	48,190,871	–	–	93,548,200	5,577,829	40,591,300
1870	4,270,440	–	42,419,038	–	4,631,358	78,570,000
1871	26,131,050	–	–	104,079,835	4,380,616	70,485,487
1872	48,905,400	–	–	24,937,500	2,952,327	49,892,666
1873	13,799,890	–	–	–	2,424,506	16,762,096
1874	7,864,000	–	–	–	9,859,863	13,314,175
1875	5,148,000	–	–	–	7,934,060	29,279,833
1876	12,658,500	–	–	24,600,000	6,408,742	–
1877	–	–	–	–	5,856,207	8,595,458
1878	–	–	–	23,750,000	5,842,121	–
1879	–	–	–	–	5,851,773	6,613,613
1880	27,900,000	–	–	–	6,469,805	5,037,725
1881	46,000,000	–	–	–	6,280,123	–
1882	126,985,000	–	–	–	5,957,820	20,180,881
1883	–	–	–	–	5,796,890	8,490,974
1884	–	–	–	–	5,382,666	–
1885	–	–	–	–	6,832,640	–
1886	–	–	–	–	7,243,205	–
1887	–	–	–	–	8,098,977	–
1888	–	–	–	–	8,380,589	4,100,686
1889	–	–	–	–	9,033,615	5,199,300
1890	10,700,000	–	–	–	8,897,610	10,449,595
1891	55,500,000	–	–	16,200,000	7,028,965	55,997,746
1892	–	–	–	–	5,006,783	16,739,549
1893	–	–	–	–	4,792,785	–
1894	–	–	–	–	5,708,556	–
1895	–	–	–	–	5,015,164	–
1896	6,050,000	–	–	–	5,203,816	–

<b>1897</b>	–	–	–	–	5,630,339	–
<b>1898</b>	–	–	–	–	6,031,449	24,165,444
<b>1899</b>	–	–	–	–	5,919,840	12,654,782
<b>1900</b>	–	–	–	–	7,090,789	–
<b>Total</b>	<b>696,426,936</b>	<b>24,833,333</b>	<b>67,419,038</b>	<b>306,282,201</b>	<b>346,637,600</b>	<b>695,295,094</b>

Sources: ARL, series I, VI, VII and XI (numbers 4, 15, 33, 92, 109, 110, 111 and 112); ARP, 132 AQ 40, 41, 86, 128, 322, 335, 338, 722–747 and 6136–6274; ABE, Secretary's Office, folders 733, 736, 740, 741, 789, 1138, 1196, 1197, 1200–1202, 1206–1218, 1224, 1259, 1260, 1262, 1263 and 3820 and Boxes 706, 993, 1013–1015, 1022, 1023, 1144, 1145, 1147, 1148 and 1150, Martín (1980), Roldán (2003), Otazu (1987) and Tedde (1999a).

Notes: \* Operations with the Spanish Public Treasury, the Banco de San Fernando, the Bank of Spain and the Spanish Overseas Ministry. \*\* For the years the Rothschilds controlled the sales. Figures for 1848–1849 are shared with Baring.

## Appendix 2: Variables used to calculate the capitals invested and recovered (1856–1936)

### CAPITAL INCOMES FROM INVESTMENTS IN THE PRODUCTION SECTORS:

- *SEMI*: Share capital.
- *MZA*:
  - Share capital: issues of 1856, 1875, 1877, 1880 and 1898.
  - Bonds. Only those issued abroad are considered: series 1 to 20, *Seville to Cordoba, Badajoz*. The last two as of their figuring as *MZA* liability.
- *Rio Tinto*:
  - Share capital: issues of 1873, 1880 and 1905. The 1929 issue is not included since it was aimed at investments outside Spain.
  - Bonds: issues of 1873, 1875, 1880, 1883, 1891 and 1895.
- *SMMP*: issues of 1880, 1893, 1903, 1912, 1913, 1914, 1925, 1929 and 1931, discounting in the last three the capitals from investments outside of Spain.
- *Deutsch et Cie*. Initial capital of the joint company.
- *Compañía Agrícola del Lukus*. Share capital put up by the Rothschilds in 1927, 1928 and 1931.

## RETURNS ON INVESTMENTS:

- *SEMI*: Dividends and profits from liquidating the company in 1868.
- *MZA*:
  - Earnings from share dividends, with a progressive deduction of those shares that were repatriated according to the proportion given in Figure 10.2.
  - Extraordinary interests and to founding shareholders: 6 per cent between 1856 and 1863.
  - Estimated interests on the series of bonds issued abroad.
- *Rio Tinto*:
  - Earnings from share dividends. It is supposed that all of these were abroad.
  - Estimated interests paid on bonds issued by *Rio Tinto* between 1873 and 1896 through to the total liquidation of its debt in 1905.
- *SMMP*: Share dividends. It is supposed that all of these were abroad.
- *Deutsch et Cie*: Net profits paid out. We only have figures for 1880 to 1900.
- The *Compañía Agrícola del Lukus* made no dividend payments prior to 1936.

## CAPITAL INFLUXES FROM PUBLIC FINANCING:

- Debt sales: net amount collected from selling the issues of 1869, 1870, 1871, 1872, 1876, 1878, 1891 and the Treasury bonds in 1929.
- Loans and advances to the Bank of Spain: 53 operations in total.

## FINANCIAL COST OF CAPITAL INFLUXES FOR PUBLIC FINANCING:

- Interests on debt issued by the House of Rothschild, recalculating the interests after the 1876 and 1881 arrangements. From the available sources it is impossible to fix the percentage of debt repatriated between 1881 and 1914.
- Interests and commissions on loans and advances plus commissions for issuing sovereign loans.

## EXCHANGE RATES USED:

*Franc*: 1830–1855, Tedde (1999a: 88 and 224); 1856–1867: Standard market exchange rate 19 reales = 5 francs (1 peseta = 4 reales); 1868–1935: Martín Aceña (1989: 390–391).

*Pound sterling*: Martín Aceña (1989: 390–391).

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