

The Spanish Investment Banks: from Financial Intermediaries to Company Shareholders

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1. Historical background

Two laws were passed in 1856 of capital importance for the history of banks in Spain: the Law on Issuing Banks (*Ley de Bancos de Emisión*) and the Law on Credit Companies (*Ley de Sociedades de Crédito*). The latter facilitated the entry of foreign capital to assist in setting up investment banks, which had wide operating margins for the purpose of promoting construction of the railways. The most important railway companies were in fact financed by some of the principal French bankers: the Rothschilds (through the Sociedad Española Mercantil e Industrial), who were connected with the MZA (Madrid-Zaragoza-Alicante) railway company; the Pereire brothers (Crédito Mobiliario Español), promoters of the Ferrocarril del Norte (linking Madrid with the French border); and Alfred Prost (Compañía General de Crédito en España), with a large share in the Seville-Jerez-Cadiz railway. However, the economic crisis which began in 1864 —aggravated by the financial crisis of 1866, itself partly due to the insolvency of the railway companies in which they had invested— brought with it the liquidation of much of the system created on the basis of the 1856 laws. Thus, in 1864, the Compañía General de Crédito suspended payments, and in 1868, the Sociedad Española Mercantil e Industrial followed suit. Crédito Mobiliario Español was able to pull through the crisis and survived until its transformation in 1902 into the Banco Español de Crédito (Banesto).¹

¹ Gabriel Tortella, *Los orígenes del capitalismo en España. Banca, industria y ferrocarriles en el siglo XIX*, Madrid, Tecnos, 1973. Miguel A. López-Morell, *La Casa Rothschild en España (1812-1941)*, Madrid, Marcial Pons, 2005. Esteban M^a Faus, *Regulación y desregulación. Notas para la historia de la banca española*, Barcelona, Península, 2001, pp. 45-51. Pablo Martín Aceña, “Desarrollo y modernización del sistema financiero, 1844-1935”, in Nicolás Sánchez Albornoz (ed.), *La modernización económica de España*,

Ramón Canosa was of the opinion that the first genuinely Spanish business bank was the Banco Hispano-Colonial, founded in Barcelona in 1876 by a number of financiers, among whom one in particular stood out: Antonio López y López, Marquis of Comillas, who exemplified a new breed of bankers (in fact, the Hispano-Colonial also benefited from the participation of an existing bank, the Banco de Barcelona). The Hispano-Colonial came into being for the purpose of providing a loan to the Government, to be paid off over ten years and guaranteed by the income from the customs tariffs of the Isle of Cuba; it continued to do business with the public debt relating to the Great Antilles. This bank was celebrated for its part in setting up the Compañía General de Tabacos de Filipinas (1881) as well as the Compañía Trasatlántica (ocean liner service), but also held shares in railway companies, agricultural and commercial concerns in Cuba, the Philippines and Spain, and was active in founding another banking concern: Crédito y Docks de Barcelona (1883). This company specialized in a new activity at that time: the granting of loans with merchandise as collateral. The Hispano-Colonial had between 1878 and 1884 a paid-in capital of 75 million pesetas, but it had been progressively reducing this amount, until it stood at 40 million at the time of the loss of Cuba, Puerto Rico and the Philippines (1898); this situation had a serious affect on the Catalan banks, and this one in particular, which at the end of the Cuban War was seen to be on the verge of bankruptcy. In fact, between 1899 and 1901, it had to reduce its capital progressively to a low of 15.3 million, redirecting its activity towards Barcelona's redevelopment plan and other public works (particularly in North Africa) and helping to finance the shipbuilding firm Sociedad Española de la Construcción Naval (SECN) and other industries.²

1830-1930, Madrid, Alianza, 1985, pp. 121-146. In 1864, Crédito Mobiliario Español had a paid-up capital of 114 million pesetas, which by 1874 had fallen by half, leaving only 18.5 million in 1901: Pedro Tedde and Gabriel Tortella, "Censo y balances normalizados de los bancos privados españoles (1874-1914)", in Gabriel Tortella and Pedro Schwartz, *La banca española en la Restauración*, vol. 2, Madrid, Banco de España, 1974.

² Ramón Canosa, *Un siglo de banca privada (1845-1945)*, Madrid, 1945, pp. 31 and 51. Pedro Tedde and Gabriel Tortella, "Censo y balances normalizados de los bancos privados españoles...". Pedro Tedde "La banca privada española durante la Restauración (1874-1914)", in Gabriel Tortella and Pedro Schwartz, *La banca española en la Restauración*, vol. 1, Madrid, Banco de España, 1974, pp. 268-270 and 396-398. *La banca privada en Cataluña entre 1920 y 1935*, Archivo Histórico BBV, Bilbao, 1998, p. 46 (Series *Informaciones: Cuadernos de Archivo*, no. 56-57). The Hispano-Colonial shared with the Banco Urquijo, the Banco de Vizcaya and the Banco Español de Crédito in the setting up of the SECN, as will be detailed below.

2. The birth of mixed-type banking in Spain

The 1885 Code of Trade (*Código de Comercio*) (Articles 175-176), allowed financial institutions to engage in a wide range of transactions, both those proper to commercial banks and those of the investment banks. In Spain the activities of both types of banks were not separated until the Bank Regulation Act (*Ley de Ordenación Bancaria*) of 1962, although subsequently, in 1974, this enforced specialization was abandoned.³ In the early twentieth century, Spain was still a backward country as far as its financial system was concerned; and yet this had grown in the second half of the nineteenth century at a faster rate than the other economic sectors. The increase in the supply of banking services exceeded the demand for finance with external resources, so the banking sector was not a factor that limited development.⁴ By the end of the nineteenth century the ties between the banks and industry were basically of two types. The Catalan banks underwrote issues of capital stock to the public by companies, which took advantage of the diffusion capacity of the financial institutions; but in the twentieth century, the Catalan private banks found themselves gradually relegated. On the other hand, the banks of Madrid, Bilbao and Asturias, which enjoyed much greater success, acquired shares in companies and managed to establish connections with the most important firms. From the late nineteenth century onward, technologies were also being developed that offered considerable economies of scale but required sizeable investments. Firms in these sectors benefited from the tariff protectionism then in force. Prior to the First World War, the very rudimentary banking technology of the Spanish banks was hardly comparable with that of the more advanced financial systems, such as those of the United States, Great Britain and Germany; most Spanish institutions were family firms of modest dimensions serving local markets. At the outbreak of World War I, the Spanish banks (even the biggest ones) were undergoing problems of confidence. In general they were not prepared for numerous transactions which they undertook with the belligerent nations. An initial consequence of this was an increase

³ Santiago Roldán, José Luis García Delgado and Juan Muñoz, *La formación de la sociedad capitalista en España*, vol. 2, Madrid, CECA, 1973, p. 176. E. Faus, *Regulación y desregulación...*, pp. 166-182. María Ángeles Pons, "Banca e industria en España. 1939-1985: la influencia de la banca universal en el crecimiento económico", *Revista de Historia Industrial*, no. 19-20 (2001), p. 253.

⁴ Pablo Martín Aceña, "Instituciones financieras y desarrollo económico en España y Francia en el siglo XIX", in C. Barciela, G. Chastagneret and A. Escudero (eds.), *La historia económica en España y Francia (siglos XIX y XX)*, Alicante, Publicaciones de la Universidad de Alicante, 2006.

in the branches of foreign banks in Spain, but from 1916 onward, domestic bankers began to react, creating new institutions, often by transforming existing banking houses, and the balances of the institutions grew under all headings. They also began to participate in previously unknown types of transactions. José María Tallada believed that the expansion of the banks during World War I was not accompanied by sufficient improvements to their organizational systems, and that the way in which the 1920-1921 crisis affected the banks was due to the fact that they had been engaging in businesses and operations for which they had neither adequate organization nor suitably trained management.⁵

The inter-war period was fundamental for the consolidation of the mixed-type banking sector (as was the capital accumulated during World War I). The banks had a hegemonic role in the formation of industrial society, in accordance with the classification made at the time by Gerschenkron. Writing in 1973, S. Roldán, J.L. García Delgado and J. Muñoz were of the opinion that the public debt had also facilitated this process since, as in 1917, a pact was made between the private banks and the Treasury Ministry under which the former took over the national debt issues, kept them in their portfolios and could “pawn” or mortgage them automatically at the Bank of Spain when they considered it appropriate. This afforded them liquidity and greater security in view of the immobilization of their funds due to their investments in the industrial sector, and enabled them to finance these by freely creating money in this way. More recently, Martín Aceña has shown that not all the debt remained in the hands of the banks, but that an important part ended up in private hands outside the financial sector; during the inter-war period public debt was a profitable liquid asset as it was issued at market rates. The bank did not pledge it on a massive scale, so that this was not the principal component in the creation of money and prices remained stable, unlike the events of the post-war period. However, the debt could

⁵ S. Roldán, J.L. García Delgado, J. Muñoz, *La formación de la sociedad...*, pp. 175-256. The foreign banks concentrated in the big cities, above all in Catalonia, where they also offered the service of looking after foreign securities, facilitating for customers payment or trading of coupons. The Catalan banks had a very active securities market, from which they earned considerable profits, but with the crisis of the post-war period they found that the commercial banking business was now monopolized by the Banco de España and by other non-Catalan institutions: Javier Pueyo Sánchez, *El comportamiento de la gran banca en España (1921-1974)*, Madrid, Banco de España, 2006, p. 32. Carles Sudrià, “Desarrollo industrial y subdesarrollo bancario en Cataluña, 1844-1950”, *Investigaciones Económicas*, no. 18 (1982).

indeed constitute a reserve offering greater security in the case of liquidity problems.⁶ On the other hand, the banks not only held shares in the capital of companies, but they also helped finance them through credit, which was officially short-term, but was successively renewed.⁷

In the 1960s, the chairmen of some of Spain's largest mixed-type banks, such as Banesto (Marquis of Deleitosa) and the Central (Ignacio Villalonga and Alfonso Escámez) emphasized the role of the Spanish banks in the promotion of industry throughout the twentieth century, adopting a role similar to that of the German banks, although clearly on a smaller scale. Moreover, Francisco Bernis, an outstanding economist of the 1920s, pointed out that mixed banking activity had strengthened the principal national institutions.⁸ But while, on the one hand, the large mixed-type banks in Madrid and Bilbao consolidated their presence, those of Catalonia experienced a period of relative decadence, above all following the declaration of voluntary bankruptcy by Spain's oldest private bank, the Banco de Barcelona (1920), in the context of the depression of 1920-1921.⁹ As an example of the transformation undergone in the inter-war period, it may be pointed out that the Financial Intermediation Ratio (the percentage of bank assets over GDP) in Spain in 1913 was 33, far below the level of 100 which is regarded as satisfactory, not only below the FIR of France and Great Britain, but a mere half that of Italy's; nevertheless, in 1934 it had already reached the level of 100 percent.¹⁰

⁶ S. Roldán, J.L. García Delgado, J. Muñoz, *La formación de la sociedad...*, pp. 246-247. P. Martín Aceña, *La política monetaria en España*, Madrid, IEF, 1984. P. Martín Aceña, *La cantidad de dinero en España, 1900-1935*, Madrid, Banco de España, 1985. J. Pueyo, *El comportamiento de la gran banca...*, pp. 35-38.

⁷ S. Roldán, J.L. García Delgado, J. Muñoz, *La formación de la sociedad...*, p. 252. María Ángeles Pons has pointed to the difficulty of determining exactly what the activities of "mixer" or "universal" banking are, although in general it is understood that they involve non-banking companies: "*Banca e industria en España...*", pp. 249-250.

⁸ S. Roldán, J.L. García Delgado, J. Muñoz, *La formación de la sociedad...*, pp. 244-246.

⁹ P. Tedde, "La banca privada española...", pp. 430-446. S. Roldán, J.L. García Delgado, J. Muñoz, *La formación de la sociedad...*, pp. 166-182 and 256-262. Francesc Cabana, *Història del Banc de Barcelona (1844-1920)*, Barcelona, Edicions 62, 1978, pp. 163-181. *La banca privada en Catalunya...*, pp. 31-34. Carles Sudrià, "La banca catalana en los años de Entreguerras y el debate sobre la decadencia. Una revisión", *Revista de la Historia de la Economía y de la Empresa (RHEEMP)*, no. 1 (2007).

¹⁰ P. Martín Aceña, "Instituciones financieras y desarrollo...", J.L. García Ruiz and G. Tortella, "Trayectorias divergentes...", p. 402.

3. The formation of the “big six” Spanish banks

The period 1900 to 1920 was fundamental for the creation of the big banks, since only one of the “big six” —as measured in terms of their equity capital— which predominated over the financial panorama in Spain until the 1970s dated back to the nineteenth century: the Banco de Bilbao. From the 1970s the Banco de Santander and the Banco Popular Español joined the ranks of the big banks (by the same yardstick of equity capital), although in terms of deposits these two had been ahead of the Urquijo bank since the 1950s.¹¹

The launching of the Banco de Bilbao was proposed in 1855 by the Board of Trade of that city, although it was actually constituted on April 29, 1857—in accordance with the Law on Issuing Banks (*Ley de Bancos de Emisión*) of 1856—with the participation of 106 local “patricians”. Among the founders, surnames connected with the metallurgical industry stand out, such as Epalza, Arellano and Ybarra, yet others had interests in overseas trade, and so the interests of both mercantile and industrial capitalism coincided at its launch. The bank’s initial capital was two million pesetas, and soon it had an important account of “securities deposits”; it is therefore considered that, although originating as a “bank of issue and discount” (*banco de emisión y descuento*), it must also have supported industry. On the other hand, the Bilbao was the only bank that offered resistance to the concession of monopoly on issue to the Bank of Spain in 1874. After several capital enlargements, the capital outlay in 1900 was 10 million pesetas, and in the following year it reached 15 million, with equity capital of 19.2 million, at the same time as it took over control of the Banco del Comercio (founded in Bilbao in 1891).¹²

¹¹ Mauro F. Guillén and Adrian Tschoegl, *Santander, el Banco*, Madrid, LID, 2007. Pablo Martín Aceña, *1857-2007 Banco Santander 150 años de historia*, Madrid, Turner, 2007. José Antonio Gutiérrez Sebares and Andrés Hoyo Aparicio, “Finanzas con apellidos. Historia financiera del Banco de Santander, 1857-1936”, *RHEEMP*, no. 1 (2007), pp. 93-112. Concepción Serrano, *Historia del Banco Popular Español (1926-1998) y de su filial regional el Banco de Andalucía*, Málaga, Servicio de Publicaciones de la Universidad de Málaga, 1998. P. Martín Aceña and María Ángeles Pons, “Estructura y rentabilidad de las empresas financieras en España, 1874-1975”, in Francisco Comín and Pablo Martín Aceña, *La empresa en la Historia de España*, Madrid, Civitas, 1996, p. 329.

¹² Nicolás Sánchez Albornoz, *Jalones en la modernización de España*, Barcelona, Ariel, 1975. Juan Muñoz, *El poder de la banca en España*, Madrid, Zero, 1970 (2nd ed.), pp. 33-34. *La banca privada en el País Vasco y Navarra entre 1920 y 1935*, Archivo Histórico BBV, 1998, p. 19 (Series *Informaciones: Cuadernos de Archivo*, no. 54, 1998). Pedro Tedde, “La banca privada española...”, pp. 227-230. Pedro Tedde and Gabriel Tortella, “Censo y balances normalizados...”. Arantzazu Galarza, *Los orígenes del empresariado vasco*, Bilbao, Beitia, 1996, pp. 208-216. José Víctor Arroyo Martín, “BBVA y sus bancos históricos”, *RHEEMP*, no. 1 (2007).

Between 1899 and 1902 there was a surge in the creation of new banks, this being the moment in which three of the “big six” came into being; the repatriation of capitals from the Americas played an important role in this process, as did the expansion of iron and steel exports, and industrial development in the Basque Country and Asturias. The Banco Hispano-Americano was created in October, 1900, by a group of Spanish entrepreneurs who had made their fortunes in the Americas. The group was led by Antonio Basagoiti Arteta, who was appointed chairman of the bank; Basagoiti had several old business associates in Mexico, such as Bruno Zaldo (deputy-chairman), the Noriegas and the Ibáñezes. This group of businessmen had been among the most important in the Mexico of Porfirio Díaz, commanding the largest textile companies, haciendas, firms involved in public works, iron and steel production, railways, and also controlling the country’s biggest bank: the Banco Nacional de México (Banamex). On its foundation, the Hispano-Americano could also draw on the repatriation of capitals following the loss of the remaining Spanish colonies; with them came several board members of Cuban origin. From its beginnings, the bank was particularly concerned to promote trade relations between Spain and Spanish America and to channel the repatriation of remittances from emigrants. The bank was launched with a paid-up capital of 10 million pesetas (the nominal capital amounted to 100 million), and by 1914 paid-up capital had risen to 50 million and equity capital to 55.2 million.¹³

In 1901, the Banco de Vizcaya was set up by leading representatives of industry and finance in the province of that name, among whom the following may be mentioned: Tomás de Zubiría, Gabriel M. de Ybarra, Pedro Mac-Mahon and Tomás Urquijo. In the Vizcaya, as in other northern banks, savings accounts were a very important component part of liabilities, as against at-call deposits and during the first decade of the twentieth century, it grew at a faster rate than the Bilbao. This new bank was born with an evident mixed-banking vocation, since in the very same year of its foundation; it lent decisive

¹³ José Luis García Ruiz y Gabriel Tortella, “Trayectorias divergentes, paralelas y convergentes: la historia del Banco Hispano-Americano y del Banco Central, 1901-1965”, in Juan Hernández Andreu and José Luis García Ruiz (eds.), *Lecturas de historia empresarial*, Madrid, Civitas, 1994, pp. 405-406. Juan Muñoz, *El poder de la banca...*, pp. 40-41. Pedro Tedde, “La banca privada española...”, pp. 426-430. P. Tedde and G. Tortella, “Censo y balances normalizados de los bancos...”. *La banca privada en Madrid entre 1920 y 1935*, Archivo Histórico BBV, Bilbao, 1998 (Series *Informaciones: Cuadernos de Archivo*, no. 55), p. 21. José Luis García Ruiz “Noventa años de gran banca comercial. El Banco Hispano-Americano, 1900-1991”, *RHEEMP*, no. 1 (2007).

support to the creation of Hidroeléctrica Ibérica. The Vizcaya was born with a paid-in capital of 3.8 million pesetas, although by 1914 it was rising to 8.5 and its equity capital to 10.7 million.¹⁴

The Banco Español de Crédito (Banesto) was created in 1902 following the winding up of Crédito Mobiliario Español, with a paid-in capital of 20 million pesetas, which remained unchanged until World War I; in 1916, its equity capital amounted to 22.9 million. The original French investors continued to exercise an important influence, since 30% was in the hands of the proprietors of Crédito Mobiliario Español and the widow of Isaac Pereire, 40% belonged to Paribas and other foreign capitalists, and the remaining 30% was in Spanish hands. Initially there was a board of directors in Madrid, and a committee in Paris with another seven members. Foremost among the board members were Gustavo Pereire and Raimundo Fernández Villaverde, who had held several cabinet posts and in 1903 became prime minister. The bank's first chairman was Cayetano Sánchez Bustillo, a conservative senator. Banesto came into being as the great bank serving French business in Spain, but during the First World War it gradually passed into Spanish hands, with those who were to be its future controllers —particularly José Gómez-Acebo Cortina (the Marquis of Cortina), Pablo Garnica and Manuel Argüelles (who became Treasury Minister in 1930)— gaining influence. By 1927, foreign capital had disappeared. Likewise, from World War I onwards, the institution started to evolve towards a mixed-type bank. Banesto inherited, from its origins in Crédito Mobiliario Español, the latter's relations with the Ferrocarriles del Norte, and several other industrial and service companies.¹⁵

The last two banks of the “big six” to be founded appeared at the end of the First World War (Banco Urquijo) and immediately thereafter (Banco Central).¹⁶ The Banco Urquijo was born in January, 1918, but as the transformation of an older banking house,

¹⁴ Ramón Canosa, *Un siglo de banca privada...*, pp. 57-58. Juan Muñoz, *El poder de la banca...*, p. 42. P. Tedde, “La banca privada española...”, pp. 422-424. P. Tedde and G. Tortella, “Censo y balances normalizados de los bancos...”. J.V. Arroyo, “BBVA y sus bancos...”.

¹⁵ P. Tedde, “La banca privada...”, pp. 424-426. R. Canosa, *Un siglo de banca...*, pp. 56-57. Juan Muñoz, *El poder...*, pp. 43-46. P. Tedde and G. Tortella, “Censo y balances normalizados de los bancos...”. *La banca privada en Madrid...*, p. 26. José Luis García Ruiz, “Fundación y primeros pasos del Banco Español de Crédito”, en *Estudios de Historia y de Pensamiento Económico. Homenaje al Profesor Francisco Bustelo*, Madrid, Edit. Complutense, 2003. J.L. García Ruiz, “Banesto, 1902-1993. Auge y decadencia de un gran banco mixto”, *RHEEMP*, no. 1 (2007).

¹⁶ S. Roldán, J.L. García Delgado and J. Muñoz, *La formación de la sociedad...*, pp. 199-202.

Urquijo y Compañía, which had been operating in Madrid since 1870, and the 50 million pesetas of subscribed capital stock remained in the hands of the three men who had inherited the business: the chairman Estanislao Urquijo Ussía, and his two brothers Juan Manuel and Luis, although originally only half the capital was disbursed. The first hallmark of the new institution was that it declared explicitly as its central aim, “*the protection of national industry and trade and thus the creation and exploitation of every type of lawful business*”. On its foundation, the three brothers contributed an industrial portfolio already worth 10 million pesetas, comprising companies such as like SECN, Construcciones Auxiliares del Ferrocarril (CAF), electrical corporations, tramways... The institution remained under the brothers’ control, although in 1920 it was decided to increase the capital, and the entry of other individuals with close relations to the family was allowed.¹⁷

The Banco Central was founded in Madrid in 1919 by agreement between several local banks with the intention of constituting a more powerful institution. The core was a merger between two banking houses: Aldama y Compañía, of Madrid, and Sucesores de A. Jiménez, of Ávila. Its corporate capital amounted to 200 million pesetas, but in the interwar period it only managed to disburse 60 million, a figure that it reached in 1921. The first shareholder was the Crédito de la Unión Minera, an institution founded in Bilbao in 1901, followed by the proprietors of the above-mentioned merging houses, the Banco Guipuzcoano, Hijos de Manuel Rodríguez Acosta (Granada), Banco de Santander, Banco Castellano (Valladolid), Banco de Crédito de Zaragoza, etc. Very soon it combined commercial banking with industrial investment, for it participated in the group of companies which in 1920 founded CHADE, the company that took over AEG’s subsidiary in South America, DUEG, owner of electrical and tramway companies; Francisco Cambó’s contacts played an important role in this foundation.¹⁸

¹⁷ Onésimo Díaz Hernández, *Los marqueses de Urquijo. El apogeo de una saga poderosa y los inicios del Banco Urquijo, 1870-1931*, Pamplona, Eunsia, 1998. O. Díaz Hernández, “El Banco Urquijo: un banco industrial fundado en el periodo de Entreguerras”, *RHEEMP*, no. 1 (2007), pp. 254-255. N. Puig and E. Torres, *Banco Urquijo. Un banco con historia*, Madrid, Turner, 2008, pp. 33-44. S. Roldán, J.L. García Delgado and J. Muñoz, *La formación de la sociedad...*, p. 202.

¹⁸ J.L. García Ruiz and G. Tortella, “Trayectorias divergentes...”, pp. 411-412. *La banca privada en Madrid...*, p. 31. S. Roldán, J.L. García Delgado and J. Muñoz, *La formación de la sociedad...*, pp. 202-204. G. Tortella, “El triunfo del centralismo. Breve historia del Banco Central, 1920-1921”, *RHEEMP*, no. 1 (2007). Other institutional shareholders in CHADE, apart from the Banco Central, were the Urquijo, the

The two large Madrid banks were the first to begin their expansion via the creation of branch offices. The Hispano-Americano followed the example of certain French banks established in various coastal cities before 1914, while the Banco Español de Crédito began with a special interest in the olive-producing and mining centres in the south. But the formation of great networks of branches was something that developed above all in the interwar period. In 1926, there were 850 bank branches and agencies in Spain. The bank which had the greatest number was the Vizcaya (157 offices, 18.5%), followed by Banesto (145) and the Hispano-Americano (87). The number of branches and agencies of the other banks forming the group of the “big six” was rather smaller: the Central had 31 and the Bilbao 20, while the Urquijo still had no branch offices (merchant and investment banks have generally had few branches), although others of the group had already a sizeable network. Despite the Urquijo’s lack of branches, the “big six” already accounted for 52% of the branches, the rest being distributed among another 40 banks that had at least one branch. The total number of banks that Muñoz accounted for between 1919 and 1926 was 111, but some had already disappeared before the latter date.¹⁹

4. Toward the professionalization of bank management

In the interwar period, a series of directors came to the fore, who were to head the country’s principal banks until the 1960s; these included Pablo Garnica, Ignacio Villalonga, Epifanio Ridruejo and Manuel Arburúa. Although the first chairman of Banesto was a politician, from the outset this institution had a general management led by Léon Cocagne, a Frenchman who had come from the Banco Hipotecario (another of Paribas’ businesses in Spain), with such wide-ranging powers that he himself asked the board to set limits on the granting of credits. Between 1903 and 1906, he had several committees delegated from the board of directors to help him in three separate areas: Banking, Industrial and Administration affairs. In 1919 a large capital enlargement was approved which diluted the French influence in Banesto, and Cocagne moved to the Paris Committee. In the period of trade-union strife of 1920-1923, the bank sought out a prestigious liberal lawyer, Pablo

Banco de Barcelona, the Sociedad Arnús, Banco de Vizcaya, Deutsche Bank, Crédit Suisse, Elektrobank, Sofina, etc.: O. Díaz Hernández, “El Banco Urquijo: un banco industrial...”, p. 256.

¹⁹Juan Muñoz, “La expansión bancaria entre 1919 y 1926: la formación de una banca nacional”, in *Cuadernos Económicos de I.C.E.*, no. 6 (1978), pp. 103-106. P. Tedde, “La banca privada...”, pp. 426-428.

Garnica Echevarría; the latter's success in solving the problem led to his being appointed chief executive officer (*consejero-delegado*). Garnica was made chairman in 1932, and in an attempt to improve relations with the new republican authorities he chose Epifanio Ridruejo Botija as general manager (*director general*) (CEO from 1942). The next step was the reorganization of the bank at the end of the Civil War, which paved the way for the entry of engineers such as José M. Oriol Urquijo (concerned mainly with the electrical companies in which shares were held) and José M. Aguirre Gonzalo. In the post-war period a Professional School was also set up for the training of employees. In 1959, the Marquis of Deleitosa (Jaime Gómez-Acebo Modet, son of the Marquis of Cortina) succeeded the recently deceased Pablo Garnica Echevarría in the chairmanship, but day-to-day management remained in the hands of the Chief Executive Officer, Pablo Garnica Mansi (son of the previous chairman). In 1970, with José M. Aguirre Gonzalo's accession to the chairmanship, the final handing over of control took place before the industrial and banking crisis of (1975-1985). Garnica Mansi remained as chief executive officer (*consejero-delegado*) and deputy chairman, while the son of the Marquis de Deleitosa, Ricardo Gómez-Acebo, Duke of Estrada, joined the board, in what was understood as a realignment of influences between the different Banesto "families".²⁰

In the Banco Urquijo, Valentín Ruiz Senén, a person from outside the family circle was appointed secretary of the Board. He exercised wide-ranging managerial powers, which was, a key element in the development of the bank until the Civil War, and eventually sat on more boards of management on behalf of the bank than the chairman himself. He had a degree in Arts as well as Law and the Urquijos got to know him when he was working as a head clerk in a notary's office. Ruiz Senén was a very upright and loyal man, of liberal tendencies, who also served from 1921 to 1923 as a member of the Cortes (the Spanish parliament). During the Second Republic the Urquijos brought in individuals who reduced the impression of the institution's links with the monarchy, such as Juan Lladó Sánchez-Blanco (in management), a lawyer who sat on the Council of State (*Consejo de Estado*), and Ramón Carande, a professor of economics (as a consultant), who

²⁰ S. Roldán, J.L. García Delgado and J. Muñoz, *La formación de la sociedad...*, p. 263. J.L. García Ruiz, "Banesto, 1902-1993...", pp. 142-152. Juan A. Lacomba y Gumersindo Ruiz, *Una historia del Banco Hipotecario de España (1872-1986)*, Madrid, Alianza-Banco Hipotecario de España, 1990.

represented the bank on various Boards of Directors due to a Decree on incompatibilities. Lladó rose steadily in importance after the Civil War (Ruiz Senén retired in 1942), being a key figure in the growth of the bank; he reached the position of chairman in 1974, being the first not to have been a member of the family.²¹

The Banco Hispano-Americano was presided over by Ignacio Herrero de Collantes, Marquis of Aledo between 1935 and 1961, but the supreme authority was exercised in practice by Andrés Moreno García, a man of rather humble background who had studied with a scholarship and emigrated to London, where he ended up working in the foreign exchange department of the Midland Bank. While there he established contacts with the Banco Hispano-Americano, which contracted him to take over executive powers in 1929, when Antonio Basagoiti's reached the age of eighty, although he was not appointed to the post of CEO until 1947. Moreno professionalized management and organized the Central Directorate (*Dirección Central*) with a departmental structure, surely inspired by that of the Midland Bank from which he had come. Likewise, he reorganized the network of branches under six regional directorates. In the post-war period, in order to maintain as far as possible the model of commercial banking that he had learned in England, he reached an agreement with the Banco Urquijo on industrial specialization (which will be explained in more detail below). However, the competing mixed-type banks grew more rapidly in the 1940s and 1950s than the BHA. Moreno was directing head until his death in 1959, but had, since ten years before, been handing over powers to his natural successor, Luis de Usera, who had been general manager since 1947.

Usera had been a government lawyer (*abogado del Estado*), taught in the University of Madrid and served as a tax inspector. In the post-war period he had occupied the post of technical secretary at the Finance Ministry, when in 1944 he was contracted by the Hispano-Americano. He was appointed CEO (*consejero-delegado*) on the death of Moreno, and continued to be the institution's key man, although Juan Antonio Basagoiti Ruiz was chairman until his retirement in 1968, when he was succeeded by Usera himself. In view of the government's attempts at liberalizing the financial market, in 1973 Alberto Oliart, who was also a government lawyer (*abogado del Estado*), was appointed general manager

²¹ N. Puig and E. Torres, *Banco Urquijo. Un banco...*, pp. 39-40, 90-93 and 102-107. O. Díaz Hernández, "El Banco Urquijo: un banco industrial...", pp. 260-264.

(*consejero director general*) in order to revitalize the institution, until, in 1977, he was appointed Minister of Industry and Energy in the first democratic government.²²

As we shall see further on, the Banco Central suffered from calamitous management between 1925 and 1936, being on several occasions on the verge of collapse, and in the immediate post-war period another “civil war” took place within the bank’s Board of Directors. In 1940, it had to create a new Standing Committee headed by Manuel Rodríguez-Acosta, the only remaining founder-member on the Board, who convinced it of the need to accept a new executive team led by Ignacio Villalonga, who had been outstanding in the management of CEPSA (of which I shall have more to say below) during the war, and was appointed first vice-chairman, CEO (*consejero-delegado*) with full powers and later, in 1944, the bank’s chairman. His management was a total success —as against the dissension that had ridden the Board since 1925 —achieving the complete rehabilitation of the institution and making it the most solid and fastest-growing in Spain. His leadership was unquestionable until his death in 1973, when he was succeeded by Alfonso Escámez who, rising from modest positions in the institution, had become the key assistant to Villalonga since the late 1950s. His mandate, which lasted until the bank’s merger with the Hispano-Americano (1991), was marked by the economic crisis and routine.²³

Irrespective of the above, in the late 1960s, a general lack of renovation on the boards of companies came under criticism, as well as the maintenance of “managers” with an out-of-date mentality, the consequence of the enclosed and oligarchic structure of Spanish capitalism. In some cases people reached Boards of Directors on account of their technical knowledge, but in many others it was merely a matter of family connections, or a reward for a career in politics.²⁴

5. The “Big Six” up to the Civil War

Drew on information from the *Anuario Financiero y de Sociedades Anónimas de España* (1922), Roldán, García Delgado and Muñoz analyzed the companies that had relations with

²² J.L. García Ruiz, “Noventa años de gran banca comercial...”, pp. 120-125.

²³ G. Tortella, “El triunfo del centralismo...”, pp. 222-227.

²⁴ J. Muñoz, *El poder de la banca...*, pp. 199-206.

the seven big banks in 1921, on the basis of the existence of board members from those banks who also sat on the boards of other companies (Table 1). It clearly points to the existence of some connection, but fails to determine the intensity of the relationship between the bank and the company, since their information does not include the percentage of share capital represented in each case. The Banco Central does not appear because it was of very recent creation, while the Hispano-Colonial was to end up being absorbed by the former, and the Crédito de la Unión Minera went into liquidation in 1925. The Bilbao was head and shoulders above the others, followed by the Urquijo and the Vizcaya, as regards relations with other companies, and the commercial vocation of the Hispano Americano was characterized by the scarcity of its relations with other companies. Although the Urquijo was also of recent establishment, the founding family had behind it the tradition of a banking house specialized in industrial investment since 1870. These banks had representation on the boards of 7.2% of all limited companies (*sociedades anónimas*), but those firms brought together 49.0% of the paid-up capital of all such companies, situated in sectors such as electricity, railways, mining, iron and steel, tobacco, etc., in which the possibilities for collaboration and the formation of cartels were greater.²⁵

Table 1. Posts occupied in other Limited Companies by members of the boards of seven banks, 1921

BANCO	Leading directors*	Other members	Number of companies with board members from these banks
B. Hispano-Colonial	20	56	49
B. Español de Crédito	16	47	47
B. Hispano-Americano	5	31	28
B. Urquijo	33	74	67
B. de Bilbao	31	97	91
B. de Vizcaya	22	128	64
Crédito de la U. Minera	18	58	55
TOTAL	145	491	274

*Chairman, Vice-chairman, Manager, Managing Director, Chief Executive Officer.

Source: S. Roldán, J.L. García Delgado y J. Muñoz, *La formación de la sociedad...*, p. 249.

²⁵ S. Roldán, J.L. García Delgado and J. Muñoz, *La formación de la sociedad...*, pp. 249-253. María A. Pons, "Banca e industria en España...", p. 260.

The role of the Banco de Bilbao in relation to other companies can be indicated on the basis of posts occupied by board members of this institution in other companies in 1921, although this could have been on a personal basis and not on behalf of the bank. As for the different sectors, mining (18 companies) and railways (11 companies) stand out, the Bilbao being present, like almost all the great banks, in Norte and MZA, but its participation must have been significant in other companies, such as General de Ferrocarriles (Oviedo). In the electrical field, it was related to eight companies, its participation in the Compañía Hispano-Portuguesa (one of those that was to end up as a part of Iberduero) being of particular note: where it held the posts of Chairman, vice-chairman and four other board members. In the machinery sector it had relations with eight companies, among which the Sociedad Española de Construcción Babcock & Wilcox stood out, but it was also involved in three electrical material manufacturing companies, in the Hispano-Suiza (automobiles) and in Euskalduna (shipbuilding). It was also related with eight shipping companies, the best known being Sota y Aznar, and with six iron and steel producers, the foremost of which were Altos Hornos de Vizcaya (AHV), Minero Siderúrgica de Ponferrada and Siderúrgica del Mediterráneo. In banking, besides controlling the Banco del Comercio, it had participated in the creation of the Banco de Crédito Industrial, while a board member from the Bilbao also sat on the Board of Directors of the Banco Central.²⁶

The Banco Hispano-Americano began its existence promoting relations overseas. Its links with Mexico were basically channelled via Banamex, which (as I have already mentioned) it controlled, but also through the Banco de Londres y México and the Mercantil de Veracruz. In 1904 it invested in a pre-existing Argentine institution which it transformed into the Banco del Comercio Hispano-Argentino, and which, in the following year, merged with the Banco de la Provincia de Buenos Aires (under which name it still exists). This enabled the Hispano-Americano to function as an official bank. Its activities extended through Uruguay, Paraguay, Brazil, Chile and Cuba, in the search for colonies of Spanish emigrants. On the other hand, in 1925 it acquired an important share in the Banco del Comercio of Cuba, but this declared bankruptcy in 1930 as a result of the crisis of 1929. In Spain it acted as a commercial bank, but it also had an important share portfolio in which

²⁶ S. Roldán, J.L. García Delgado and J. Muñoz, *La formación de la sociedad...*, pp. 328-330. Gabriel Tortella and Juan Carlos Jiménez, *Historia del Banco de Crédito Industrial*, Madrid, Alianza-BCI, 1986.

the Spanish national debt had pride of place (52%), followed by shares in the Banco de la Provincia de Buenos Aires (23%), the rest consisting of stocks and bonds in some 30 Spanish and Spanish-American companies. The Hispano-Americano underwent a serious crisis of confidence in 1913, as a result of the Mexican Revolution, which set off a strong current of withdrawal of funds leading to the suspension of payments. Finally the problem was resolved through a loan from the National Bank of Spain (*Banco de España*), an additional disbursement of capital by the shareholders and an agreement with the creditors for funds to be withdrawn gradually. In any case, this crisis marked a before and after in the history of the Banco Hispano-Americano, tending to moderate its overseas relations and becoming the institution that to the greatest degree decided upon the commercial bank model instead of the mixed type, and the institution soon recovered its profitability. The relation of the Hispano-Americano with private enterprise was founded on credit and the sale of bonds rather than on direct participation in the capital of companies; nevertheless, if the operation in question was very large it might require some post on the Board of Directors and exclusivity as regards banking services. The BHA preferred involvement with electrical companies and those promoted by the state rather than the traditional ones such as railways. Indeed, in 1921 the Hispano-Americano had representatives on the boards of ten electrical companies (Hidroeléctrica Española taking pride of place) and only three railway companies (MZA, Ferrocarril de Langreo and Ferrocarriles Vascongados). On the other hand, apart from strengthening its network of branches, it had since the beginning maintained relations with two Asturian institutions (Banco de Gijón and Banco Herrero) and in 1920 it established a federation with the Banco de San Sebastián. It also participated in setting up the Banco de Crédito Industrial.²⁷

The Banco de Vizcaya had, from the outset, a mixed activity, and had supported industry. Before the First World War it had already fully developed its relations with the electrical sector, holding shares in eleven such companies (Electra del Viesgo, Hidroeléctrica Española, Hidroeléctrica Ibérica, etc.) as well as seven railway companies (including Norte, MZA, Andaluces), two mining companies, and the SECN (the leading

²⁷ P. Tedde, "La banca privada...", pp. 426-430. J.L. García Ruiz, "Trayectorias divergentes...", pp. 406-411. J.L. García Ruiz, "Noventa años de gran banca comercial...", pp. 118-120. *La banca privada en Madrid...*, pp. 21-26. S. Roldán, J.L. García Delgado and J. Muñoz, *La formación de la sociedad...*, p. 325.

firm in the shipbuilding sector). Foremost among its foreign holdings were shares in banks which had set up branches in Spanish America (British Bank of South America, Anglo-South American Bank, Banco Francés del Río de la Plata, etc.). In 1914, the Vizcaya's securities portfolio was worth 17.7 million pesetas (with total assets of 69.9 million), of which 29.4% corresponded to Spanish government securities, 34.5% to bonds of national companies, while 28.2% were shares in Spanish firms and the remaining 7.9% foreign securities.²⁸ In 1921, the Vizcaya's board members occupied seats on 15 electrical companies, and so it is hardly surprising that for many years it was regarded as the "electrical bank *par excellence*".²⁹ Its degree of participation in the Cooperativa Electra Madrid was very significant, contributing no less than eight members to its board. Similar cases were Electra del Lima (CEO [*consejero delegado*] and seven board members), Electrificación Industrial (chairman and six members), Hidroeléctrica Española (principal director and three other members), Viesgo (vice-chairman and seven board members), Hidroeléctrica Ibérica (chairman, general manager and three members), Unión Eléctrica Vizcaína (chairman and five members), Unión Eléctrica de Cartagena (five members). Although its participation must have been much less significant, the Vizcaya also had directors in other important companies such as CHADE, Hidroeléctrica del Chorro, Mengemor and Sevillana. By 1921, its relations with the railway companies had shrunk to five; it still maintained relations with the Norte and MZA, but its contacts were closer with the Metropolitano de Alfonso XIII (Madrid), since the chairman and three directors were simultaneously members of the Board of the Banco de Vizcaya. Other sectors with which it had relations were tramways (five companies), machinery (six firms, including Babcock & Wilcox), and above all mining (nine companies). In iron and steel it had the principal director (*primer consejero*) and another member on the Board of AHV, and in shipbuilding it maintained its relations with the SECN and with Euskalduna.³⁰

Banesto came into being to manage certain French interests in Spain, but according to Tedde, the securities portfolio did not reach an appreciable size until the 1904-1907 period, in which it participated in several loans to the Spanish Treasury, the Moroccan Government

²⁸ P. Tedde, "La banca privada española...", pp. 422-424.

²⁹ J. Muñoz, *El poder de la banca...*, p. 42.

³⁰ S. Roldán, J.L. García Delgado, J. Muñoz, *La formación de la sociedad...*, pp. 333-334.

and the Barcelona City Council (in fact the aforementioned portfolio grew from 5.5 to 11.5 million pesetas between 1903 and 1904). Its initial relations with companies came about generally through Crédito Mobiliario Español and, apart from the railways (Norte and four other companies), it held shares in an insurance company (La Unión y El Fénix), in the Madrileña de Electricidad, the Tranvía del Este de Madrid, the SECN and Azucarera de Madrid, which led to misunderstandings with the Banco Hispano-Americano regarding the creation of the Sociedad General Azucarera trust (1903): in 1921 Banesto had representatives on the boards of both sugar refining companies. In 1921 Banesto's directors sat on the Boards of nine electrical companies, the best known being Hidroeléctrica Española, Unión Eléctrica Madrileña, Sevillana and Viesgo, and on those of seven railway companies, among which were neither Norte (the flagship of Crédito Mobiliario Español) nor MZA, although MCP and Andaluces do appear. This is not surprising since, as a consequence of the First World War, the original French connection was dissolved. Banesto's representatives also sat on the boards of four tramway companies. Its relations with other banks extended to the Urquijo de Guipúzcoa, Hipotecario, Banco de España and another two; in machinery, Babcock & Wilcox stands out, and in electrical goods the Spanish subsidiary of Siemens. In 1927, Banesto completely dissolved its ties with Paribas, and opted for a more commercial line, although it retained its investments in railways, insurance and certain other companies (Banco Hipotecario, Tabacos de Filipinas, Sociedad Española de la Dinamita, etc.). By the following year it controlled important shareholdings in Minas del Rif, and in Gas y Electricidad de Melilla, which had previously been in foreign hands, and in 1929 absorbed three small local banks, completing this activity later with the purchase of another local bank and the subsidiary of the Banco di Roma in Barcelona.³¹

Between 1918 and 1920, the Banco Urquijo rapidly set up a network of subsidiaries in Asturias, the Basque Country and Catalonia. The Banco Minero Industrial de Asturias was born in April, 1918, with the participation of the Banco Urquijo (of Madrid), the Banco Asturiano de la Industria y el Comercio and other financiers. Its creation reflected the

³¹ P. Tedde, "La banca privada española...", pp. 425-426. S. Roldán, J.L. García Delgado y J. Muñoz, *La formación de la sociedad...*, pp. 323-324. J.L. García Ruiz, "Banesto, 1902-1993...", p. 144. J.L. García Ruiz, "Noventa años de gran banca...", p. 119. *La banca privada en Madrid...*, pp. 28-30.

interests the family had had for some time in the region, and it acted as an industrial bank; the most important company with which it had links was the Sociedad Metalúrgica Duro-Felguera, which had been created in 1900 by the father of the Urquijo Ussía brothers and other potentates. The above-mentioned brothers, their brother-in-law Juan Tomás Gandarias and other capitalists such as the Zubirías, Chávarris and Ybarras participated, shortly afterwards (1902), in the creation of AHV, by the merger of three existing firms. Also in 1918 — but in June — the Banco Urquijo Vascongado was set up in Bilbao; by 1935 it possessed 25 branches distributed throughout several provinces of northern Spain, and acted as a mixed-type bank, although in that year its commercial investments tripled the securities portfolio. The Banco Urquijo Catalán was born in 1919, with the participation of local magnates, although the family's interests in Catalonia were considerably less than those it had in the north, since its only noteworthy holdings were in the Compañía Transatlántica. In 1923, the Urquijo Catalán absorbed the Banco de Villanueva y la Geltrú, and both acted as mixed-type banks. The last to be founded was the Banco Urquijo de Guipúzcoa (1920), upon the base of a local banking house; all the banks of the Urquijo group had holdings in it, as well as the Banco Español de Crédito. By 1921, the Urquijo had directors also on the Hipotecario, in the Banco de España and in Crédito Industrial. The main sectors in which the Banco Urquijo participated were railways, including MZA and Norte (in 1921 the bank's representatives sat on the Boards of Directors of 13 companies in that sector), iron and steel (Duro Felguera, AHV), machinery and other equipment manufacture (SECN, CAF, Sociedad Española de Construcciones Metálicas, Maquinista Terrestre y Marítima), electricity (Unión Eléctrica Madrileña, CHADE), chemicals, mining, and so on. The Urquijos always had firm links with political power (the third marquis was a personal friend and financial advisor of King Alfonso XIII), which eased their participation in legal monopolies such as the Compañía Arrendataria de Tabacos (CAT) since its creation in 1887, the Compañía Telefónica Nacional de España (1924), and CAMPSA (in the distribution of petroleum derivatives, 1927). In the 1930s, the bank took part in initiatives connected with transport and energy: Firestone Hispania, Worthington (hydraulic pumps), Compañía Nacional de Automotores, etc.³²

³² O. Díaz Hernández, "El Banco Urquijo: un banco industrial...", pp. 254-260. *La banca privada en el País Vasco y Navarra...*, pp. 43-46. *La banca privada en Cataluña...*, pp. 99-102. S. Roldán, J.L. García Delgado

The Banco Central began its activity satisfactorily, since besides participating in the creation of CHADE, it absorbed the Banco de Albacete and entered into federation with the Banco de Vitoria, but from 1925 onward, its history was very convulsed as a consequence of the bankruptcy of Crédito de la Unión Minera (1925), which was the principal shareholder in the institution, in one of the murkiest episodes of Spanish finance in the interwar period. Also, at that time serious internal dissension broke out, and things became worse with the entry onto the Board of Directors of individuals such as Manuel Pereña. Pereña, whose real name was Jaime Planas, abused his position in order to sell the bank several cork producers in difficulties, which affected the institution. Apart from this serious error, the Central had holdings in other companies that were profitable, although not always immediately, such as Gas Madrid, Hidroeléctrica del Chorro, Mengemor (electrical) and CEPSA (in petroleum refining), availing itself of the fact that the Canary Islands lay outside the CAMPSA monopoly, and in the Banco Exterior, created at the suggestion of the state but managed by private enterprise for the purpose of operating with foreign currencies and in foreign trade. The Banco Exterior was subject to the opposition of the National Bank (Banco de España), and CEPSA suffered the effects of the international depression. In 1930 and 1931 the Central had to be rescued with the help of the government and the Banco de España, but despite everything in 1934 it reached an agreement with the Banco Hispano-Colonial under which the Central assigned it its network in Catalonia in exchange for a share in the capital of the Catalan institution and a place on the Board of Directors of the Hispano-Colonial, which would henceforth be a subsidiary of the Central in Catalonia until its complete absorption in 1950. Likewise, in 1935 it acquired the business carried on in Spain by an Argentine institution, the Banco Español del Río de la Plata, but the monetary authorities distrusted the Central and in July, 1936, an inspection was set in motion that could have had very serious consequences for the bank, but which was interrupted by the outbreak of the Civil War.³³

and J. Muñoz, *La formación de la sociedad...*, pp. 326-327. N. Puig and E. Torres, *Banco Urquijo. Un banco...*, pp. 44-86. CAMPSA was created by a consortium of banks in which, together with the Urquijo, the Hispano-Americano, the Bilbao, Vizcaya, Banesto and Banco Herrero participated.

³³ G. Tortella, "El Banco Central en el período de Entreguerras o cómo llevar una empresa a la ruina", *Estudis d'Història Econòmica*, no. 17-18, pp. 241-272. G. Tortella, "El Triunfo del centralismo...", pp. 214-220. J.L. García Ruiz and G. Tortella, "Trayectorias divergentes...", pp. 414-417. The Banco Central took part in the

6. Some magnitudes in the interwar period

During the interwar period, the leading Spanish bank as regards total net worth (paid-up capital, reserves and accounts payable) was always the Hispano-Americano, although in 1920 the Bilbao surpassed it in equity capital (the latter had almost 60 million pesetas in reserves, as against the just under 22 million possessed by the BHA). As for the ranking in equity capital plus deposits, only two significant changes occurred: Banesto was ahead of the Bilbao between 1925 and 1930, above all in the attraction of deposits, but also came close to the Basque institution in equity capital, by growing faster in paid-up capital and above all in reserves. On the other hand, the Urquijo, which occupied the fifth position in 1920 (slightly above the Vizcaya), had fallen by 1935 to the last place both in equity capital plus deposits, and in deposits alone, although it had a greater equity capital than the Central, a very important aspect in an industrial bank.

Table 2. Financial resources of the “big six” during the interwar period

Equity capital (in thousands of pesetas)						
	Hispano-Am.	Banesto	Central	Urquijo	Bilbao	Vizcaya
1920	91,910	39,300	59,799	35,000	116,438	41,000
1925	115,181	53,999	69,385	77,724	123,000	50,500
1930	142,181	104,821	80,500	94,724	125,000	110,000
1935	164,916	121,948	83,107	90,224	144,750	110,000
Equity capital plus deposits (in thousands of pesetas)						
	Hispano-Am.	Banesto	Central	Urquijo	Bilbao	Vizcaya
1920	772,848	374,780	144,527	290,388	603,177	287,082
1925	788,321	394,243	184,038	246,212	715,847	359,115
1930	1,400,502	1,307,652	405,040	468,584	898,844	667,525
1935	1,655,256	1,461,584	612,078	419,243	1,198,278	803,967

Source: *La banca privada en el País Vasco y Navarra...*, pp. 78-79, and *La banca privada en Madrid...*, pp. 88-91.

The two banks that grew fastest in terms of equity capital plus deposits were the Hispano-Americano and the Español de Crédito, especially between 1925 and 1930. On the other hand, the Urquijo was the only one that saw its resources reduced in the first half of the 1930s, suffering a fall of 17.3% in reserves, doubtless as a consequence of the problems caused by the Depression of 1929, and also by a fall in 12% of deposits.

tendering for the concession of the CAMPSA monopoly (1927), together with other small business concerns, but did not win the hoped-for result and founded CEPSA in 1929.

As for total bank investment (securities portfolio, mercantile and credit paper), the evolution was logically similar to that of equity capital plus deposits (which are marked to a greater extent by deposits than equity capital), but an intense transformation took place as regards its structure. In absolute figures, commercial investment (mercantile paper and loans) grew —except in the Bilbao and the Urquijo— but this was most notable in Banesto and the Hispano-Americano. In percentage terms, the securities portfolio (government funds and industrial securities) always tended to grow, which meant that in absolute figures it grew more than commercial investment; in 1935 it was more than 57% of total bank investment in all cases. Indeed the differences among the “big six” —as regards investment policy— were much greater in 1920 than in 1935. In the former year, the portfolios of the Bilbao and the Vizcaya were already at about 30%, but that of the Hispano-Americano was limited to a mere 8.3% (the Central had only recently been created). In 1935 the most voluminous portfolio (74.4%) was that of the Vizcaya, followed by the Urquijo and the Bilbao, while those of the other three did not reach 60%.

Table 3. Structure of investment in the interwar period

Total bank investment (in thousands of pesetas)						
	Hispano-Am.	Banesto	Central	Urquijo	Bilbao	Vizcaya
1920	514,598	363,048	101,590	226,437	486,830	175,003
1925	679,155	365,782	136,622	266,897	572,062	287,483
1930	1,155,348	1,111,259	282,325	467,307	780,145	601,517
1935	1,317,162	1,193,342	456,609	373,011	794,149	665,237
Securities portfolio (public and industrial funds): % of total investment						
	Hispano-Am.	Banesto	Central	Urquijo	Bilbao	Vizcaya
1920	8.3	10.7	3.7	18.2	30.4	29.8
Government securities: % of total investment						
	Hispano-Am.	Banesto	Central	Urquijo	Bilbao	Vizcaya
1925	25.3	13.5	20.5	6.1	22.7	19.6
1930	34.0	32.2	28.6	25.7	33.0	29.7
1935	50.8	46.5	38.4	21.0	43.6	48.6
Industrial securities: % of total investment						
	Hispano-Am.	Banesto	Central	Urquijo	Bilbao	Vizcaya
1925	9.0	14.2	4.8	29.6	12.9	24.1
1930	10.1	12.8	26.0	33.2	23.9	29.3
1935	7.8	10.8	19.0	46.6	19.5	25.8

Source: *La banca privada en el País Vasco y Navarra...*, pp. 78-79, and *La banca privada en Madrid...*, pp. 88-91.

The area of the securities portfolio that grew most significantly in percentage terms was that of government funds, which, besides, enjoyed the advantage of being pledgeable in case of need; in the Urquijo, however, they fell between 1930 and 1935. Industrial securities increased significantly in relative terms in the Central between 1925 and 1930 (creation of CEPSA), and in the Urquijo between 1930 and 1935, as a consequence of the already mentioned reduction of gilt-edged securities in terms of absolute values, but in this case in absolute values the growth of investment in company securities was very strong between 1925 and 1930, becoming moderate in the first half of the 1930s. Of the “big six”, it was the Urquijo that had the greatest proportion of capital invested in company (or industrial) securities and that which had least money tied up in public debt. In the case of the Banco Hispano-Americano, the most commercial of the banks, industrial securities did not exceed 10% of total bank investment, so that those securities in which it invested were predominantly government funds. It has been stated that “*at the most, between 1921 and 1934, the big Spanish banks did not devote [...] more than a quarter of their portfolio assets to industrial securities*”; their mixed nature was therefore less marked than that of the German and Italian banks.³⁴ In that definition, the “portfolio” included not only the securities portfolio but also the trade bills, and the data in the following table show that — apart from the Urquijo, which was a bank of industrial vocation — in 1930 the Central, the Bilbao and the Vizcaya amply exceeded that proportion, although by 1935 it had fallen.

Table 4. Industrial securities as a percentage of the investment portfolio (securities owned plus trade bills).

	B. Hisp. Am.	Banesto	B. Central	B. Urquijo	B. Bilbao	B. Vizcaya
1925	12	19	8	63	20	37
1930	13	15	34	45	36	42
1935	9	13	25	59	26	30

Source: *La banca privada en el País Vasco y Navarra...*, pp. 78-79, and *La banca privada en Madrid...*, pp. 88-91.

³⁴ Francisco Comín, “La economía española en el período de Entreguerras (1919-1935)”, in Jordi Nadal, Albert Carreras and Carles Sudrià (eds.), *La economía española en el siglo XX. Una perspectiva histórica*, Barcelona, Ariel, 1989 (3rd ed.), p. 107. J. Pueyo, *El comportamiento...*, p. 38.

Professor Olariaga explained the development of mixed-type banking in Spain in the following terms:

“The need for the Spanish deposit banks to be of mixed type is unquestionable for three fundamental reasons: Spanish capitalism is [still] on a very modest scale, and it would not be easy to promote large industrial companies without the financial support of the large banks; the nation does not have a sufficiently long tradition of saving to make the country’s industrial development feasible without the participation of a part of the national income deposited in those institutions; there is not enough business for most banking corporations in Spain to be profitable if these were devoted to exclusively commercial transactions.”³⁵

7. Banking policy in the early period of Franco’s dictatorship

The regularization of the situation after the Civil War (1936-1939) implied the monetary and financial reunification of the two zones in conflict, for which purpose a series of measures was set in march, among which was a decree of October, 1939, which prohibited the establishment of new banks without prior governmental authorization (with narrow restrictions until 1962), occasioning what has been called the “*status quo*”. This situation was reaffirmed by the Bank Regulation Act (*Ley de Ordenación Bancaria*) of 1946, which also regulated interest rates, proportions of liquid earnings to be allocated respectively to reserves and to dividend payments, opening of branches, limitation of credit to maximum 90-day terms, etc. The banks in fact financed industry with short-term but renewable loans, although the danger existed that any moment renewal of the loan might be refused and the company would have to declare bankruptcy.³⁶ These restrictions have given rise to a wide-ranging literature on the monopolistic or oligopolistic nature of the banks in Spain, and the question of whether the state was “captured” by the banks, or rather manipulated them in line with its own ends.

³⁵ Luis Olariaga, *El Dinero. II. Organización monetaria y bancaria*, Madrid, 1960, p. 160, cited by S. Roldán, J.L. García Delgado and J. Muñoz, *La formación de la sociedad...*, pp. 245-246. The same arguments were used by Epifanio Ridruejo, “El sistema bancario español”, *Moneda y Crédito*, no. 51 (1954), cited by María Ángeles Pons, “Banca e industria...”, p. 252.

³⁶ María Ángeles Pons, *Regulating Spanish Banking, 1939-1975*, Aldershot, Ashgate, 2002, pp. 55-59. E. Faus, *Regulación...*, pp. 136-137 and 145-155. M.A. Pons, “Banca e industria...”, pp. 253-254. J. Muñoz, *El poder de la banca...*, pp. 81-84.

Spain's first Bank Regulation Act (*Ley de Ordenación Bancaria: LOB*) dates back to 1921, but in the interwar period it seems that there was no real capacity for limiting competition, and the law did not create barriers to entry in the sector, unlike the 1946 law, so that the post-war banking policy represented a genuine rupture with the previous period.³⁷ Muñoz considered that the 1946 LOB facilitated the reorganization of the banking sector, its concentration and consolidation as mixed-type banking,³⁸ as well as the maintenance of oligarchic structures and monopolistic behaviours, in what has been regarded as a “capturing” of the state by the banks.³⁹ Subsequent authors have made it clear that the law, and the protection it afforded the established banks, were received with delight by the financiers, while the Falange (one of the groups that supported the regime) was calling for the nationalization of the sector. The banks, in order to maintain their independence, had to agree to finance Franco's policies via the acquisition of public debt, and in exchange they were allowed to function as an oligopoly and to enter into agreements to fix interest rates. The big bankers were normally liberals of a conservative bent and their relations with the regime and its economic interventionism were at times problematic and at other times accommodating. Thus, while Garnica (Banesto) was in agreement with the collusive pacts, Moreno (Banco Hispano-Americano) offered extraordinary interest rates in contravention of the agreements and Villalonga (Banco Central) called meetings to avoid such practices. Pons has therefore emphasized that, rather than a “capture” of the state by the banks, or a total submission of the sector to the government, there was a “consensus” in which the latter obtained funds in order to reallocate them while the banks minimized their risk by reducing competition.⁴⁰

³⁷ J. Pueyo, *El comportamiento de la gran banca...*, pp. 41-46 and 79-80, brings together very significant opinions on both laws: Sardá, Olariaga, Canosa, Ridruejo, París Eguilaz. See also E. Faus, *Regulación y desregulación...*

³⁸ Ignacio Villalonga himself affirmed this: “La banca española en lo que va de siglo”, *Arbor* (Sept.-Oct. 1962), cited by E. Faus, *Regulación y desregulación...*, pp. 153-154. See also his declarations in the Shareholders' Meeting of 1947: G. Tortella, “El triunfo del centralismo...”, p. 224.

³⁹ J. Muñoz, *El poder de la banca...*, pp. 60-69. See also Ramón Tamames, *Los monopolios en España*, Madrid, Ed. ZYX, 1967.

⁴⁰ J.L. García Ruiz, “Banesto, 1902-1993...”, p. 147. J.L. García Ruiz, “Noventa años de gran banca...”, p. 121. G. Tortella, “El triunfo del centralismo...”, pp. 226-228. M. Á. Pons, “Banca e industria en España...”, p. 254. J. Pueyo, *El comportamiento...*, pp. 46-51 and 82-88. E. Faus, *Regulación y desregulación...*, pp. 220-224. See also P. Martín Aceña and M. Á. Pons, “Estructura y rentabilidad...”. M. Á. Pons, “Oligopolio y tipos de interés en la banca española, 1942-1975”, *Revista de Historia Económica (RHE)*, no. XIX-3 (2001). J.L.

A question of great importance is the role of pledgeable public debt. The situation was similar to that before the Civil War, but in the post-war an artificially low interest rate was applied, thus making this a somewhat undesirable asset. Although obligatory coefficients of investment did not exist, the authorities found ways to persuade the banks to acquire it; for example, the National Bank facilitated better conditions to the banks which held abundant government securities. The abundant issues of pledgeable public debt with unattractive interest rates resulted in constant inflation, which led to the disappearance of this modality with the new economic policy introduced in 1959, although it was not formally prohibited until the LOB of 1962. Those authors who defended the monopolistic role of the banks considered that the pledgeable debt favoured the power of the sector, but in reality it was floated under coercion, and could not be reassigned among the banks' own customers, unlike the situation in the interwar period.⁴¹

The “*status quo*” often prevented the banks from establishing branches in particular places, so that they were forced to acquire banking houses or small local banks in order to do so (which, on the other hand, increased the value of these businesses). On occasions, the same business name was maintained, or only a certain share in capital was acquired, giving rise to the creation of banking groups. Among the big bankers, Moreno (Hispano-Americano) wished to maintain the rules of the English banks, where he had worked earlier. He disdained the introduction of collusive practices and the absorption of banking houses. This strategy proved to be wasteful (they failed to take advantage of the human capital of the institutions that were absorbed), and the Bank lost its leadership, although it grew in the decades of the 1940s and 1950s.⁴² In 1967, the five biggest banks (Banesto, Hispano-Americano, Central, Bilbao and Vizcaya) were represented by 2,047 banking offices, amounting to 55.5 % of the total, a somewhat higher percentage than in 1926

García Ruiz, “Los arreglos interbancarios durante el franquismo”, *RHE*, no. XX-2 (2002). Javier Pueyo Sánchez, “Oligopolio y competencia en la banca española del siglo XX: concentración económica y movilidad intraindustrial, 1922-1995”, *RHE*, no. XXI-1 (2003). J. Pueyo, “Relaciones interempresariales y consejeros comunes en la banca española del siglo XX”, *Investigaciones de Historia Económica*, no. 6 (2006).

⁴¹ J. Muñoz, *El poder de la banca...*, pp. 60-69. J.L. García Ruiz, “Banesto, 1902-1993...”, p. 147. J. Pueyo, *El comportamiento de la gran banca...*, pp. 36-38.

⁴² E. Faus, *Regulación y desregulación...*, pp. 153-155. J.L. García Ruiz, “Noventa años de gran banca...”, p. 121. About another large banks absorption policy: G. Tortella, “El triunfo del centralismo...”, p. 226. J.V. Arroyo, “BBVA y sus bancos...”, p.76; J.L. García Ruiz, “Banesto, 1902-1993...”, p. 146.

(52 %), although the figure has to be seen against a grand total of bank offices that had more than quadrupled. The Urquijo only had four offices, and on the basis of equity capital plus deposits it occupied the tenth place.⁴³

8. The 1962 Bank Regulation Act and specialization

Between 1940 and 1970, the Spanish financial system underwent an accelerated modernization process, so that by the 1970s it was comparable to that of other developed countries.⁴⁴ The LOB of 1962 tried to remedy certain problems that the authorities believed needed attention. These included: improving the performance of the Banco de España as a central bank (it was nationalized together with the “official banks” such as the Banco de Crédito Industrial and the Banco Hipotecario de España); facilitating long-term credit, since the banks were the principal source of financing for the private sector; and bringing about the specialization of the banks as either commercial or industrial, so as to avoid credit discrimination in favour of the companies in which the banks held shares, which was regarded as an congenital defect of the mixed-type bank (this obligatory specialization was eliminated in 1974). Likewise, the existing legislation on holding companies and investment trusts (*sociedades de cartera*) was perfected. The new law also gave greater facilities for the expansion of networks of branches and the creation of banks, but continued to maintain a certain control, and there was still no move to liberalize interest rates — something that only began gradually in the 1970s. Although pledgeable debt had been suppressed, since 1965 coefficients were established for investment in government securities in order to facilitate the financing of the State.⁴⁵

The LOB of 1962 was developed through other provisions, and it is worth highlighting that the industrial and business banks had to possess four characteristics:

⁴³ J. Muñoz, *El poder de la banca...*, p. 102.

⁴⁴ P. Martín Aceña and M.Á. Pons, “Spanish Banking after the Civil War, 1940-1962”, *Financial History Review*, 1 (1994), pp. 125-130, cited by J. Pueyo, *El comportamiento...*, p. 34.

⁴⁵ J. Muñoz, *El poder de la banca...*, pp. 69-71. M.Á. Pons, “Banca e industria en España...”, pp. 253-256. M.Á. Pons, *Regulating Spanish Banking...*, pp. 59-62. E. Faus, *Regulación y desregulación...*, pp. 166-174. J.L. García Ruiz, “Banesto, 1902-1993...”, p. 152. J.A. Lacomba y G. Ruiz, *Una historia del Banco Hipotecario...*, pp. 445-460. G. Tortella y J.C. Jiménez, *Historia del Banco de Crédito Industrial*, pp. 123-127.

- a) The industrial securities portfolio (private sector) was not allowed to exceed three times the amount of equity capital;
- b) The bank's interest in any company should not represent more than half of that company's paid-up capital;
- c) It should not invest more than 10% of its equity capital plus deposits in any one company;
- d) No more than 50% of an industrial bank's paid-up capital should be controlled by other Spanish banks.

The mixed-type banks, for their part, were allowed a period of five years to adjust their situation to the new law, if they opted to convert to commercial banks, in which case the sum of the portfolio of industrial securities and tangible fixed assets (real estate investment and furniture and fixtures) was not allowed to exceed the volume of equity capital. Muñoz stated that a consequence of capital enlargements effected during the 1960s was that the mixed-type banks were transformed into commercial banks without any need to carry out divestments, and Ignacio Villalonga, a defender of the mixed banks, also pointed to the possibility of transferring securities to holding companies created by the banks themselves.⁴⁶

In Spain in 1962 there was, properly speaking, only one industrial bank: the Urquijo, which in 1944 had sealed a collaboration agreement with the Hispano-Americano, known as the *Pacto de Las Jarillas* (after the name of the estate where the negotiations had taken place). The agreement was based on an exchange of shares, and the Hispano-Americano was thus able to maintain its commercial tendency in spite of government pressures for it to involve itself in industrialization, by accompanying and financing the Urquijo in a variety of industrial promotions. Likewise the Hispano-Americano absorbed the Urquijo's subsidiaries in Catalonia and the Basque country, and provided it with an injection of liquidity.⁴⁷ By 1972 there was a total of 17 industrial banks⁴⁸, and the most important, apart

⁴⁶ J. Muñoz, *El poder de la banca...*, pp. 81-84, 215-223 and 389-391.

⁴⁷ J.L. García Ruiz, "Noventa años de gran banca...", p. 121. O. Díaz, "El Banco Urquijo: un banco industrial...", p. 261. N. Puig and E. Torres, *Banco Urquijo. Un banco...*, pp. 112-114.

⁴⁸ Consejo Superior Bancario (C.S.B.), *Un cuarto de siglo de banca privada, 1947-1972*, Madrid, CSB, 1973.

from the Urquijo, had been backed up by the large financial institutions. As the Spanish banks could not control more than 50% of the capital of the industrial and business banks, the entry of foreign capital into their stock was facilitated.

Table 5. Principal industrial banks created on the basis of the LOB of 1962

Industrial bank	Spanish promoter	Year of founding	Principal foreign associates
Banco de Desarrollo Económico Español (Bandesco)	Banesto	1963	Barclays (GB), International Finance Co., (USA), Morgan Guaranty Trust (USA)
Banco de Fomento	B. Central	1963	
Unión Industrial Bancaria	B. Atlántico	1963	Condotte d'Acqua (It.), Banca Privata Finanziaria (It.) De Neufelize Schlumberger, Ld. (Fr.)
Banco Industrial de Bilbao	B. Bilbao	1964	
Banco de Financiación Industrial ⁴⁹	B. Vizcaya	1964	The First National City Bank (USA), Westminster Foreign Bank Ld. (GB), Philip Hill Investment Trust (GB),
Banco Europeo de Negocios	B. Popular	1964	B. de L'Indochine (Fr.), Cie. Privée de Banque (Fr.), Crédit Commercial de France (Fr.)
Banco Intercontinental Español (Bankinter)	B. Santander	1965	Bank of America

Source: J. Muñoz, *El poder de la banca...*, pp. 81-84 y 163-165. M.F. Guillén and A. Tschoegl, *Santander, el Banco...*, pp. 126-127.

9. The big banks and the promotion of companies during the Franco period

As we have already seen, the “*statu quo*” favoured concentration of the banks, sometimes through absorptions and sometimes by forming groups around related interests. Muñoz identified several large banking groups on the basis of individual members sitting on the boards of different institutions and links between institutions in the form of first-degree family connections, which can be summed up in the following table.

⁴⁹ Created on the base of the old Banco Hispano Suizo: C.S.B., *Un cuarto de siglo...*, p. 4.

Table 6. Principal Spanish banking groups (balances as of September 30, 1967).

Group	Banks	Equity capital	Deposits	Offices
		Millions Ptas.	Millions Ptas.	
Banco Español de Crédito	9	13,177.9	122,743.1	691
Hispano-Americano / Urquijo	8	14,326.4	118,587.3	572
Banco Central	6	8,982.7	84,844.8	558
Banco de Bilbao	7	7,977.3	74,289.6	371
Banco de Vizcaya	3	6,660.5	56,503.4	282
Popular / Rumasa / Atlántico	14	5,057.4	48,256.6	259

Source: J. Muñoz, *El poder de la banca...*, pp. 142-153.

The group led by the Banco Santander was of smaller size, but grew very fast in the 1960s, while the groups led by the Bilbao and the Vizcaya lacked directors in common but did, on the other hand, have board members related by close family ties. In the case of one of the banks considered part of the Banesto group (the Banca Ridruejo of Soria), there was only a family relation involving one director.⁵⁰

The banks exercised influence on companies in three different ways: through direct shareholdings; through having board members in common; and by exercising voting rights on behalf of individuals whose shares were deposited in the banks. Likewise, the concession of a sizeable loan could be made conditional on the bank's placing a member on a company's Board of Directors, so that they might have better knowledge of the firm's situation, thus reducing information costs. For the companies, the connection with a bank could also be of benefit, since it provided a more reliable access to loans in times of a credit squeeze. During the 1950s and 1960s the banks developed as an oligopolistic sector. The influence of the banks was also due to the low level of self-financing of companies and the rudimentary state of the financial system and the capital market. In any case, the industrial securities portfolios of the Spanish banks were far smaller than those of the German or Italian banks, resembling a commercial bank more than a universal bank.⁵¹

⁵⁰ J. Muñoz, *El poder de la banca...*, pp. 149-151 and 153-154. His data contains an error which I have not corrected since it would not significantly alter the result (connection of the Banco de Irún with the Hispano-Americano, when in fact it was absorbed in 1970 by the Bilbao). P. Martín Aceña, 1857-2007. *Banco Santander...*, pp. 134-188.

⁵¹ J. Muñoz, *El poder de la banca...*, pp. 209-215, 223-230 and 266-307. J. Pueyo, *El Comportamiento...*, p. 20. Jesús María Valdaliso Gago, "Grupos empresariales y relaciones banca-industria en España durante el franquismo: una aproximación microeconómica", *Información Comercial Española, ICE: Revista de Economía*, no. 812 (2004), pp. 163-166. E. Faus, *Regulación y desregulación...*, pp. 237-240. See also M.Á.

In the case of Banesto, in the 1950s, its chairman Pablo Garnica considered that only equity capital should be invested in company securities and in immobilized capital (buildings, furniture and fixtures) —a condition that in the 1960s was imposed on the commercial banks. Despite his liberal ideology, Garnica did not frown on the nationalization of companies that had created problems, such as the railways, one of the sectors in which traditionally the banks had invested. Besides the participation in companies that arose during the interwar period, one must highlight the intervention of Banesto together with the Spanish public holding company INI, Fiat, and several private banks, in the creation of SEAT in 1950; similarly, in the 1970s it participated in Acerinox (steel production), and likewise collaborated in the installation of Ford's subsidiary in Valencia. Banesto also supported the action of the public sector since six of its ten principal borrowers between 1945 and 1960 were public or semi-public entities.⁵²

During the 1950s, the Banco Urquijo was outstanding for its support of the automobile industry (it, too, held capital in SEAT), pharmaceuticals (Compañía Española de Penicilinas y Antibióticos) and chemicals: S.A. Cros, Unión Española de Explosivos, etc. In the 1960s, together with other banks, it participated in important loans to CAMPSA—which, as we have already seen, was created by a bank consortium of which the Urquijo was a member—and also fostered mergers of shipbuilding and chemical companies (giving birth to Astilleros Españoles and the chemical manufacturer La Seda).⁵³

As for the Banco Central, when Villalonga took over, he had to carry out a complete transformation of the institution, hiving off companies linked to the bank that were not viable; the inflation that reigned in the 1940s was beneficial for Villalonga's plans, as it was for all those burdened with debts, which was the Central's case at the time. As for its relations with other banks, it is worth underlining the absorption of the Banco Hispano-Colonial in 1950, since the latter was affected by the bankruptcy of the Barcelona Traction,

Pons, "Banca e industria en España...". P. Martín Aceña and M.Á. Pons, "Spanish Banking after the Civil War..."

⁵² J.L. García Ruiz, "Banesto, 1902-1993...", pp. 147-153. J. Muñoz, *El poder de la banca...*, pp. 209-235. H. París Eguilaz, "El problema de la reforma bancaria en España", *Anales de Economía*, vol. 7, no. 26 (1947).

⁵³ O. Díaz, "El Banco Urquijo: un banco industrial...", pp. 262-263. For the relations of the Urquijo, Hispano-Americano, and other related banks with the Sota y Aznar group of companies and hence with the shipbuilders Euskalduna, see J.M. Valdaliso: "Grupos empresariales y relaciones..."

Power & Light company (one of the murkiest episodes of the period), and its participation in the creation of FECSA, the firm that took over the assets. In the electrical sector, the bank gradually shed all its holdings in CHADE, which had once yielded it substantial profits (although after the war it lost importance), and created an important hydroelectric group in the northwest, and it likewise participated in the south in Hidroeléctrica del Chorro. The bank's last great foundation turned out to be a failure: Andaluza de Piritas, a mining company that began exploitation in 1979 and had to be sold off to the Swedish firm Boliden in 1987 at a price far inferior to what the Central had invested in it.⁵⁴

10. Financial resources and investment

The consolidation of the great banks during the Franco period (1939-1975) is borne out by Table 7: Banesto had clearly drawn ahead of the Hispano-Americano by the start of the 1960s, since its development had been faster throughout the decade before, as was also the case of the Central and the Urquijo, but these started at a lower level. The two Basque banks (Bilbao and Vizcaya) were the only ones that lost weight during the 1940s in real terms, since although their financial resources grew, it was at a slower rate than inflation. At the end of the period they were the ones that had grown least, possibly because of their links with the mining and metallurgical industries, which were gradually losing importance, above all after the Stabilization Plan of 1959 and the end of autarchy. The growth rate was moderate between 1947 and 1957, accelerating until 1962, and with a genuine takeoff in the following years, which was particularly rapid for the Urquijo, Central and Banesto. As for the principal industrial banks (Table 9), in 1972 they were much smaller in size than the big banks, although nearly all were growing at a good pace, the leaders being Bankinter and the two industrial banks set up by the large Basque banks: the Banco Industrial de Bilbao and the Banco de Financiación Industrial. Muñoz spoke of the “weak” nature of the industrial banks, although he himself recognized that these institutions had not been functioning for long.⁵⁵

⁵⁴ G. Tortella, “El triunfo del centralismo...”, pp. 223-229.

⁵⁵ J. Muñoz, *El poder de la banca...*, pp. 84-86 and 98-100.

Table 7. Equity capital of the large banks and the main industrial banks

Large Banks. Thousands of pesetas (constant to 1995 value)						
	Hispano- Am.	Banesto	Central	Urquijo	Bilbao	Vizcaya
1947	33,508,497	25,233,007	18,104,575	14,052,288	27,990,196	27,843,137
1952	36,254,980	27,280,876	26,494,024	16,733,068	24,404,622	26,294,821
1957	39,507,576	36,559,318	28,156,566	19,823,232	29,021,338	29,356,061
1962	54,316,406	57,737,051	39,383,203	25,178,223	41,031,563	40,778,340
1967	128,476,776	151,430,874	101,046,434	49,608,934	84,218,456	78,324,836
1972	160,784,747	200,452,105	152,653,998	133,568,998	125,347,348	92,724,109

Pesetas (1995 value) x 1,000				
Industrial Banks (1962 LOB)	1964	1965	1967	1972
Bandesco	4,450,390		7,005,533	13,069,696
B. de Fomento	7,363,458		10,601,093	12,145,749
B. Industrial de Bilbao	3,069,068		7,214,768	18,984,241
B. de Financiación Industrial			11,327,801	19,581,913
Unión Industrial Bancaria	10,169,492		17,138,661	17,257,085
B. Europeo de Negocios	3,389,831		6,733,648	13,353,775
Bankinter		3,894,081	5,150,273	22,937,814

Source: Assembled from information in C.S.B., *Un cuarto de siglo de banca privada....* Data deflated with the series given by Prados de la Escosura, *El progreso económico de España (1850-2000)*, Bilbao, Fundación BBVA, pp. 686-693 (as the rest of the tables).

In 1972, the equity capital of the smallest of the big banks (Vizcaya, 92,724 million pesetas) were four times those of the biggest of the industrial banks (Bankinter), but the differences were even greater when we compare equity capital plus deposits. The industrial banks had certain advantages as regards attraction of funds, such as the ability to pay somewhat higher interest rates and to issue short-term bonds exchangeable for shares, but their branch networks were very limited. The importance of these bonds in the totality of the industrial banks' deposits differed considerably according to each case, although it was consistently greater in 1967 than in 1972, perhaps to some extent because by the latter date they had already been exchanged for shares.

Table 8. Percentage represented by short-term bonds over total deposits of the industrial banks.

Industrial banks	1967	1972
B. Urquijo	14.7	2.7
Bandesco	94.5	41.2
B. de Fomento	89.1	39.5
B. Industrial de Bilbao	17.9	9.7
B. de Financiación Industrial	24.7	15.1
Unión Industrial Bancaria	48.6	51.6
B. Europeo de Negocios	78.8	41.7
Bankinter	72.3	51.9

Source: Calculated from data in C.S.B., *Un cuarto de siglo de banca privada...*

As has already been mentioned, the differences of size between the big banks and the industrial banks were greater as regards equity capital plus deposits than equity alone. Thus, leaving aside the Banco Urquijo (which, although an industrial bank, went back as far as 1918), the equity capital plus deposits of the Vizcaya in 1972 were more than seven times as large as those of the biggest industrial bank in this respect (Banco de Financiación Industrial). If we set the equity capital plus deposits of the Urquijo in relation with those of the Banco de Financiación Industrial (both committed to industrial and business banking, but the former being among the big banks), those of the Urquijo are only 2.8 times greater than those of the latter.

Table 9. Equity capital plus deposits of the large banks and the principal industrial banks.

Large banks. Millions of pesetas at 1995 value						
	Hisp. Am.	Banesto	Central	Urquijo	Bilbao	Vizcaya
1947	698,196	605,194	284,111	96,638	283,465	279,944
1952	788,809	743,124	471,859	102,862	356,702	338,720
1957	1,001,826	1,008,120	613,038	150,965	435,004	468,983
1962	1,307,462	1,393,016	813,605	182,607	697,676	671,959
1967	1,710,666	1,918,032	1,234,739	266,400	1,005,035	916,589
1972	2,584,920	3,018,004	2,490,793	677,839	2,524,480	1,757,330

Millions of pesetas at 1995 value				
Industrial banks (1962 LOB)	1964	1965	1967	1972
Bandesco	21,400		50,220	138,031
B. de Fomento	16,502		29,491	160,656
B. Industrial de Bilbao	16,386		45,443	201,288
B. de Financiación Industrial			102,507	240,139
Unión Industrial Bancaria	19,302		55,966	225,643
B. Europeo de Negocios	17,245		46,628	141,822
Bankinter		15,115	42,950	198,562

Source: Created from information in C.S.B., *Un cuarto de siglo de banca...*

As for total bank investment (bills, loans and securities portfolio), this grew at a more or less brisk rate, in pesetas at a constant value, between 1947 and 1957. The Banco Central more than doubled it, though the Hispano-Americano's only grew by 39%. In all cases, however, growth accelerated following the Stabilization Plan (1959) and underwent an explosion between 1967 and 1972. In those years, total bank investments grew more in the case of the industrial banks than the big banks, but it is also true that the former started off from lower levels; particularly outstanding were Bankinter and the Banco Industrial de Bilbao.

Table 10. Total investment of the large banks and the industrial banks.

Large banks. Millions of pesetas (1995 value)						
	Hisp. Am.	Banesto	Central	Urquijo	Bilbao	Vizcaya
1947	643,997	507,901	246,946	78,096	254,796	251,911
1952	711,938	682,730	397,455	89,582	317,012	307,810
1957	896,604	873,903	545,117	131,349	380,363	425,279
1962	1,175,207	1,201,584	733,748	158,000	610,395	614,518
1967	1,521,642	1,651,901	1,055,048	223,158	891,453	786,509
1972	2,256,063	2,643,289	2,074,683	515,832	1,880,869	1,393,078
Large banks. Index in constant pesetas. 1947 = 100						
1947	100.0	100.0	100.0	100.0	100.0	100.0
1952	110.5	134.4	160.9	114.7	124.4	122.2
1957	139.2	172.1	220.7	168.2	149.3	168.8
1962	182.5	236.6	297.1	202.3	239.6	243.9
1967	236.3	325.2	427.2	285.7	349.9	312.2
1972	350.3	520.4	840.1	660.5	738.2	553.0

	Millions of pesetas (1995 value)		1972 index 1967=100
	1967	1972	
Large banks			
B. Hispano-Americano	1,521,642	2,256,063	148
Banesto	1,651,901	2,643,289	160
B. Central	1,055,048	2,074,683	197
B. Urquijo	223,158	515,832	231
B. de Bilbao	891,453	1,880,869	211
B. de Vizcaya	786,509	1,393,078	177
Industrial Banks (1962 LOB)			
Bandesco	46,451	97,746	210
B. de Fomento	35,342	127,052	359
B. Industrial de Bilbao	33,725	180,823	536
B. de Financiación Industrial	64,148	171,195	267
Unión Industrial Bancaria	40,497	181,386	448
B. Europeo de Negocios	39,100	122,776	314
Bankinter	20,763	121,626	586

Source: Calculated from information in C.S.B., *Un cuarto de siglo de banca privada...*

As for the growth of investment in the securities owned portfolio (Table 11), this was less than that of total bank investment (Table 10) in all cases relating to the big banks, but the increase in industrial stocks and shares was always stronger than that of the aforementioned portfolio. Private company securities multiplied in value, in constant terms, by a factor of around three, with the exception of the Vizcaya. In relation to the industrial banks, total bank investment grew in general more rapidly than the securities portfolio and industrial securities, but there were three exceptions: Bandesco, Banco Industrial de Bilbao, and above all Bankinter.

Table 11. Growth of investment in the securities portfolio and in industrial securities in the large banks, in real terms

Large banks. Securities portfolio. Constant values. 1947=100						
	Hisp. Am.	Banesto	Central	Urquijo	Bilbao	Vizcaya
1947	100	100	100	100	100	100
1952	101	105	144	124	119	106
1957	137	141	190	179	150	143
1962	106	119	138	185	135	141
1967	140	171	246	162	202	147
1972	191	261	530	249	441	234

Large banks. Industrial securities. Constant values. 1947=100						
	Hisp. Am.	Banesto	Central	Urquijo	Bilbao	Vizcaya
1947	100	100	100	100	100	100
1952	102	97	117	122	115	109
1957	127	121	105	151	173	128
1962	135	147	115	191	204	151
1967	231	265	191	186	223	113
1972	324	396	349	344	288	138

Constant pesetas. Index: 1967=100		
	Industrial Securities	Securities portfolio
Industrial banks (1962 LOB)	1972	1972
Bandesco	237	286
B. de Fomento	121	115
B. Industrial de Bilbao	603	561
B. de Financiación Industrial	183	115
Unión Industrial Bancaria	200	207
B. Europeo de Negocios	158	180
Bankinter	2,349	695

Source: Calculated from information in C.S.B., *Un cuarto de siglo de banca privada...*

Finally, let us see to what extent Spain's big banks and the industrial banks created as a result of the LOB of 1962 behaved in accordance with what was expected from this law that was made by the commercial banks on the one hand and the industrial and business banks on the other. As Muñoz pointed out, the capital enlargements⁵⁶ and the volume of reserves led to an increase in equity capital so that the mixed-type banks had no need to carry out divestments and could acquire new shareholdings in companies at the same time as they adjusted to what was expected of them as commercial banks (in other words that their investments in industrial securities, equipment and buildings did not exceed the value of their own equity capital). The commercial stamp of the Hispano-Americano became manifest to the extent that it had always been true to that definition. In 1962 Banesto was, likewise, already well adjusted to the provisions of the new law, and the Central, too, was very close to its parameters. Prior to 1962, the Vizcaya was the bank with the most strongly mixed character, followed by the Bilbao (in both cases the ratio between industrial securities and tangible fixed assets and equity capital grew until 1957). In 1947 the Central had been the bank of most notably mixed nature, but the particular ratio was to fall gradually over the years, which was also the case for Banesto.

Table 12. The large mixed banks in accordance with the LOB of 1962

	(Industrial securities + Furniture and fixtures + immovable assets) / Equity capital				
	Hisp. Am.	Banesto	Central	Bilbao	Vizcaya
1947	1.01	1.45	1.88	1.05	1.55
1952	0.98	1.30	1.65	1.49	1.78
1957	0.99	1.21	1.37	1.74	1.86
1962	0.80	0.88	1.03	1.36	1.58
1967	0.65	0.64	0.78	0.79	0.77
1972	0.80	0.74	0.93	0.92	0.82

Source: Calculated from information in C.S.B., *Un cuarto de siglo de banca privada...*

⁵⁶ The most celebrated was that of Banesto in 1965, which also doubled its existing capital: J. Muñoz, *El poder de la banca...*, pp. 385-391. J.L. García Ruiz, "Banesto, 1902-1993...", p. 151.

**Table 13. The industrial banks in accordance with the LOB of 1962
(Industrial securities / Equity capital).**

	1947	1952	1957	1962	1964	1965	1967	1972
B. Urquijo	2.00	2.05	2.15	2.13			1.05	0.72
Bandesco					0.67		0.34	0.43
B. de Fomento					0.68		1.19	0.77
B. Industrial de Bilbao					0.12		0.24	0.56
B. de Financiación Industr.							0.32	0.34
Unión Industrial Bancaria					0.42		0.88	1.75
B. Europeo de Negocios					0.25		0.82	0.65
Bankinter						0.04	0.05	0.24

Source: Calculated from information in C.S.B., *Un cuarto de siglo de banca privada...*

As for the Banco Urquijo, until 1962, its investments in industrial securities were worth twice its equity capital (the limit permitted by the LOB of that year was three times), but after that date the growth of equity capital was far ahead of investment in private enterprise securities, so that the ratio was progressively reduced. On the other hand, the ratio for the industrial banks created after the LOB of 1962 was always very low, except for the case of the Unión Industrial Bancaria in 1972, so that we can conclude that in the sixties and seventies the industrial banks did not fulfil the objectives that had been expected of them; this obviously was an argument in favour of the decision to eliminate the obligatory specialization in 1974 and the reservation on issuance of short-term bonds in favour of the industrial banks.

11. The economic crisis of 1973 and the banking crisis

The world economic crisis that was set off by the Arab-Israeli war of 1973 affected Spain very significantly as a result of problems in the country's economic structure and political problems deriving from the Transition from the Dictatorship to Democracy. The crisis affected the banking system with particular force between 1977 and 1985, and with greater virulence the industrial banks and those created after the LOB of 1962, which were less consolidated. The problems of the private sector affected the banks through non-payments and the fall in current market values of their company shareholdings, but the crisis was also a result of causes internal to the banks. The creation of large networks of branches in the 1970s, as a way of competing to attract custom, affected the profitability of the banks. It was also a result of the lack of professionalism and risk-taking, including illegal measures,

on the part of certain bankers, as well as the absence of an adequate legal framework and preventive capacity on the part of the authorities. On the other hand, in the second half of the 1970s the Central and Banesto indulged in some absorptions of banks with the sole aim of heading the ranking of the Spanish banks, which also meant these institutions were to get into difficulty. Meanwhile, the close relations between the Urquijo and the Hispano-Americano, which went back to the *Pacto de las Jarillas*, also affected the latter, since the former was very severely damaged by the crisis and by the economic liberalization; the Banco Urquijo began changing hands from 1983 onwards.

From the mid 1970s until 1986, the percentage of industrial shareholdings in the banks' portfolios was gradually reduced, while that of gilt-edged securities increased. With the upturn of the economy, from 1985 on, the financial institutions set about restructuring their investment portfolios, selling off their holdings in sectors of low profitability and increasing investments in strategic fields such as electricity, construction, chemicals and communications. All these banks had to carry out reorganization policies, which took several years to complete. Likewise the entry of Spain into the EEC on January 1st, 1986, made it necessary to resize the banking sector, so as to be in conditions to compete with the big European institutions; thus a process of mergers began which led to the consolidation of the two big banks of the present day: Santander and the BBVA.⁵⁷

⁵⁷ M.Á. Pons, "Banca e industria en España...", pp. 256-259. A. Cuervo, *La crisis bancaria...*, pp. 197-205. J.L. García Ruiz, "Noventa años de gran banca...", pp. 126-128. J.L. García Ruiz, "Banesto, 1902-1993...", pp. 154-156. G. Tortella, "El triunfo del centralismo...", pp. 227-232. Nuria Puig y Eugenio Torres, *Banco Urquijo. Un banco...*, pp. 219-256. Onésimo Díaz Hernández, "El Banco Urquijo: un banco industrial...", pp. 264-265. M.F. Guillén y A. Tschoegl, *Santander, el Banco...*, pp. 47-85. J.V. Arroyo, "BBVA y sus bancos...", pp. 82-84.