
Politics and interests in the classical gold standard. Spain (1876-1913)*

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Introduction

The classical gold standard (1870-1913) has regularly attracted the attention of scholars from the disciplines of both economic history and international political economy (Frieden, 1994, 2015; Eichengreen, 1995; Broz, 1997; Redish, 2003; Eichengreen and Temin, 2010; Bordo and James, 2013). The economic approach has focused on the efficiency gains for countries that kept their banknotes convertible into gold and their exchange rates stable to explain why they joined or aspired to join the standard. The stability of exchange rates reduced transaction costs, fostering international trade and enabling a country's comparative advantage to be exploited (López-Córdova, 2003, Estevadeordal *et al.*, 2003). Moreover, as financial orthodoxy was required to maintain notes redeemable, countries with a good record of gold

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convertibility were sending a signal of *fiscal rectitude*, which the global capital markets rewarded with cheaper borrowing costs.¹

Meanwhile, the political economy approach has relaxed the welfare maximization assumption and has focused on how, since the choice of a particular exchange rate system has domestic distributional effects, the interests of different societal groups sought to influence governments in their decisions regarding the adoption and defense of the gold standard. A (gold convertible) fixed regime reduces exchange rate risk, thus benefiting interests in foreign trade, finance and investment, that is, those sectors with stronger international links.² However, if a country fixes the exchange rate and remains open to capital flows, it is renouncing an autonomous monetary policy and this renouncement might not convince groups more interested in the domestic market and the possibility of implementing countercyclical policies.³ Therefore, while the groups more exposed to exchange rate volatility might be expected to press for fixed exchange rates, producers of non-tradable and import competing goods would be more likely to defend floating exchange rates, even more so if the rates are thought to depreciate, making imports more expensive and strengthening the competitiveness of domestic producers.

This political economy approach has been used to explain the different timings in adopting the gold standard and the different degrees of commitment to full convertibility of core countries. Descriptive analyses have been conducted for the UK, France and Germany and a quantitative analysis has been made of congressional voting behavior for the United States.⁴ Our aim is to contribute to this literature on currency politics with a peripheral country case, namely Spain (1876-1913), a small country with comparatively low levels of development and, in contrast to the core countries, with a sustained propensity to budgetary imbalances. Ever since Flores de Lemus (1929), the idea that the monetary financing of deficits prevented Spain from formally joining the gold standard has prevailed in the literature. There was a time, however, when the Spanish budget remained exceptionally balanced during the first decade of the twentieth century. Olariaga (1933) convincingly claimed

1. This refers to the gold-standard-as-a-good-housekeeping-seal-of-approval argument found in Bordo and Rockoff (1996). Some qualifications of this reputational argument can be found in Ferguson and Schularick (2012) and Mitchener and Weidenmier (2015).

2. For a theory of currency politics see Frieden (1991, 2015), Hefeker (1997) and Broz and Frieden (2001, 2006).

3. Mundell (1963) discusses the different outcomes of fiscal and monetary policies implemented under fixed or, alternatively, floating exchange regimes. The idea that a country cannot simultaneously combine a fixed exchange rate, capital mobility, and an activist monetary policy, has been subsequently labelled as the Unholy Trinity (Cohen, 1993) as well as the macroeconomic trilemma (Obtsfeld and Taylor, 2003).

4. For a detailed account of the currency stance of different interest groups in the UK, France and Germany, see Broz (1997). Frieden (2015) carries out an exhaustive study of the interests at play in the years that led to the US gold resumption of 1879.

that the reluctance of the Bank of Spain to then reduce its public assets and, subsequently, the amount of paper notes in circulation, was responsible for Spain remaining out of gold.⁵ Meanwhile, perhaps due to the centrality of these two arguments in the literature, little attention has been paid to the demand side of the picture, that is, to the preferences, if any, of the users of the currency regime during the Bourbon Restoration.

From the outset, the Restoration, which began in 1875, was planned as a political regime of *turno pacífico* ('peaceful turn') between two major parties, the conservatives and the liberals, who agreed on the alternation of power. The 1876 constitution invested the king with the authority to dissolve the Parliament and to appoint a new Prime Minister who, in turn, had the guarantee that the subsequent rigged elections would ensure his party a majority. The fact that the Parliament's dissolution came whenever a party displayed symptoms of losing organizational cohesiveness meant that the incumbent governments could not be heedless to the demands of internal economic interest groups.⁶ Thus, the Parliament must have constituted an ideal stage for certain groups of interests other than the government and the Bank of Spain to express their preferences about exchange rates. This paper explores such a possibility by conducting a thorough examination of the Congress Sessions Records from the period 1876-1913. We have searched these documents for any episode indicating a specific territorial stance with respect to the legislative proposals affecting banknotes, their convertibility and, eventually, the peseta exchange rate. Four proposals of this type were discussed before the financial shock resulting from the war against the United States in Cuba in 1898 (Appendix 1). The Spanish public budget deficit, its sustained pressure on the issue of banknotes, the subsequent constraints on gold convertibility and, for this reason, the unguaranteed stability of the peseta exchange rate were topics common to all four proposals. The scenario changed radically when in 1899 Spain entered a decade of balanced budgets, which enabled the monetary legislative proposals to shift towards measures aimed at reducing fiat money so as to force prices down and, thus, facilitate the appreciation of the peseta. With the ultimate goal of joining the standard, five proposals combining the paying off of the bonds in the Bank of Spain's balance sheet, the reinforcement of the gold reserve ratio and intervention to stabilize the exchange rate were debated between 1901 and 1913.⁷

5. For recent tests of the hypotheses of fiscal dominance (fiscal policy driving monetary policy), see Sabaté *et al.* (2006, 2015, 2019). A test of the Bank of Spain's dominance hypothesis (the Bank's interests conditioning monetary policy) can be found in Martínez-Ruiz and Nogués-Marco (2017).

6. Moreno-Luzón (2007) discusses the interaction between economic and political power during the period. See also Jacobson and Moreno-Luzón (2000).

7. Five of the ten bills on notes and convertibility submitted to the Congress were discussed, the other five were left undiscussed (Appendix 1).

The main findings from the combined examination of the Parliamentary debates and, when available, the voting behavior on such proposals can be summarized as follows.

The preferences shown by different sectoral interests reveal a full understanding of how the gold standard worked and, also, of its distributional effects. A law proposal, raised in the Congress by a representative of Barcelona in 1876 to force the Bank of Spain to convert notes was based on the need to guarantee stability so as to protect producers from possible depreciation and the subsequent increase in the price of imported inputs. Since Barcelona constituted the centre of Spain's textile production, the high dependence of such an industry on imports of cotton and coal gave a distributional dimension to this demand for convertibility. In the same terms are to be understood the regular criticisms of the representatives of this province to legislative decisions on the issue of notes that put the peseta at risk of further depreciation in the 1890s or delayed its recovery towards parity in the 1900s. With respect to currency, their interests were perceived to be clearly opposed to those of the agricultural exporters of the Levante provinces. Since Spanish export-oriented agriculture was much less dependent on imported inputs, it was considered the real winner of the strong depreciation that the peseta experienced in the late 1890s. The fact that several proposals were then made for fruit, wine and olive oil exports to be transitorily taxed confirms the awareness of the sectoral distributional impact that depreciation entailed. It also explains why, amid a heated discussion on a bill to join the gold standard in 1904, the move towards parity was repeatedly referred to as a project of *distributional justice*.⁸

Interestingly, territorial statements on exchange rate preferences were not always reflected in sectoral voting patterns. This finding is only understandable when considering the overlap of currency and trade policy preferences. The significant voting support of the representatives of the most industrialized provinces of the proposal raised in 1876 to guarantee the peseta's exchange rate stability might not have been so clear had the domestic market not been then secured by high tariffs. These doubts are based on the partisan lineup of Barcelona's representatives with respect to the vote cast to raise the ceiling of note issue in 1891, despite their publicly stated fears that the measure might lead to undesirable depreciation. Justified as a vote in support of a government sympathetic to industrial protectionism, their stance clearly indicates that the currency question was regarded as being secondary to the tariff bill. More evidence that the Spanish import competing sectors tended to prioritize protection, when compelled to choose, can also be found in relation to the afore-mentioned bill to adopt the standard in 1904. The report present-

8. *Diario de Sesiones del Congreso de los Diputados* (DSCD, Congress Sessions Records), 14 November 1904, p. 1030.

ed by the Fomento del Trabajo Nacional of Barcelona to the Congress reaffirmed its support for a gold convertible stable currency. However, as in the case of the support offered by the Liga Vizcaína de Productores – the association of Bizkaia’s steel producers – the endorsement of the plan was fully conditioned on the approval of a new protectionist bill. With the domestic market secured through customs duties, depreciation was not regarded as necessary to defend competitiveness, and this, in turn, explains the preference of import competing sectors for a stable currency that kept the costs of their foreign inputs predictable.

Thus, going beyond the Spanish case, this paper contributes to currency politics research by providing historical evidence that the input-output structure, as hypothesized in the literature, is important in explaining exchange rate preferences (Frieden, 1994, 2015; Broz and Frieden, 2006). It also supports the advisability of taking trade policy into account in any analysis of currency politics.⁹ Without considering the customs tariffs in place, the preference for exchange rate fixity would contradict the expectation that import competing industries supported a floating exchange rate regime. The rest of this paper elaborates on this. Section I hypothesizes about the exchange rate stances of the parliamentary representatives based on the economic structural differences between the Spanish provinces. Section II presents the territorial preferences with respect to the currency regime that resonated in Parliament. Section III discusses whether a territorial pattern is discernible or not based on the available roll-call votes cast on fiat money and convertibility related proposals. The conclusions are presented in Section IV.

Productive disparities and hypotheses on currency preferences

To hypothesize on the Spanish territorial exchange rates preferences, a useful starting point is to think of the interests at stake in a double-step exchange-rate policy decision, as in Broz and Frieden (2001, 2006).¹⁰ As a first step, these authors analyze the decisions of policy-makers regarding the regime, that is, whether to fix the exchange rate, to let it float freely, or to adopt a half-way (managed floating) system. As we will see later, a (gold convertible) fixed regime reduces exchange rate risk, thus potentially benefiting interests in foreign trade, finance and investment, that is, those sectors with stronger international links. However, as we have already mentioned, if a country

9. Frieden (1994, 2015), Broz and Frieden (2006) and Copelovitch and Pevehouse (2013), among others, insist on the advisability of examining the influence of trade policy on exchange rate choices.

10. This theoretical approach has been enlarged upon in Frieden (2015).

fixes the exchange rate and remains open to capital flows, it is renouncing an autonomous monetary policy and this renouncement might not convince interests more focused on the domestic market. Therefore, while the groups more exposed to exchange rate volatility – international banks and investors and goods exporters – might be expected to press for fixed exchange rates, producers of non-tradable and import competing goods could be more likely to support floating exchange rates.

Nonetheless, as Frieden (1991, 2015) points out, the aforementioned preferences may change when not only the regime but also the level of the exchange rate is considered. All else being equal, expectations of real appreciation mean expectations of a price reduction of foreign commodities. This would benefit consumers without harming producers of non-tradables, although it would reduce the competitiveness of tradable goods. Conversely, real depreciation reduces the purchasing power of consumers and the profits of the producers of non-tradables with a substantial share of imported inputs in their output. Real depreciation increases the competitiveness of the producers of tradables, although the dependence of the latter on imports of intermediate inputs might temper their pro-depreciation stance. Finally, the interest of the producers of tradables in depreciation may even be negligible if exporters are highly competitive and import-competing sectors are protected through trade policy. In the words of Frieden (2015, p. 143), “the less threatening is import and export market competition to national producers, the less likely these producers are to oppose fixing exchange rates”. Bearing the intricacy of these potential currency interests in mind, the scenario for Spain in the late 1870s can be portrayed as follows.

Since 1833, it has been administratively organized into provinces. Based on their historical estimates of gross value added per province, Díez-Minguela, Martínez-Galarraga and Tirado-Fabregat (2018), convincingly argue that inequality increased in Spain between 1860 and 1910. This process was brought about by the specialization of a small number of provinces in more productive activities, which was already perceptible in the different sectoral distribution of their gross value added at the beginning of the period under examination.¹¹ Two provinces, Barcelona and Bizkaia, showed the highest percentages of secondary gross value added (53 and 45 per cent, respectively, of their provincial totals), thus doubling the Spanish average (25 per cent). Meanwhile, their percentages of primary gross value added were very low (6.4 and 10 per cent, respectively, in Barcelona and Bizkaia). This low weight of the primary sector is a feature shared with the capital, Madrid (around 8 per cent), which exhibited the highest percentage (over 70 per cent) of gross value added of the tertiary sector, thus doubling the Spanish average (36 per

11. We take the estimate for 1880.

cent). At the other end of the scale were the major cereal-producing land-locked provinces of the country, such as Badajoz, Burgos, Salamanca and Toledo, where the percentage of primary gross value, around 60 per cent of their provincial totals, remained well above the country's average (39 per cent).¹² On the coast, the primary sector also dominated the structure of provinces such as Almería, Castellón and Valencia (over 55 per cent of their total), although in these cases, this bias was due to specialization in Mediterranean crops. These sectoral disparities between provinces constitute a potential basis for discrepancies in the currency preferences of their representatives in Parliament, although additional considerations are required in order to hypothesize on the different territorial stances.

Beginning with the import competing sectors, tariffs on cereals proved sufficient so as to reserve domestic consumption for domestic production, which was concentrated in the land-locked provinces of Spain.¹³ In 1876, the textile industry, located in Barcelona, enjoyed high customs tariffs.¹⁴ A relevant detail concerning this industry was its high dependency on cotton and coal imports.¹⁵ In terms of exports, the sustained upward trend in fruit sales, led by Valencia, constituted a clear sign of their competitiveness.¹⁶ In the 1870s, moreover, as part of a new Spanish "El Dorado" experience, exports of Bizkaia's iron added to the already highly competitive exports of Huelva's copper and Jaén's lead.¹⁷ In this case, there was also dependence on imported coal, which had a big impact on the costs of transporting minerals and smelting them into bars.¹⁸ Finally, it is worth mentioning the hopes of wine producers of gaining competitiveness in the most important foreign market,

12. These four provinces accounted for 1,487 hectares of cereal cultivated fields of the 8,038 hectares in Spain in 1886-1890, the first years with available data. See Grupo de Estudios de Historia Rural (1984). According to Gallego (2001), in 1900, the percentage of cereal in the agricultural production of land-locked provinces still ranged between the 30 per cent of Avila and the 60 per cent of Toledo, with most of them at around 50 per cent.

13. For the analysis of trade policy (bills and treaties) in the last quarter of the nineteenth century, see Serrano-Sanz (1987). Due to tariffs, imports of wheat and flour did not start to systematically outweigh exports until the 1880s. For a detailed account of the impact of the grain invasion in Spain, see Garrabou and Sanz (1995).

14. The tariff bill of 1869 had fixed high tariffs on textiles, which remained in place because of the suspension of the reductions which were to start being applied in 1875. For a detailed account of why tariffs on cotton and wool textiles remained high in the Spanish liberal 1869 bill, see Izard (1979). The reasons why the tariffs were not reduced in the first years of the Bourbon Restoration, as planned in 1869, are discussed in Serrano-Sanz (1987).

15. For the reasons why this industry was concentrated in Barcelona, see Nadal (1975), pp. 197-202. For a detailed illustration of the territorial distribution of Spanish industry in the last quarter of the nineteenth century, see also Nadal (2003).

16. For the increase in exports of agrarian products and foodstuffs, see Gallego and Pinilla (1996).

17. The reference to "El Dorado", in Carreras and Tafunell (2003). The case of Bizkaia's iron is exhaustively examined in González-Portilla (1981) and Escudero (1988).

18. Coal consumption in the mining and metallurgy industries amounted to 40 per cent of Spain's consumption in 1870. Railway and maritime transports amounted to nearly 30 per cent. Coal

France. These expectations resided in the spread of the phylloxera plague across the French vineyards and the hope that, due to this plague, a treaty for reducing tariffs would be signed with France.¹⁹ By then, ordinary wine was already the most important export item (averaging 15 per cent of Spain's total exports in 1875-1879), followed by sherry (12 per cent), minerals (11 per cent), lead bars (11 per cent) and fruits (8 per cent).²⁰ In terms of imports, the purchases of raw cotton on average accounted for the highest share (12 per cent of the Spanish total imports in 1875-1879), followed by sugar and hemp and flax yarn (more than 4 per cent each item), timber (4 per cent), railroad material and coal (almost 4 per cent each).

Thus, in the late 1870s, the non-threatened external competitiveness of Spanish fruits and minerals and the expectations of gaining access to the French wine market were good reasons for Spanish exporters not to oppose the fixity of the peseta exchange rate. Similarly, the reservation of the domestic market for Spanish producers of wheat and cotton textiles could have been a reason for the import competing sectors not to oppose either. With respect to the iron and cotton textile producers, given the heavy weight of imported inputs in their outputs, their lack of opposition to a fixed exchange rate may have even turned into support when considering the harmful effect of a potential depreciation on their costs.

This scenario of expected exchange rate preferences did not alter in the 1880s. This decade witnessed a spectacular increase in wine exports due to a new trade agreement signed with France in 1882. Ordinary wine reinforced its position as the most important export item (averaging one third of Spain's total exports in 1885-1889, 85 per cent of them going to France), while the exports of minerals (10 per cent) and fruits (8 per cent) maintained their relative weight.

However, changes in preferences might have occurred in the 1890s, when, in contrast with the good prospects for fruit exports, with the termination of the treaty with France in 1891, the new French Méline bill threatened to bring about a collapse in Spanish wine exports. Thus, wine producers might have become sympathetic to the procompetitive effects of a depreciation at the end of the century. Also noteworthy is that in the 1890s, the Basque iron industry became an import competing sector, as it had started to lose foreign markets due to the

imports averaged 54 per cent of total consumption in 1876-1880. See Nadal (1975, pp. 144-145) and Nadal (2003, p. 85).

19. Spain began a process of intense trade negotiations in 1877. The treaty with France, with a significant reduction in duties on Spanish wine, was finally signed in December this year. See Serrano-Sanz (1987).

20. The export and import percentages in this section come from Prados de la Escosura (1982), pp. 41 and 53.

new technical procedures (namely, the Siemens-Martin process) to obtain steel.²¹ Despite this fact, since the Spanish duties on iron manufactures had been substantially increased by the 1891 bill, we would expect no changes in currency preferences. Even more so if we consider that, in 1896, the privileged tariff on railway imports entering Spain was suspended and, later, the bill passed in 1906 further increased protection, most significantly on steel manufactures.²² With the domestic market reserved, due to the Spanish dependence on imported coal, the weight of which in metallurgic output increases with the degree of specialization, we can hypothesize that, in the same way as the textile producers, Bizkaia's representatives might have continued to support fixed exchange rates because of the harmful effect of a potential depreciation on their costs.

The next section examines the congress debates to determine whether congressmen bore in mind the distributional effects of the proposals addressing the issue of notes and their convertibility and, if so, whether their stances on the resulting stability of the peseta exchange rate were in line with the productive structure of the provinces which they represented.

The Parliamentary narrative

The decree of 19 October 1868 adopted the Catalan one-peseta coin as the Spanish monetary unit, as it had the same weight as the one-franc coin (5 grams of fine silver). This meant that Spain fixed the mint price of 1,000 grams of fine gold at 3,444.44 pesetas. The mintage of the five-peseta silver coin was decreed also free at the mint price of 222.22 pesetas per 1,000 grams of fine silver, that is, at the gold/silver rate of 1:15.5. The 1868 reform, in short, mirrored the foundational rules of the Latin Monetary Union and defined a parity of 100 pesetas per 100 francs, 25.22 pesetas per pound.²³ However, when the mintage of coins according to the rules set in 1868 finally started in mid-1876, the gold/silver rate had plummeted to 1:17.88 on the international (London) market, which explains why in July, a proposal that authorized only the government to mint silver coins was passed.²⁴ Due to the collapse of the silver market price, there was a strong private incentive to mint undervalued silver coins (with a face value well over their intrinsic value) and the proposal sought

21. González-Portilla (1981, vol. II, pp. 13-50) gives a detailed account of the crisis of iron exports in 1891-1896.

22. In practice, the bill passed in December 1891 sought to entice France to negotiate a trade treaty with an exchange of tariff reductions. The French rejection to reduce the tariffs on wine, by leaving the Spanish duties at their original level, reinforced protectionism significantly. See Serrano-Sanz (1987). For the suspension of the special tariff on railway items in 1896 and the strengthening of industrial protectionism in 1906, see Sabaté (1995, 1996).

23. Decree of 19 October 1868, *Gaceta de Madrid* (GM) 20 October 1868.

24. Law of 21 July 1876, GM 22 July.

to prevent this metal from continuing to drive the overvalued gold coins out of circulation. Therefore, it made sense that, when in August 1876, the Junta Consultiva de la Moneda (Currency Advisory Board) recommended that Spain move onto a gold standard system, its report supported this silver mintage constraint.²⁵ The coinage of gold coins resumed (amounting to 100 million pesetas in 1876-1877) and continued until 1883, although during this period, the Bank of Spain's notes never became automatically and unlimitedly convertible.²⁶

From the outset, the Bank resisted converting notes into metallic money.²⁷ Proof of its reluctance to convert was the *cola del Banco* (queue at the Bank) episode. From June 1876 to May 1877, this reluctance translated into daily queues of people outside the Bank in Madrid, some of them employed by exchange houses, where individuals ended up going for gold, their notes only being accepted at a discount.²⁸ The Junta attributed the restrained convertibility and subsequent formation of the queue to the over issue of notes.²⁹ The Bank of Spain, in turn, blamed the financing needs of the Treasury for this excess issue of notes.³⁰

For the purpose of this paper, the main point is that the note discount had the effect of raising the gold export point and, consequently, the margin for the peseta's exchange rate to depreciate. By setting the price of currencies in terms

25. The Junta was reconstituted by decree of 22 July 1876 and was commissioned to report on whether the peseta should join the gold standard on 24 July. A first draft was presented on 4 August and the final report was delivered on 16 August. See Serrano-Sanz (2004, pp. 29-54).

26. See Sardá (1948, pp. 171-172). Tortella, (1974) estimates the stock of gold in Spain at 1,128 million pesetas in 1875, which accounted for 70 per cent of the monetary circulation. Between 1876 and 1882 there was a net mintage of 340 million.

27. Even when the demand for gold came from the Spanish government. In October 1876, for example, the Bank refused to convert notes into gold for the government to fund war operations in Cuba. *Actas del Consejo de Gobierno* (Minutes of the Board of Governors), Bank of Spain, 12 October 1876.

28. See Barthe (1905), pp. 47-48. The press widely covered how the queue was formed. Particularly revealing is the example in the newspaper *El Siglo Futuro*, 15 December 1876. "Let us suppose -the example started- that there are one or two exchange houses that seek to engage in note redemption; let us suppose that each of them sends forty men with two 1,000 peseta notes; let us suppose that these eighty men start queuing outside the Bank before others wishing to convert arrive; let us suppose that each of them invests five minutes in the exchange; let us suppose that five minutes multiplied by eighty changers is four hundred minutes, or close to seven hours and that the Bank does not spend more than three, four or five hours on conversion operations; let us suppose that each changer earns 2 pesetas per day for converting 200 pesetas; it is obvious that the exchange houses that pay them would earn 0.25, changing at two per cent; it is obvious that the public would have no other choice than to waste days and days queuing uselessly and ultimately end up with their notes in their pockets, if they do not resign themselves to changing them, first at one and a half per cent, then at two, today at two and a quarter, tomorrow, God knows at how much".

29. The fact that notes were not converted "with complete regularity" at the Bank, turned them "into bills of exchange" and, as any exchange bills, these notes "experienced a discount when their holders wanted to convert them at sight". *Junta Consultiva de la Moneda*, 15 March 1877, pp.197 and 202.

30. *Memoria del Banco de España* (Annual Report), Bank of Spain, 1876, p. 14.

of gold (mint price), at which bank notes were freely convertible, the by then fluent international capital flows gave rise to a system of fixed exchange rates. More precisely, convertibility ensured that the exchange rate variation between currencies on the standard was constrained within the band of the gold points, that is, the costs of placing gold into a foreign country defined on the metallic (ratio of mint prices) parity. Whenever an exchange rate depreciation of a gold-backed currency (measured through the bills of trade in foreign currency) surpassed the gold point, arbitrage would become profitable. The purchase of bills of exchange in that country would stop as would depreciation and, instead, the domestic notes would be converted at the mint price into gold. This gold would then be transported to a foreign country. In this way, whether to make a profit (gold-point arbitrage) or to transfer funds more cheaply to a foreign country (gold-effected transfer), gold outflows protected convertible currencies from uncontrolled depreciation (Officer, 1996). In the case of the peseta, the discount applied to note redemption constituted an additional cost to those of placing gold abroad (freights, insurance, commissions and abrasion), with the eventual effect of widening the leeway for its exchange rate to depreciate.³¹

On the basis of this argument, in December 1876, conservative Congressman Sedó, representative of Barcelona and with close ties with the Fomento de la Producción Nacional, by then, the most powerful association of producers in Spain, presented a law proposal whereby the monopoly of issue was withdrawn from the Bank of Spain unless it actually converted notes at sight. He denounced that the Bank had been issuing more notes than necessary and denying gold convertibility, with the result that a discount of 2, 3 or 4 per cent, depending on the day, was applied to its notes by the exchangers surrounding the Bank in Madrid. Among a number of negative effects, Sedó highlighted the perturbations caused by this note discount, in terms of the uncertainty of the costs of imports, “on the markets of Paris, London and the whole commercial world in their relations with Spain”.³² Consistent with his approach to the problem, the Earl of Torreanaz, a congressman and member of the Bank’s Board of Governors, recognized that the non-convertibility of notes meant the disappearance of any gold-point beyond which the ex-

31. Broz (1997) reports how even two central countries such as France as Germany maintained a degree of monetary independence through the use of a number of devices aimed at widening the band defined by the gold points. Before 1900, the Bank of France charged a premium for the conversion of notes into gold, while the Reichsbank, for example, refused the conversion of its notes in its border branches, forcing redemption in Berlin. In both cases, the effect was that of raising the gold export point to gain latitude and maintain the monetary policy insulated from increases in the interest rates abroad. Unlike France and Germany, in Portugal (1854-1891) and the Austro-Hungarian Empire (1896-1913), the need to raise interest rates to stop gold drains was avoided through interventions in the exchange markets. See Esteves *et al.* (2009) and Jobst (2009).

32. DSCD 11 December 1876, p. 3933.

ports of this metal prevented a currency from depreciating.³³ This argument was presented in the same session as the one in which the Finance Minister, García-Barzanallana, declared the infeasibility of Sedo's demand for the Treasury's financing dependence of the Bank.³⁴ This constituted the main reason for the Minister to summon the Congress to vote against the proposal, which was eventually rejected. However, a few months later, in April 1877, the also conservative congressman Polo de Bernabé, representative of Castellón and a significant fruit exporter, called again for the automatic convertibility of the peseta, proposing to discontinue the issue of notes and fine the Bank of Spain whenever it did not change them into specie.³⁵ Reiterating Sedo's criticism, he blamed the non-convertibility of notes for the uncertainty it cast on the peseta exchange rate. His proposal to force the Bank to convert notes into specie was not passed either and, two months later, Sedó announced a new parliamentary question related to the reluctance of the Bank of Spain to change notes, which remained undiscussed.³⁶

After this, demands for convertibility faded as the recovery of the foreign capital inflows kept the peseta relatively appreciated over its gold parity.³⁷ Table 1 shows the series that contemporaries took as a reference when discussing the peseta exchange rate. The data show how it appreciated in relation to its parity in 1878, which explains why, relieved from demand pressures, the Bank agreed to ensure "gold convertibility up to a maximum of 1,000 pesetas".³⁸ Even if deficits and their monetary financing continued, new convertibility constraints did not reappear until 1882 when, in June, gold started to be withdrawn from Spain.³⁹

The fact that the peseta had maintained its exchange rate close to parity after 1877, despite the differential inflation that the Spanish economy was accumulating in relation to the gold-backed currencies, was due, as previously mentioned, to foreign capital inflows. These inflows stopped in 1882 because of the financial crisis originating on the Paris stock exchange, the premium of bills on this market surpassed the 3 per cent and, if the yearly depreciation ended up averaging a moderate 2 per cent, this was because of the Bank's intervention, raising the discount rate and converting notes into gold.⁴⁰ As a re-

33. DSCD 11 December 1876, p. 3936.

34. In his own words, the demand had "the great inconvenience of having to compensate the Bank for the amount that the Treasury owes it as result of the loan received in exchange for the monopoly of issue approved by the decree of 19 March 1874". DSCD 11 December 1876, p. 3941.

35. DSCD 27 April 1877, Appendix 22 and DSCD 5 May 1877, p. 84.

36. DSCD 7 July 1877.

37. Sardá (1948) talks of a new wave of capital inflows between 1876 and 1881.

38. *Actas del Consejo de Gobierno*, Bank of Spain, 29 April 1878.

39. *Junta Consultiva de la Moneda*, 18 June 1882, p. 374.

40. Surrá (1876), Barthe (1905) and Jiménez-Rodríguez (1905). A good summary in Sardá (1948), pp. 183-186. For a recent view of the exchange rate crisis in 1882, see Martínez-Ruiz and Nogués-Marco (2014).

TABLE 1 - *Peseta/franc exchange rate. Quotes in Madrid of bills of exchange at sight on Paris**

	Low	High	Average		Low	High	Average
1868	2.153D	1.186D	1.613D	1891	2,200P	14.100P	6.687P
1869	4.398D	1.575D	3.192D	1892	11.000P	21.000P	15.345P
1870	4.581D	0.794D	3.371D	1893	14.750P	23.850P	18.929P
1871	6.717D	2.153D	4.853D	1894	10.250P	23.020P	19.654P
1872	4.398D	1.186D	2.875D	1895	6.950P	22.000P	14.594P
1873	5.483D	0.399D	2.573D	1896	17.800P	26.950P	20.688P
1874	4.943D	0.794D	2.429D	1897	23.600P	33.900P	29.605P
1875	2.153D	0.498D	0.937D	1898	26.000P	115.000P	54.156P
1876	1.381D	0.401P	0.792D	1899	17.000P	34.600P	24.590P
1877	0.794D	1.419P	0.276P	1900	24.400P	34.400P	29.545P
1878	0.892D	1.214P	0.070D	1901	30.500P	43.450P	38.316P
1879	0.597D	1.832P	0.389P	1902	30.750P	39.100P	35.768P
1880	3.101D	0.200D	1.066D	1903	31.000P	37.800P	35.143P
1881	1.089D	1.832P	0.461D	1904	34.000P	40.000P	37.730P
1882	0.603P	3.305P	1.832P	1905	26.400P	34.050P	30.886P
1883	1.112P	1.832P	1.555P	1906	6.100P	26.150P	12.886P
1884	0.603P	2.145P	1.114P	1907	7.800P	15.150P	11.527P
1885	0.200P	3.159P	2.071P	1908	11.000P	15.350P	13.005P
1886	0.200P	3.326P	2.040P	1909	6.800P	11.850P	10.094P
1887	0.603P	1.832P	1.036P	1910	6.550P	7.950P	7.136P
1888	0.950P	2.150P	1.695P	1911	7.2500P	9.200P	8.318P
1889	1.950P	5.400P	3.188P				
1890	1.450P	6.350P	4.270P				

Source: Navarro Reverter (1912).

*Until 1887 bills of exchange on Paris were traded at an eight-day sight. Martínez-Ruiz and Nogués-Marco (2014). P denotes a premium for the foreign currency (depreciation for the peseta) and D denotes a discount for the foreign currency (appreciation for the peseta).

sult, its gold reserves depleted from 127 million pesetas in December 1881 to 61 million in December 1882 and, as the demand for gold continued, in mid-1883, convertibility was suspended once more (Jiménez-Rodríguez 1905, p. 241). In July, it had become “completely imaginary” and for this year, we can find complaints about the difficulty of changing notes in the Congress Sessions Records.⁴¹ Then, a new period of no references to convertibility and ex-

41. The expression “completely imaginary” was used by Congressman García Benito, “because, after waiting for a longer or shorter period, all one can manage is to get a 100 peseta note

change rates followed in 1884-1888, when the extraordinary exports of wine to France proved able to keep the peseta averaging a 1-2 per cent depreciation, even though deficits were accumulating once more.⁴²

The needs to finance them were denounced, precisely, to be behind the liberal bill presented in April 1888 by the liberal Finance Minister, López Puigcerver. It proposed the centralization of tax collection and public payments at the Bank of Spain, for which, in return, the government would be granted a loan of 165 million pesetas. This loan was to be redeemed in 1893 and, importantly, until then, if the deficits led the Treasury to surpass the 165 million figure, the Bank agreed to collect all the short-term bonds issued to finance them.⁴³ Conservative congressman Cos-Gayón presented a dissenting opinion to the favorable report of the Congress committee on the bill, arguing that the measure constituted a mere excuse to put off the control of public spending and finance deficits for five years.⁴⁴ The result would be the expansion of fiat money and the subsequent risk of depreciation.⁴⁵ Some liberal voices also agreed over such a risk and its harmful effects, through the price increase of foreign goods, on Spanish industry and trade. Among them was congressman Fabra, representative of Orense, who proposed that the Bank devote some of its profits to intervene in the market to soften potential increases in the premium of bills on Paris and London.⁴⁶

This bill was passed and another proposal with potential effects on fiat money was presented by the also liberal Finance Minister, Eguilior, to raise the limit of note issue from 750 to 1,000 million pesetas in April 1890. Cos-Gayón raised a new dissenting opinion against this measure with the same arguments used two years before, although now, as the peseta had surpassed the 3 per cent premium, he was even more emphatic. He denounced that the law passed in 1888 was responsible for the increase in the issue of banknotes and that, as their circulation was close to the legal limit, the proposal of raising this limit was aimed at inducing more deficit monetization, which, in turn,

changed into silver, but never into gold". DSCD 16 July 1883, p. 4022. For references to the difficulty of changing notes, see DSCD 20, 22 and 23 June 1883, 17 July 1883.

42. Deficits were acute at the beginning of the Bourbon Restoration. As explained by Comín (2012), deficits built up during the Revolutionary Sexennial (1868-1874) and the ten-year Cuban war (1868-1878), which, overlapped with those resulting from the Spanish Carlist civil war (1872-1876), led the ratio of debt over GDP to increase from 70 per cent in 1868 to 170 per cent in 1876. To stop the surge of the debt service, Spain suspended the interest payments in 1874, the same year that the Bank of Spain was granted the note issue monopoly in exchange for a 125 million peseta loan (equivalent to 18 per cent of that year's total public spending). Deficits increased again in the late 1880s, because of the cereal crisis. Comín and Díaz (2006).

43. For a summary, see DSCD 3 April 1888, pp. 2147-2150.

44. DSCD 3 April, p. 2152 and DSCD 5 April 1888, p. 2205. See also DSCD 6 April, p. 2256 and 7 April 1888, p. 2271.

45. DSCD 4 April 1888, p. 2183.

46. DSCD 6 April 1888, pp. 2247-2250. See also DSCD 9 April 1888, p.1313.

would cause further depreciation.⁴⁷ In similar terms, the liberal Fabra raised another dissenting opinion against the bill, explicitly referring to the harmful effects of depreciation on the producers who were heavily dependent on imported inputs.⁴⁸

This bill was left undiscussed and, when in 1891, the next proposal to lift the note ceiling reached the Congress, the fears of further depreciation had already materialized. By then, gold conversion had become purely symbolic and, since exchange rate fluctuations were free from any gold-point limit, the peseta's depreciation ended up averaging 4 per cent in 1890.⁴⁹ This is the context in which the new bill (Art. 1) proposed to increase the note ceiling from 750 to 1,500 million pesetas. In exchange, the Treasury would obtain a loan amounting to 150 million pesetas. Understandably, as the conservatives were now in power and as Cos-Gayón was the Minister who raised the proposal, controversy was served. The debate on the bill began in Congress on 18 May 1891 and ended, after more than 300 speeches, on 16 June 1891. The difference resided in that the criticism was led by the liberals, among them, naturally, the former Finance Minister, Eguilior, whose humbler proposal to raise the limit of issue to 1,000 million pesetas had been fiercely opposed by the conservatives just months previously, particularly by the now incumbent finance Minister, Cos-Gayón. Similar arguments used by the conservatives to combat the attempt in 1890 were used by the liberals in 1891. A central argument was the idea, publicly shared by some conservatives, that deficits were the eventual reason to increase the note ceiling, which, considering the new metallic reserve ratio included in the bill (the equivalent to a third of notes, half of which would be held in gold) constituted an open door to the expansion of fiat money.⁵⁰ And again, the argument continued with criticism of the destabilizing effects of an increasing note circulation on the exchange rate.⁵¹

47. DSCD 9 June 1890, 180, Appendix 8.

48. DSCD 9 June 1890, 181, Appendix 15.

49. Martínez-Ruiz and Nogués-Marco (2014) compare the Bank intervention in 1882, when almost 20 per cent of the notes were converted into gold, with a mere 4 per cent in 1890 and 3 per cent in 1891. Interestingly, in July 1889, García-Alix had already complained that "if you do not count on the influence of an important figure, the Bank does not hand over gold currency [...] for a long time the Bank has made no payments in gold. Only the preferential transactions that the State has with respect to its special Budget and to satisfy the salaries of high-ranking figures". DSCD 9 July 1889, p. 531.

50. Within the liberals see, for example, the speeches by the Duke of Almodóvar del Río (DSCD 20 May 1891, p. 1556) and Calbetón (DSCD 26 May, p. 1713). Republicans like Carvajal (DSCD 21 May, p. 1592, DSCD 22 May 1891, p. 1608) and Pi i Margall also insisted on the role of deficits for the government to propose the project (DSCD 21 May, p. 1585). Within the conservatives, Hernández Iglesias (DSCD 20 May 1891, p. 1551) and Camacho (DSCD 27 May, p. 1728) also blamed the deficit for the project. Even Cos-Gayón himself regards the loan from the Bank of Spain as the only affordable source to finance deficits (DSCD 26 May 1891, p. 1705 and 27 May, p. 1744).

51. DSCD 20 May 1891, p. 1560, 8 June, p. 2035 and 10 June, p. 2100.

In this case, however, the liberals had an extra political weapon. In January 1890, in his admission speech into the Royal Academy of Moral and Political Sciences, a prominent conservative, Fernández Villaverde, concluded his long dissertation on *The monetary problem* (150 pages), urging the Bank of Spain to control note circulation.⁵² The internal disagreement of conservatives on the topic was repeatedly echoed in the Congress, where a significant number of them were said to be trapped “between the partisan discipline and the impositions of their conscience”.⁵³

As regards the effects on production, criticisms of the harm that the depreciation would cause to those activities forced to source abroad was raised once more.⁵⁴ The liberal Calbetón, representative of Gipuzkoa, insisted on the opposition of traders and manufacturers to the increase of the note limit of issue,⁵⁵ with one specific mention of the technical report against the measure presented to the Congress by the Fomento del Trabajo Nacional, successor of the Fomento de la Producción Nacional. However, despite the Fomento’s rejection of the bill, no congressman representing Barcelona intervened in the debate. The discussion in the Senate can explain this. There, the conservative senator Durán Bas, representative of Barcelona, proposed an amendment to raise the part of the metallic reserve to be held in gold. The goal was to restrain the latitude for issuing notes that the bill allowed, in response, according to him, to the territorial preferences revealed in his meetings with “credit entities of Barcelona, the main bank houses, the most respectful industrialists and merchants of Barcelona”.⁵⁶ Tellingly, Duran Bas’s proposal was not opposed by the liberals, but by two conservatives, also representatives of Barcelona, Senators Paz and Nicolau, both well-known protectionists and with close connections with the Fomento. According to them, the peremptory needs of the Treasury had linked the survival of the incumbent government to the approval of the bill under discussion. Therefore, they considered it a question of political loyalty to support the government that “has come resolutely to wield the protectionist flag”. Although they were against raising the note issue ceiling, their acceptance constituted “a lesser evil”.⁵⁷ In fact, after the bill was passed, the Fomento’s monthly, now named *El economista español*, continued to insist on the need for the government to reduce deficits and for the Bank to control the note

52. By then, Raimundo Fernández Villaverde had formed part of the Junta (1878-1882), had been twice Finance vice-secretary (1880, 1884) and twice Minister (1885, 1890). See Sabaté and Serrano (2006).

53. DSCD 22 May 1891, p. 1611, DSCD 27 May, p. 1740 and DSCD 4 June, p. 1930.

54. DSCD 20 May 1891, p. 1560 and 10 June, pp. 2096 and 2105.

55. DSCD 26 May 1891, pp. 1698 and 1708, DSCD 2 June, p. 1868 and 10 June, p. 2096.

56. *Diario de Sesiones del Senado* (Senate Sessions Records, DSS), 6 July 1891, pp. 1533-1534.

57. DSS 6 July 1891, pp. 1555 and 1559.

issue and strengthen the gold reserve ratio to stop depreciation and stabilize the exchange rate.⁵⁸

In any case, until 1891, in the Congress Sessions Records, the lack of exchange rate stability derived from restricted convertibility always appears negatively related to the interests of importers, both traders and manufacturers. This changed when the flight of foreign capital unleashed by the Baring Brother's bankruptcy raised the premium of bills at sight on Paris up to 15 per cent. In January 1892, during an interpellation regarding "the currency crisis" in which the liberals recriminated the conservative government for having passed a law to increase the banknote ceiling while the distrust against peripheral countries was spreading worldwide, a new element entered the discussion.⁵⁹ Along with the traditional rejection of a depreciating currency due to its harmful effects on activities depending on imported inputs,⁶⁰ the floating condition of the peseta is mentioned as a benefit for exporters, specifically wine producers, who had just suffered rocketing French duties after all the attempts to renew the 1882 treaty had failed. As Cos-Gayón himself recognized, the depreciation of the peseta was "really harmful" to importers, but, "for the exporters of Rioja wines, the exchange rate constitutes a great advantage".⁶¹

One more reference to the benefits gained from currency depreciation by exporters is registered in 1894,⁶² followed by a new period when no mentions are made of exchange rate related issues, despite the plummeting peseta caused by the outbreak of the war of independence in Cuba in February 1895.⁶³ This is a complete contrast with the central role that the peseta regained when, in April 1898, the parliamentary activity was resumed. With the premium of bills on Paris averaging 85 per cent, the pages of the Congress Sessions Records of May and June are full of demands from manufacturers for compensation. This is the case of the liberal congressman Sala, represent-

58. See, for example, the editorial by Guillermo Graell, director of the monthly and, for a long time, secretary of the Fomento, in the issue of October 1891. In November, the monthly insisted on the need to balance the public budget to free the Bank of Spain from being "the Treasury's slave" in printing money. Again, in December 1891, the editorial of *El economista español* referred to the "gangrene", "the incurable disease" of the Spanish Treasury as the reason for "the impotence of the Bank of Spain's efforts to reduce note circulation" (p. 437). The same issue included the report by the Fomento on *The causes of and remedies for our unfavorable exchange rates* that, sent to the Prime Minister (pp. 443-445), concluded with the advice that the Bank strengthen its gold reserve ratio.

59. For recriminations on the issue, see DSCD 11 January 1892, p. 2153, 19 January, p. 3319, 27 January, p. 3468 and 30 January, p. 5558. The links that the foreign press established between the law of 1891 and the impact of the Baring crisis on the Spanish securities, in Tedde and Anes (1974).

60. DSCD 20 January 1892, p. 3344, 121, p. 3496.

61. DSCD 27 January 1892, p. 3476.

62. DSCD 28 November 1894, p. 342.

63. Lack of references might well be due to the very short period that the Parliament met in 1895-1897. Between February 1895 and April 1898, the Congress remained open for less than nine months.

ative of Barcelona, who, on behalf of “the industrial provinces”, requested compensation for the rising costs of imported inputs and a general suspension of import tariffs.⁶⁴ Especially controversial was his proposal to apply a sliding tax on exports of wool and raw silk while the peseta’s premium surpassed the level of 33 per cent, which was strongly opposed by the representatives of the livestock provinces of Extremadura and the silk province of Valencia.⁶⁵ More territorial clashes emerged when, as part of the 1898-1899 budget, the government planned all exports to be transitorily taxed in an effort to finance the war related deficit.⁶⁶ The representatives of Barcelona, with the support from the Fomento, opposed the measure. They argued that as agricultural exporters had not suffered from the increased prices of foreign and domestic raw materials, they had gained the most from the peseta’s depreciation and therefore, only their sales should be subject to a surcharge.⁶⁷ This idea was fiercely opposed by the representatives of the provinces of Valencia who flooded the budget debate with amendments aimed at limiting the surcharge on agricultural exports.⁶⁸ A representative of Malaga, congressman Bergamín went even further. His dissenting opinion against the congressional commission’s report proposed that agricultural products which were not inputs for the domestic industry should remain free from export tax. In practice this demand meant, as the president of the commission underlined, exemption “for the grapes of Malaga, and the wines and olive oil, and all the products of that rich province”.⁶⁹

Overlapping these sectoral confrontations, the ruling liberal government requested authorization to increase, if necessary, the limit of note issue from 1,500 to 2,500 million pesetas. Passed as an emergency tool to provide additional revenue,⁷⁰ the law was the basis of the interpellation made a few days later by the conservative Fernández-Villaverde to the liberal Finance Minister, López Puigcerver. Villaverde warned against the perils of a further depreciation of the peseta that was “not feared enough”.⁷¹ Initially, “the currency,

64. DSCD 5 May 1898, pp. 252-253.

65. DSCD 11 May 1898, Appendix 26. For the complaints see, for example, DSCD 21 May 1898, pp. 640-641, 646 and 23 May, p. 6777.

66. DSCD 27 May 1898, Appendix 43.

67. DSCD 16 June 1898, Appendix 44. The proposal was a 4 per cent surcharge. According to congressman Sala, the industry was already taxed because of the depreciated peseta and the subsequent increase in the prices of raw materials, “equally those domestically produced and those produced abroad” (DSCD 16 June 1898, p. 1443).

68. Signed by congressmen Gasset (Castellón), Chicheri (Alicante) and Gutiérrez (Valencia), nine amendments aimed at limiting export duties were raised (DSCD 11 June 1898, Appendix 23), one of them, excluding fruits. The confrontation between Valencia’s (export) and Barcelona’s (import competing) interests was the central point of the discussions in DSCD 16 June and DSCD 17 June 1898.

69. DSCD 4 June 1898, p. 1115.

70. Law 17 May 1898, GM 18 May.

71. DSCD 23 May 1898, p. 683.

depreciated abroad, has not yet been depreciated domestically; and the export industries still produce at low prices; they keep producing as before; their production costs, unless they have to import raw materials, do not vary, nor have salaries risen yet; however, the price of exports, to the extent that it is paid in non-depreciated foreign currency, has indeed risen".⁷² Exports were boosted and, momentarily, he admitted, import competing sectors were also benefited by the restriction on the entry of foreign goods caused by this depreciation. But these effects are purely "transitory" since, eventually, the lower availability of goods in the country makes domestic prices increase, raising production costs because of higher salaries and scarcer exotic and non-exotic raw materials. At this moment, "with the foreign and domestic currency depreciation balanced", advantages for exporters and importers vanish amid a universal price increase", leaving the country with a foreign debt that has grown in the same proportion as depreciation.⁷³ Taking this publicly negative view of the long-run economic effects of depreciation into account, the decisions that Fernández Villaverde made when, in March 1899, the conservatives replaced liberals and he became Finance Minister, appeared more than coherent.

Spain's defeat against the United States in August 1898 had left the country with an inflated note circulation, strongly increased through the sales to the Bank of the special Treasury bonds (*Pagarés de Ultramar*) issued to cover war-related spending.⁷⁴ Villaverde took on the task of scaling back the fiat money as a priority, which involved balancing the budget to stop the selling of bonds to the Bank, and then, gradually paying them off. A surplus was already achieved by the second half of 1899, mainly due to the cut in debt costs.⁷⁵ The *Pagarés* began to be paid off that very year and the reason why the monetary base did not diminish accordingly was because the Bank had managed to offset the debt reduction through private credit expansion.⁷⁶ Seeing this as the cause of the interruption of the peseta's recovery, when the liberals came back into power, the new Finance Minister, Urzáiz, proposed a plan for a rapid move towards gold.

First, in July 1901, he requested authorization to issue long-term bonds with the aim of redeeming the *Pagarés* at the Bank, so that the amount of

72. DSCD 23 May 1898, p. 684.

73. DSCD 23 May 1898, p. 685.

74. Altogether, the bonds held by the Bank grew from 644 to 1811 million pesetas from 1895 to 1898 and the amount of notes from 910 to 1444 million. The series can be found in Anes (1974a, b).

75. The Law of 2 August 1899 suspended the redemption of the 4 per cent debt and forced the exchange of Treasury bonds (except *Pagarés de Ultramar*) for redeemable bonds, which, together with the coupon reduction of the *Pagarés* by half, managed to control the financial burden. For a detailed account of the fiscal adjustment, see Solé Villalonga (1967); for the link between fiscal adjustment and monetary policy, see Sabaté and Serrano (1999).

76. The Bank's public assets declined from 2,152 million pesetas in 1898 to 1,783 in 1901, while credit to the private sector rose from 128 million pesetas to 327. Anes (1974b).

notes could continue to be scaled back.⁷⁷ During the discussion, the conservative Ferrer Vidal, representative of Barcelona and president of the Fomento, refused to “engage in partisan politics” and declared that he had come to the Congress “to defend Mr Urzáiz’s proposal with conviction”, for only with this proposal “would food prices go down, enabling the existence of industry and trade”, whose “survival” continued to be threatened by “the persistent exchange rate instability”.⁷⁸ In the same discussion, responding to the speech by congressman Bergamín, representative of Málaga, who opposed Urzáiz’s proposal because of the profits that the peseta’s depreciation was providing Spanish exporters, Ferrer Vidal again minimized such profits because of the effects of depreciation on production costs.⁷⁹ The same argument was used again, with a narrative highly reminiscent of the Villaverde’s speech in 1898, by the report that the Fomento presented to the Finance Minister on “the exchange rate issue”⁸⁰ and reappeared once again in the controversy surrounding the final failure of Urzáiz to speed up the adoption of the gold standard.

In January 1902, the Minister proposed the constitution of a currency board in the Bank of Spain, separate from its finance business and exclusively devoted to converting notes into specie. As part of his plan, the Bank of Spain would be forced to scale back its notes for them to become fully guaranteed by specie. Understandably, the measure was met with strong opposition from the Bank, whose profits largely depended on the holding of public debt accepted as a counterpart for the notes.⁸¹ Although for our purpose, rather than focusing on the dispute between Urzáiz and the board of governors of the Bank, which, eventually led to the Minister’s resignation, what is important is the opposition that the proposal aroused among prominent con-

77. DSCD 6 July 1901, Appendix 5.

78. DSCD 17 October 1901, p. 852, 861 and 918.

79. DSCD 29 October 1901, p. 1094.

80. The report, signed by Ferrer Vidal, considered that continuing with a fiat currency regime was “a foolishness”. It recognized that, transitorily, the depreciation brought about “big exports of agricultural products” and “the elimination of the foreign competition”. However, considering the increase in the price of “machinery, raw materials, salaries and rentals”, according to the report, “the evils already outweigh the benefits”. On this basis, the report concluded with the need to move towards the gold standard and its exchange rate stability, stating that “nobody is more interested in it than Catalonia”. Published in *El Trabajo Nacional*, 30 July 1901. Previously, the same monthly had underlined the error of “considering depreciation advantageous for domestic interests”, since the benefits for exports are “fortuitous subsidies” that disappear once “the monetary equilibrium is reestablished”, while the depreciation “is a tax on raw materials which accounts for, on average, one third of the manufactured item” (30 April 1901). See also *El Trabajo Nacional* 31 December 1901.

81. According to Anes (1974c), the Bank of Spain’s financing of deficits was a very profitable business in the last quarter of the nineteenth century. He founded this statement on the coincidence between the high percentage of public assets in the balance sheet of the Bank (averaging over 50 per cent of its total assets) and the high profit percentages distributed among bondholders (profits averaging over 20 per cent of its core capital).

gressmen of the two major parties (Olariaga 1933; Sardá 1948).⁸² This opposition resided in the idea that, with “the domestic prices having found a new equilibrium”, the magnitude of the monetary contraction that a rapid move to gold involved would severely harm the Spanish economy.⁸³ Before 1914, a gold debasement of the peseta coins was never contemplated, so, to drive back a currency depreciated by 35 per cent to its historical parity required more than an ambitious deflation. Its effects on the Spanish economy seemed dangerous to conservatives such as Fernández Villaverde, González-Besada and Osma who, accordingly, decided to sign, along with liberals such as López Puigcerver, Alba and Canalejas, two amendments aimed at forcing a softer and, above all, more gradual reduction of note circulation. They fixed at 1,500 million pesetas the amount of note circulation to be guaranteed with a metallic reserve ratio of half (gold plus silver, at least half in gold), which, until then, had been fixed at a third; while a minimum of two thirds was fixed (at least half in gold) at quantities from 1,500 to 2,000 million.⁸⁴ The reinforcement of the metallic guarantee was complemented with a plan to gradually pay off the Pagarés (10 per cent per year with the deadline in December 1911) and the rest of the bonds (10 per cent per year with the deadline in December 1912) in the Bank’s balance sheet.

This gradual plan is worth mentioning because, based on the two agreed amendments, in July 1902, the new liberal Finance Minister, Rodrigáñez, defended a bill to scale back notes. The bill fixed at 1,200 million pesetas the amount of note circulation to be guaranteed with a metallic reserve ratio (at least half in gold) of a third; the remainder of notes up to 2,000 million required full metallic (at least half in gold) coverage. Therefore, Rodrigáñez’s proposal reinforced the metallic guarantee, which, combined with a ten-year pay-off of the Treasury bonds in the Bank, forced an immediate scaling back of fiat money. While not as ambitious as the proposal of Urzáiz, it went beyond what was planned in the agreed amendments. However, the commission in charge of reporting on the bill softened the gold guarantee, placing the new proposal halfway between Villaverde’s amendment and Rodrigáñez’s bill.⁸⁵ In any case, the reduction of notes was noticeably humbler than that planned by Urzáiz, something that Ferrer Vidal, “in representation of the Catalan interests”, complained about. Being the first congressman and the only conserva-

82. For a detailed account of the echo of the proposal on the Minutes of the Board of Governors Meetings, see Serrano-Sanz (2004), pp. 120 and ensuing.

83. In the words of congressman Osma. DSCD 7 March 1902, p. 3977.

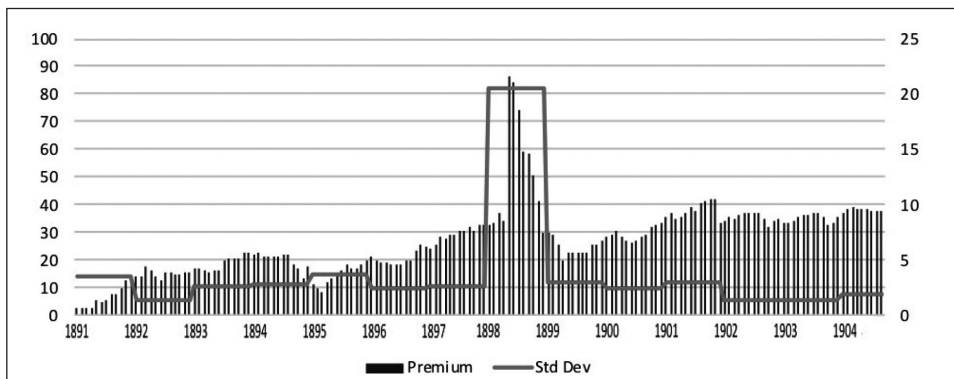
84. After the war, the limit of issue was cut from 2,500 to 2,000 million pesetas by Law 2 August 1899, GM 4 August.

85. The commission fixed a metallic reserve ratio of a third of the notes issued up to 1,200 million pesetas; a minimum of 60 per cent (at least two thirds in gold) for notes issued from 1,200 to 1,500 million; and a minimum of 70 per cent (three quarters in gold) for quantities from 1,500 to 2,000 million. DSCD 8, Appendix 1.

tive to intervene, he described the new plan as being “anodyne” compared to Urzáiz’s proposal, especially if the parliamentary commission’s report was accepted instead of Rodrigáñez’s bill.⁸⁶ For this reason, even if he did not agree with the “severity” of Urzáiz’s plan, Ferrer Vidal claimed to represent the “Fomento [...] and the main corporations of Barcelona, which regarded with true satisfaction the direction, if not the detail, of Mr Urzáiz’s plan, and that they were certainly not very pleased at seeing his plan destroyed”.⁸⁷ Along the same lines, the liberal Maristany declared that he felt compelled to intervene, “as he was a representative of Barcelona, the most important merchant and industrial city in Spain and, for this reason, the most affected by the increase in the exchange rate”.⁸⁸ The high prices of food and raw materials were once again referred to as the reason to move to the standard, while no references are found in the debate to the potential losses that the peseta’s appreciation might cause to exporters.

The bill was eventually passed and a reduction in exchange rate volatility followed (Figure 1). However, with respect to the level, the peseta seemed to suffer from “an illness that had become chronic, a chronicity that translated into a depreciation of 37 per cent”. To cure this “illness” was the aim of the bill presented by Prime Minister Fernández Villaverde in October 1903, eventually discussed in November 1904, when the also conservative Maura had succeeded him in the post.⁸⁹ The bill sought to stabilize the peseta around its

FIGURE 1 • *Peseta/franc monthly exchange rate and volatility*



Source: DSCD 10 November 1904, p. 967.

The premium in Madrid for bills of exchange at sight on Paris is displayed on the left-hand scale. The right-hand scale shows the standard deviation of the monthly averages within each year.

86. DSCD 15 April 1902, p. 223.

87. DSCD 15 April 1902, pp. 225 and 227.

88. DSCD 21 April 1902, pp. 340-341.

89. For the confronted stances of both leaders on economic policy and the parliamentary incidents encountered by Villaverde’s bill, see Serrano and Sabaté (2006). The quote about “illness” by congressman Earl of Romanones can be found in DSCD 10 November 1904, p. 964.

historical parity before joining the gold standard, and included a faster pay-off of Pagarés than Rodríguez's proposal. In addition, the Bank of Spain was prohibited from freely reducing its interest rate on the pledge of public bonds. In parallel, a Board of Exchange, dependent on the Treasury, would begin to operate at the Bank.

In his praise of the advantages of moving towards gold, Villaverde resorted again to the disrupting effects of depreciation on sectors highly dependent on imported inputs and, above all, on its short-lived procompetitive effects on exports.⁹⁰ In this case, opposition to the project came from within his own party, in particular, from Osma, the new Finance Minister in Maura's cabinet, for whom the proposal implied a clear risk of contraction, deflation and unemployment.⁹¹ This was why Osma, as he himself explained, presented another bill, overlapping Villaverde's, to stabilize the peseta around its current rate.⁹² In this increasingly politicized debate there is no record of any intervention based on exclusive sectoral interests, although some groups revealed their preferences through other channels. For example, when first raised, the Fomento publicly supported Fernández Villaverde's proposal. Its president, Ferrer Vidal, in a speech of over 70 pages given in November 1903 before the Commission responsible for reporting on the bill, stated that the arguments in favor were the same as those that previously led the Fomento to back those of Urzáiz and Rodríguez. In the introductory pages, the president celebrated the fact that their stance on the subject was shared by "the highest authority of the steel industry of the North of Spain La Liga Vizcaína de Productores".⁹³ This stance meant full support for Villaverde's plan to move towards gold, provided that the renegotiation of trade treaties to boost exports contemplated in the bill was preceded by "total revision of the current bill in a protectionist sense" (Ferrer Vidal, 1904, p. 7).

This was declared in November 1903, while Villaverde was Prime Minister. One year later, in November 1904, after five days of debate, he withdrew his proposal, which he himself retrieved, again as Prime Minister, in June 1905. However, his death prevented it from being discussed, as was the case with the other six bills on note circulation presented from 1904 to 1913 (Appendix 1). Interestingly, the stance of the Fomento with respect to the two bills for which it delivered an official report remained consistent with the one it had previously taken. In November 1906, the Fomento rejected the bill proposed by Narvarro Reverter postponing the pay-off of the Pagarés and allowing the Bank of Spain to maintain its long-term bonds as a guarantee for

90. DSCD 10 November 1904, pp. 986-988.

91. DSCD 12 November 1904, p. 1008.

92. DSCD 12 November 1904, p. 1014.

93. The quotes on the Fomento and the Liga can be found in Ferrer Vidal (1904), pp. 5-6 and 8. For the Liga's stance see Alzola (1903).

notes, which “is simply to demolish the work of Mr Rodrigáñez”.⁹⁴ Later, in February 1912, the Fomento rejected a bill presented by Rodrigáñez himself to extend the deadline for the full pay-off of the bonds at the Bank, which was regarded as a way of slowing down the peseta’s move towards parity. The first sentence of the Fomento’s report, signed by its president, Luís Sedó, Antonio’s son, was a complaint about “not being able to remember the number of times it had to report on bills, which all fortunately failed, seeking to modify the Law of 2 May 1902”.⁹⁵

Votes in the Congress

Having summarized the congress debates about note circulation and the effects of exchange rate instability, we will now examine whether voting behavior with respect to these topics responded to a sectoral pattern. Table 2 shows the available roll-call votes and information on the incumbent government, and how the votes (yes and nay) were distributed across parties.⁹⁶

The first roll-call vote, held in 1876, was on the proposal of the conservative Sedó to end the monopoly of issue granted to the Bank of Spain unless it started to effectively convert notes into specie. This proposal was considered unfeasible by the also conservative Finance Minister, García Barzanallana, given the financing needs of the Spanish Treasury, for which the government called for a partisan nay vote on the proposal, even though it had publicly declared its desire to join the gold standard. The unfortunate fate of Sedó’s proposal was widely reported in the press of Madrid.⁹⁷ The perception of the Fomento del Trabajo Nacional of Barcelona, to which Sedó himself belonged, was also that such a proposal could not be successful given “the strength of the commitments

94. Report on the Bill on the Bank of Spain. *El Trabajo Nacional*, 16 November 1906, pp. 696-699.

95. *El Trabajo Nacional*, 15 February 1912, p. 54.

96. The assignment of congressmen to their corresponding provinces has been made according to the Congress Sessions Records (DSCD, Resumen). Party assignments are based on Sánchez-Ortiz and Berasategui (1887), Martínez-Cuadrado (1969), Carasa (1997), Varela-Ortega (2001), Paniagua and Piqueras (2006), Ramos (2013) and the press of the time.

97. In fact, before the discussion started, the government’s rejection of this proposal had already been heralded by the conservative newspaper *La Epoca*, where congressman Sedó was called to reconsider his position. *La Epoca* 1 December 1876. A thorough reading of the press printed in Madrid provides plenty of references to Sedó’s proposal in a number of conservative (*La Correspondencia*, *La Epoca*, *La España*, *El Popular*), liberal (*La Iberia*, *El Imparcial*, *La Producción Nacional*), Carlist (*El Siglo Futuro*) and republican (*El Solfeo*) papers. None of them denied the existence of the *cola* or the seriousness of its effects. More than this, though, conservative papers such as *El Popular* (13 December 1876) stated that “the whole of the press [...] more or less explicitly supports Sedó [...] since there is no excuse to justify [...] the Bank’s behavior in the change of notes, which if today are traded at a 2 per cent discount are at risk of experiencing a much higher discount”. *La España* (8 December 1876), also a conservative paper, dared to attack *La Epoca* for trying “to support the Bank of Spain against the general opinion of commerce, the press and individuals”.

TABLE 2 • *Roll-call votes. Conservatives, Liberals, and minorities*

	1876			1888			1891			1902		
	Total	Yes	Nay	Total	Yes	Nay	Total	Yes	Nay	Total	Yes	Nay
Liberals	22	22		112		112	50		50	166	152	14
Conservatives	153	17	136	29	28	1	123	122	1	33	32	1
Minorities				6	1	5	14	2	12	28	12	16
Total	175	39	136	147	29	118	187	124	63	227	196	31

Sources: See text.

(1876) On Sedo's proposal. Incumbent government's partisan vote NAY

(1888) On Cos-Gayón's dissenting opinion. Incumbent government's partisan vote NAY

(1891) On Cos-Gayón's bill. Incumbent government's partisan vote YES

(1902) On Rodríguez's bill. Incumbent government's partisan vote YES

between the Bank of Spain and the Treasury”, as regularly reported in its weekly paper, by then, also called *Fomento del Trabajo Nacional*.⁹⁸

Accordingly, following the government's guideline, most of the 153 conservative votes (136 nay) responded to the partisan call. As shown in Table 2, the liberals in block (22 yes) supported the proposal. Thus, it seems that political militancy is a relevant factor to explain the voting pattern. Moreover, as Sedó's attack of the constrained convertibility of notes was based on the damage that the depreciation of the peseta might cause to domestic industry and trade, apart from political militancy, we can also consider the possibility that a different sectoral composition of gross value added across provinces might have influenced the vote. To this end, we define a binary variable that takes the value of 1 when there is a partisan negative vote on this proposal, and 0 if there is an affirmative vote. Then, we regress this binary variable on the dummy representative of being a conservative congressman (*dcons*). The results of the logit estimation can be found in Table 3. Column 1 shows the existence of an expected significant positive link between being a conservative and rejecting Sedó's proposal. Then, we introduce a variable that measures the percentage of the secondary sector in the gross value added of each province (*%sec*). Column 2 confirms the positive effect of being a conservative in voting against the proposal. Most interestingly, the economic variable, that is, the weight of the secondary sector shows a significant negative coefficient of -0.094. This finding indicates that the probability of rejecting Sedó's

98. *Fomento de la Producción Nacional*, 12 December 1876, no. 337, p. 830. Without interruption from no. 346 to no. 362, that is, from January to June of 1877, this section denounced the lack of convertibility of notes, called for the Bank to reduce their circulation through the sale of public bonds (*Fomento de la Producción Nacional*, 24 February 1877 and 3 March 1877, p. 348) and warned against “the great misfortune” that their further expansion could entail (*Fomento de la Producción Nacional*, 24 March 1877 no. 351 and 28 May 1877 no. 356).

proposal diminishes if the province of the congressmen has a prevalent industrial activity. According to the estimates of the marginal effects also shown in Table 3, Column 2, one more conservative congressman increases the probability of voting nay to the proposal by 75 per cent, with the percentage of secondary gross value added held constant at its mean. By the same token, a one per cent increase in the gross value added of the secondary sector of a province, with the percentage of conservatives held at its mean, diminishes the probability of voting nay to the proposal by 1.3 per cent. In other words, the probability that one more conservative congress-

TABLE 3 • *Estimated impact in Logit model (1876)*

	[1]	[2]	[3]	[4]
<i>dcons</i>	5.725*** (0.000)	5.334*** (0.000)	5.326*** (0.000)	5.327*** (0.000)
<i>%sec</i>		-0.094*** (0.000)	-0.094*** (0.000)	-0.096** (0.025)
<i>%tert</i>			0.002 (-0.940)	
<i>%prim</i>				-0.002 (0.940)
<i>constant</i>	-2.773*** (0.000)	-0.998 (0.815)	-1.045 (0.424)	-0.847 (0.277)
<i>Obs.</i>	175	175	175	175
<i>Pseudo-R2</i>	0.38	0.46	0.46	0.46

Marginal effects. Probability of a nay vote, holding the rest of the variables at their mean

	[1]	[2]	[3]	[4]
<i>dcons</i>	0.823*** (0.001)	0.750** (0.020)	0.750** (0.020)	0.425*** (0.000)
<i>%sec</i>		-0.013*** (0.005)	-0.013*** (0.005)	-0.008** (0.022)
<i>%tert</i>			0.001 (0.261)	
<i>%prim</i>				-0.000 (0.939)

*p-values in parentheses. *** p<0.01, **p<0.05, *p<0.1*

man representing Orense (the province with the lowest percentage of secondary gross value added, 8 per cent) refuses the proposal is estimated at 86.51%, while this probability for a conservative congressman representing Barcelona (the province with the highest percentage of secondary gross value added, 53 per cent) is estimated at 29.73%.

There is no change if we add the weight of the tertiary (*% tert*) sector to the logit estimation. As shown in the third column of Table 3, the coefficients of the political and secondary sector variables remain significant and maintain their signs and values, while the coefficient for the tertiary sector is not significant. Neither are there changes when introducing, instead of the tertiary sector, the weight of the primary sector (*% prim*) in the province's gross value added. Column 4 shows that the significance and signs of the coefficients for the political and secondary sector variables remain the same, while the coefficient of the primary sector variable fails to reach significance. Therefore, the degree of industrialization seems to have made a difference in the vote on Sedó's proposal, which is in line with the fact that six out of the seven conservative congressmen from the two most industrialized provinces (Barcelona and Bizkaia), casted anti-partisan positive votes.⁹⁹

The reasons for taking their votes as a reflection of a preference for exchange rate stability have already been mentioned. First, cotton textile manufacturing was enjoying high tariff barriers, enough to ensure domestic consumption and, by then, exports of iron bars faced no international competition. Therefore, the depreciation of the peseta was not needed as an extra import barrier or as procompetitive help. Second, as domestic production was not threatened by foreign producers, the peseta's depreciation made imported inputs (essentially, cotton and coal) more expensive. With respect to this second point, Sedó's intervention in Parliament during the discussion of the budget law in June 1877, when the government planned to apply a surcharge that trebled the customs tariff on coal, is more than telling. He presented two amendments, one calling for all the proposed tariff surcharges – including that of coal – to be removed from the budget, and another requesting the surcharge on coal to double rather than treble the tariff in force.¹⁰⁰ Speaking on behalf

99. A prominent industrialist and merchant himself, and a railways investor with close relations to maritime companies, Sedó voted along with Congressman Turull, who was also a prominent textile manufacturing and financing businessman, with railways and maritime transport interests. See Palomas (2002). Among the representatives of Bizkaia was congressman Zabala, a railways owner, Barandica, a representative of the Bizkaia industrialists, and Vicuña, an engineer and mathematical physicist whose interventions in Parliament revealed him to be a defender of the iron producers. He proposed an amendment to the 1876-1877 budgetary law calling for the taxes on iron ore exports to be eliminated (DSCD 8 July 1876). He also presented a request in Congress for the tariff on imported coal not to be increased on behalf of the Tudela-Bilbao railways company (DSCD 21 June 1877) and of the industrialists, owners and consignees of steamboats and the gas lighting company of Bilbao (DSCD 22 June 1877). See Agirreazkuenaga *et al.* (1993).

100. DSCD 18 June 1877, Appendix 1 and DSCD 12 June 1877, Appendix 6.

of the Fomento, Sedó emphasized the damage that the trebling option would cause to factories in general and foundries in particular, on gas producers and railway companies, whose main input was coal.¹⁰¹

This amendment overlapped another presented by congressman Viciña, also signed by congressman Turull, both of whom had supported Sedó's proposal in December 1876, where they called for the tariff on coal to be doubled instead of trebled. Based on the comparatively greater sacrifice imposed on the metallurgy sector, this amendment also contemplated that the tariff on the variety of coke used to smelt iron ore should not be surcharged.¹⁰² The fact that Barcelona's textile and Bizkaia's iron industries objected to price increases of imported inputs through tariffs in 1877 agrees with their rejection of depreciation and, therefore, with their votes supporting convertibility cast months before. Most importantly, consistent with this stance in 1876, an examination of the Congress Sessions Records shows that, due to its effects on the price of imported inputs, the criticism of exchange rate instability continued to be at the core of the arguments against the measures allowing the expansion of fiat money before 1898 and in favor of scaling it back afterwards.

However, despite the provincial currency preferences found in the discussions, no sectoral patterns are identified when analyzing the roll-call votes available for 1888 and 1891. In 1888, conservative Cos-Gayón denounced the liberal bill to centralize tax collection and public payments at the Bank of Spain as an excuse to disguise the monetary financing of deficits. He expressed a dissenting opinion requesting the bill to be dismissed and was supported by some liberal speeches to back his dissenting opinion. But, when it was voted on, all of the 112 liberal votes (112 nay) rejected it in block. The same partisan cleavage applies to the roll-call vote on the authorization requested by the conservatives to increase the ceiling of note issue in 1891. It was now the turn of the liberals to denounce the risks of further depreciation that the use of such an authorization entailed. As in 1888, the stance of the representatives of the party in power was not unanimous and, in this case, as already mentioned, the rejection by prominent conservatives of the increase in the note ceiling took center stage. Nonetheless, again the roll-call vote reveals that the partisan discipline ended up dominating. While all of the 50 liberal votes (50 nay) opposed the rise in the note ceiling, only one vote out of the 123 conservative votes (122 yes) did so.¹⁰³ This result is clearly in tune with the

101. DSCD 21 June 1877.

102. DSCD 12 June 1877, Appendix 1. In Viciña's words, being "the fuel most consumed by the iron and steel industry, an increase in the rights over coke would be highly burdensome for this industry, while charges on hard coal, which is not used so much by other industries would not be so harmful for them". DSCD 30 June 1877, p. 1353.

103. The same partisan cleavage arises in the roll-call vote on the amendment that conditioned the temporal expansion of the monopoly of issue on the redemption of long-run public as-

aforementioned liberal complaints about how “the old paladins of the conservative party are conspicuous by their absence or do not vote on this bill”.¹⁰⁴

The fact that partisan cleavages shaped the voting pattern both in 1888 and 1891 is quantitatively supported by the logit estimates shown in Tables 4 and 5. For 1888, the binary variable takes value 1 when there is a negative vote on Cos-Gayón’s dissenting opinion and 0 if there is an affirmative vote. In this case, precisely due to the perfect prediction of being a liberal and voting nay, we have resorted to the penalized logit technique. Table 4, Column 1, shows an expected significant positive link between being a liberal (*dlib*) and the partisan rejection of this dissenting opinion. According to the marginal effects, one more liberal representative increases the probability of voting nay by 80 per cent. But here, unlike the case of the 1876 roll-call vote, as shown in Columns 2, 3 and 4, no combination of gross value-added percentages reaches significance. For 1891, the binary variable takes value 1 when there is a positive vote for the increase of the limit of note issue. Table 5, Column 1, shows an expected significant positive link between being conservative (*dcons*) and the partisan acceptance of raising the note ceiling. According to the marginal effects, one more conservative representative increases the probability of voting yes by 85 per cent. Here again, no combination of sectoral gross value-added percentages reaches significance. In this case, the absence of a territorial voting pattern is in line with the stance of the representatives of Barcelona. They were afraid that the financing needs of the Treasury could give rise to the downfall of a government sympathetic to protectionism. This led them to publicly accept the rise of the limit of issue as “a lesser evil”. In fact, no conservative congressmen for this province voted nay, which illustrates how, in the trade-off between trade and currency policies, the former prevailed.

The last roll-call vote was cast on the proposal made by Rodrigáñez in 1902. Within the framework of recently achieved surpluses, the bill sought the gradual pay-off of the public bonds in the Bank of Spain’s balance sheet to, in combination with the reinforcement of the gold reserve ratio, scale back the note circulation. The final draft of the bill closely resembled the amendments that a group of conservative and liberals had previously raised as an alternative to Urzáiz’s proposal for a Board of Exchange, the result being the wide support received from the two parties. All conservative votes but one (33 yes) supported the gradual scaling back of notes, while 152 (152 yes) out of

sets in the Bank of Spain’s balance sheet, thus implying the contraction in note circulation. In this case, 68 out of 69 conservative votes rejected the amendment, all the 38 liberal votes supported it.

104. Rodrigáñez, DSCD 5 June 1891, pp. 1951-1952. Even more direct was the question by Moret (DSCD 10 June 1891, p. 2096): Where are congressmen the Marquis of Cubas, Malladas and Laiglesia?”. These names were also mentioned in the Senate as conservative congressmen that, having publicly opposed the project, eventually, either voted yes or did not on the different articles that made up the project. DSS 7 July 1891, p. 1591.

TABLE 4 ▪ *Estimated impact in Penalized Logit model (1888)*

	[1]	[2]	[3]	[4]
<i>dliberal</i>	6.777*** (0.000)	6.720*** (0.000)	6.823*** (0.000)	6.823*** (0.000)
<i>%sec</i>		0.010 (0.757)	0.010 (0.755)	-0.022 (0.601)
<i>%tert</i>			0.033 (0.277)	
<i>%prim</i>				-0.033 (0.277)
<i>constant</i>	-1.370*** (0.001)	-1.577* (0.087)	-2.810* (0.083)	0.391 (0.839)
<i>Obs.</i>	147	147	147	147
<i>Likelihood ratio test</i>	105.96 (0.000)	104.90 (0.000)	104.92 (0.000)	104.81 (0.000)

Marginal effects. Probability of a nay vote, holding the rest of the variables at their mean

	[1]	[2]	[3]	[4]
<i>dliberal</i>	0.793*** (0.000)	0.789*** (0.000)	0.793*** (0.000)	0.793*** (0.000)
<i>%sec</i>		0.000 (0.756)	0.000 (0.754)	-0.001 (0.599)
<i>%tert</i>			0.001 (0.261)	
<i>%prim</i>				-0.001 (0.261)

*p-values in parentheses. *** p<0.01, **p<0.05, *p<0.1*

the 166 liberal votes were also positive.¹⁰⁵ This consensus between liberals and conservatives is perfectly captured by the fuzzy partisan cleavage indicated by the logit estimates in Table 6. Again, the binary variable takes the value of 1 when there is a vote in favor of the government's advice, in this case a yes vote

105. Interestingly, at least 5 liberal votes (5 nay) out of the 14 liberal votes that rejected the final draft, did so because of their preference for a more restrictive scaling back. We infer this preference from their votes in favor of the republican Azcárate's amendment proposing to return to the Rodríguez's original proposal. DSCD 22 April 1902.

TABLE 5 • *Estimated impact in Logit model (1891)*

	[1]	[2]	[3]	[4]
<i>dcons</i>	8.238*** (0.000)	8.252*** (0.000)	8.256*** (0.000)	8.256*** (0.000)
<i>%sec</i>		0.007 (0.900)	0.006 (0.914)	0.002 (0.981)
<i>%tert</i>			0.004 (0.933)	
<i>%prim</i>				-0.004 (0.933)
<i>constant</i>	-3.434*** (0.000)	-3.602** (0.019)	-3.738* (0.095)	-3.329 (0.350)
<i>Obs.</i>	187	187	187	187
<i>Pseudo-R2</i>	0.88	0.88	0.88	0.88

Marginal effects. Probability of a yes vote, holding the rest of the variables at their mean

	[1]	[2]	[3]	[4]
<i>dcons</i>	0.875** (0.032)	0.876** (0.033)	0.876*** (0.033)	0.876** (0.033)
<i>%sec</i>		0.001 (0.900)	0.001 (0.915)	0.000 (0.981)
<i>%tert</i>			0.000 (0.933)	
<i>%prim</i>				-0.000 (0.933)

*p-values in parentheses. *** p<0.01, **p<0.05, *p<0.1*

to the final draft of Rodríguez’s bill, and 0 otherwise. Column 1 shows an expected positive link between being liberal (*dlib*) and the acceptance of the final version. Although here the consensus reduces the marginal effect of being representative of the party in power; one more liberal representative raises this probability by a mere 15 per cent.

Similarly to 1888 and 1891, no combination of sectoral gross value-added percentages reaches significance. In this case, as the 1902 measure was aimed at appreciating the peseta, one might expect it to have caused some rejection among the true beneficiaries of the plummeting Spanish currency

TABLE 6 • Estimated impact in Logit model (1902)

	[1]	[2]	[3]	[4]	[5]
<i>dliberal</i>	1.405*** (0.000)	1.459*** (0.000)	1.439*** (0.000)	1.439*** (0.000)	1.558*** (0.000)
<i>%sec</i>		-0.024 (0.224)	-0.023 (0.267)	0.003 (0.909)	-0.008 (0.776)
<i>%tert</i>			-0.026 (0.158)		
<i>%prim</i>				0.026 (0.158)	0.019 (0.326)
<i>%primlevante</i>					0.032 (0.105)
<i>constant</i>	0.973*** (0.001)	1.533*** (0.005)	2.505*** (0.006)	-0.092 (0.942)	0.240 (0.851)
<i>Obs.</i>	227	227	227	227	227
<i>Pseudo-R2</i>	0.07	0.08	0.09	0.09	0.11

Marginal effects. Probability of a yes vote, holding the rest of the variables at their mean

	[1]	[2]	[3]	[4]	[5]
<i>dliberal</i>	0.148*** (0.000)	0.152*** (0.000)	0.147*** (0.000)	0.147*** (0.000)	0.152*** (0.000)
<i>%sec</i>		-0.003 (0.220)	-0.002 (0.263)	0.000 (0.909)	-0.001 (0.776)
<i>%tert</i>			-0.003 (0.156)		
<i>%prim</i>				0.003 (0.156)	0.002 (0.326)
<i>%primlevante</i>					0.003* (0.090)

*p-values in parentheses. *** p<0.01, **p<0.05, *p<0.1*

in the 1890s, namely the Mediterranean crops producers. However, the rejection may not have been captured properly due to the inclusion of two very different agricultures in the variable primary gross value added. Thus, to disentangle the cereal import competing interests from the agrarian export interests, this variable is interacted with a dummy (*%primlev*) that takes value 1 when the vote is cast by a representative of the provinces of Levante (the Mediterranean coastal provinces of Alicante, Almeria, Castellon, Malaga,

Murcia and Valencia). In this case, we find a positive link between the dummy representative of Levante and voting yes to Rodrigáñez's plan, which remains on the verge of being significant and improves the explanatory power of the model. In other words, being a representative of the agricultural exporting provinces indicates support for, rather than a rejection of, a gradual appreciation of the peseta. This is a finding that fits perfectly with the absence of complaints related to the potential depressing effects on exports during the congress debate. In fact, all liberal and conservative votes corresponding to these provinces supported the bill, including the vote of the liberal Bergamín, who had firmly opposed Urzáiz's proposal and the vote of the also liberal Iranzo, by then, the most active campaigner in favor of measures to expand markets for fruits and wine. Significantly, Iranzo, who did not intervene in the discussion on Rodrigáñez's bill, was, at the same time very active in the Congress, raising support for demands for new trade treaties.¹⁰⁶ It seems that trade agreements rather than exchange rates became the real agricultural exporter's battlefield in 1902. This is confirmed by the anti-partisan stance of Iranzo two years later, when the proposal of bases for a tariff revision was presented to Congress by the liberals.¹⁰⁷ He fiercely opposed the base that allowed the government to fix tariffs on manufactures of up to 50 per cent ad valorem, which, in his view, would impede the signing of trade treaties to benefit agricultural exports. Speaking on the behalf of the Federación Agraria de Levante, the association of agricultural exporters of the Valencian provinces and Murcia, he presented an amendment to the whole bill reducing the maximum level of manufacture tariffs and another amendment to eliminate the transport tax on fruit exports.¹⁰⁸ He even cast an anti-partisan vote supporting the amendment that proposed the free entry of fertilizers.¹⁰⁹ As well as voting against his party on trade policy, Iranzo also publicly supported the liberal party in the bill aimed at collecting export and import tariffs in gold as a tool for the government to avoid speculative attacks to the peseta and help it to move towards parity. This reinforces the perception that, by then, the appropriateness of moving towards gold was no longer a divisive topic between import-competing and export-oriented sectors. In order for Iranzo to accept, the Prime Minister, Sagasta, simply

106. More specifically, he insisted on the renewal of a trade agreement with Switzerland, whose treaty was about to expire, and a reduction in the Spanish import tariffs on coffee to promote the exports of wine to Latin America. DSCD 9 April 1902, pp. 73-76 and 19 April 1902, p. 297.

107. In fact, he started the campaign before the discussion started by expressing in the Congress his worries that the bill finally passed could make the signing of new treaties completely unfeasible. See DSCD 22 November 1905, pp. 721-722 and 21 December 1905, pp. 1523-1526.

108. DSCD 27 January 1906, pp. 2195 and ensuing. For a summary of the agricultural associationism in Levante and its demands for public support, see Abad (1987).

109. DSCD 30 January 1906.

assured him that the move towards appreciation would be gradual, coinciding with Iranzo's idea that it was not possible to successfully pass "from outdoor closure to the open air".¹¹⁰

Epilogue

The financing needs of the Treasury at the beginning of the Bourbon Restoration and the reluctance of the Bank of Spain to scale back notes when these needs receded have been central to the literature explaining why the peseta was never formally on gold. We add a demand side approach to this story, by examining the preference of the Spanish industrialists for a (gold convertible) stable exchange rate regime. Our study begins with the call for an effective metallic conversion of notes raised by Antonio Sedó to the Congress in 1876. An analysis of the voting behavior reveals a sectoral pattern. The higher the secondary percentage in the gross value added of a province, with Barcelona and Bizkaia at the top of the list, the lower the likelihood that their representatives rejected his proposal.

In this sense, the Spanish manufacturing preference for a stable exchange rate differs from the results obtained by Frieden (2015) in his analysis of the currency interests at stake in the USA from the end of the Civil War to the Gold Resumption in 1879. In this country, from 1865 to 1873, the battle was between supporters of a return to gold convertibility at the prewar parity and supporters of maintaining non-convertible notes (greenbacks). From 1873 to 1879, there was a divide between supporters of gold and supporters of silver, which, given the fall in silver prices on the market, also meant a preference for a depreciating floating dollar exchange rate. The regression of the currency-related votes of congressmen on the economic structure of their congressional districts shows a significant rejection of the (Pennsylvania) iron and (New England) textile manufacturers, initially stronger among the former, to move onto gold. The milder rejection of textile manufacturers is explained by their then competitive position in world markets, which might "have made them more sympathetic to concerns about currency volatility" (Frieden 2015, p. 65). Although according to Frieden (1997, 2015), the US industries did not become indifferent or supportive of gold until the 1890s, when the McKinley bill installed prohibitive protection. The same substitutability between trade and exchange rate policies could explain why the representatives of Barcelona did not mind supporting gold convertibility in 1876. This support is even more understandable considering that, in Spain, textile industries depended heavily on the imports of cotton and coal. A de-

110. DSCD 8 March 1906, p. 2921.

preciation would have meant more expensive inputs, which would have also influenced the profitability of Bizkaia's iron producers, by then enjoying an unthreatened competitiveness in foreign markets, through coal consumption. This is our economic rationale to explain the votes of the representatives of Barcelona and Bizkaia in favor of convertibility at the beginning of the period under study.

However, we cannot rule out the fact that other types of economic considerations might have influenced the support of Sedó's proposal, namely, the discontent arising in these two provinces due to the recent granting of the monopoly of note issue to the Bank of Spain.¹¹¹ Even so, we have not discarded an industrial base for Sedó's proposal because of the regularity of the stance of the representatives of Barcelona in this regard, publicly maintaining their preference for a stable currency, especially after the peseta entered a phase of volatile and trend-depreciating exchange rate in 1891. In this year, the Senate episode took place in which representatives of the province of Barcelona gave their Parliamentary support to the rise of the note issue limit, even though they were aware that further depreciation meant raising costs for producers. Their motivation was to support a government sympathetic to protectionism. Accordingly, no territorial pattern is expected nor found when we repeat the logit analysis for the roll-call vote cast in the Congress on this measure. The votes on the conservative financing-deficit proposal in 1891 reflect the same partisan cleavage as do the votes cast on the also financing-deficit liberal proposal in 1888.

New complaints about the harmful effect of depreciation on the costs of imported inputs arose amid the territorial clashes between the representatives of Barcelona and the Levante fruit exporter provinces in 1898, at the peak of the peseta's currency crisis. And again, the same argument was at the center of the Barcelona representatives' speeches and reports on the attempts to drive the peseta back to its historical parity at the beginning of the twentieth century, now with the added reasoning that depreciation benefited exporters only transitorily. The voice of Ferrer Vidal could be heard in the Congress supporting Urzáiz and Rodrigáñez's plans in 1901-1902, based on the preferences of Barcelona's producers to move towards a stand-

111. Congressman Barandica, also director of the Bank of Bilbao, had just confronted members of the Bank of Spain. By then, the Bank of Bilbao constituted the only provincial bank that had neither merged with the Bank of Spain nor renounced being a bank of issue. The roots of this exceptionality are to be found in the Spanish Carlist civil war. Barandica defended that the siege of Bilbao until 2 May 1874 had prevented this Bank from attending the meeting in Madrid in which the rules of the merger were discussed; therefore, he called for an extended term for the Bank of Bilbao to accept the merging option. This petition, to which the Bank of Spain was openly against, was debated and rejected in Parliament in June 1876. So, a feeling of animosity against the Bank of Spain cannot be completely ruled out in Barandica's vote supporting Sedó's proposal. For the discussion, see DSCD 21 June 1876, 27 June 1876 and Tedde (1974). For a vision of the Spanish pre-monopoly of issue banking system, see Castañeda (2001) and Sudrià and Blasco-Martel (2016).

ard that ensured exchange rate stability. In the same terms, his signature was on the Fomento's report that backed Villaverde's bill in 1903, although now, as the trade treaties were close to expiring, the acceptance of the Villaverde's proposal was conditioned on a previous protectionist revision of the Spanish import tariff. It was the same protectionist revision on which the Liga Vizcaína de Productores conditioned its support. The fact that the tariff bill passed in 1906 confirmed the reservation of the Spanish market for domestic industrial production can explain why manufacturers continued to oppose, from then on, any type of delay on the scaling-back program fixed by Rodríguez in 1902. Importantly, this was the program that the representatives of the agricultural exporter provinces of Levante had also voted for. After 1902, they declared no preference for a depreciated currency. Their demands for the renewal of trade treaties, first, and for export subsidies, later, focused their activism, thus leaving the currency field void of sectoral confrontation. To sum up, in early twentieth-century Spain, exchange rate preferences were no longer an issue of contention between import-competing and export-oriented sectors, unlike the widening divisive line that separated them in the trade policy arena. A natural and interesting extension of this article would be the search for evidence of territorial patterns in the parliamentary votes on commercial policy proposals during the Restoration.¹¹²

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112. As far as we know, a paper by Serrano-Sanz *et al.* (2021) is the only one confirming the significance of representing an agrarian province to explain certain anti-partisan votes on cereal customs tariffs in the late 1880s. Some preliminary results supporting the existence of sectoral cleavages in other votes on tariffs during the Restoration may be found in Sabaté *et al.* (unpublished).

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APPENDIX 1

	Proposal/Bill/Dissenting opinion	Party's proposal / Party in office		
27 Nov 1876				
DSCD 135 Appendix 6	Sedo's proposal to suspend the Bank of Spain's monopoly of note issue unless notes were actually converted into specie	Cons/Cons	Discussed	Roll-call vote/ Defeated
27 April 1877				
DSCD3 Appendix 22	Polo's proposal to fine the Bank of Spain if notes were unconverted for longer than six days	Cons/Cons	Discussed	Voted/ Defeated
22 June 1887				
DSCD 121 Appendix 1	López-Puigcerver (FM)'s bill to centralize tax collection and public payments in the Bank of Spain and, in return, to obtain a loan of 165 million pesetas	Lib/Lib	Discussed	Voted/Passed
9 Feb 1888 DSCD 47 Appendix 2	Cos-Gayón's dissenting opinion from the congressional report Discussion of the bill started on 3 April 1888	Cons/Lib		Roll-call vote/ Defeated
15 April 1890 DSCD 138 Appendix 4	Eguilior's bill to raise the ceiling of notes issue from 750 to 1,000 million pesetas, increasing the metal reserve ratio from 1/4 to 1/3 of the notes (half held in gold)	Lib/Lib	Not discussed	
24 April 1891 DSCD 41 Appendix 2	Cos-Gayón's bill to raise the limit of the Bank of Spain to issue notes, extending its monopoly until 1921 and, in return, granting the government a loan of 150 million pesetas	Cons/Cons	Discussed	Roll-call vote/ Passed
6 July 1901				
DSCD 22 Appendix 5	Urzaiz's bill to issue public debt to pay off the floating debt on the Bank's balance sheet	Lib/Lib	Discussed	Voted/Passed
22 Jan 1902				
DSCD 103 Appendix 4	Urzaiz's bill to constitute a currency board at the Bank of Spain	Lib/Lib	Discussed	Not voted
5 April 1902				
DSCD 3 Appendix 24	Rodríguez's bill to reinforce the gold reserve ratio and pay off the public bonds at the Bank of Spain	Lib/Lib	Discussed	Roll-call vote/ Passed
21 October 1903				
DSCD52 Appendix 2	Fernández Villaverde's bill to regularize and improve the exchange rate and to seek the circulation and mintage of gold	Cons/Cons	Discussed	Not voted

(Continued on next page)

Proposal/Bill/Dissenting opinion		Party's proposal / Party in office	
12 March 1904			
DSCD143 Appendix 1	Osma's bill to authorize the Bank of Spain to intervene in the market to prevent exchange rate fluctuations	Cons/Cons	Not discussed
23 October 1906			
DSCD 115 Appendix 27	Navarro Reverter's bill to reinforce the gold reserve ratio, redeem the Treasury's bill at once and reduce the long-term bonds to 500 million, which could be kept as a guarantee for notes	Lib/Lib	Not discussed (without report)
12 November 1908			
DSCD 25 Appendix 3	González-Besada's bill to reinforce the gold reserve ratio and redeem the Treasury's bills one tenth per year from the approval of the law on	Cons/cons	Not discussed
8 March 1911			
DSCD 3 Appendix 1	Cobian's bill to postpone the enforcement of the Bank of Spain getting rid of long-term bonds in its balance sheet by 1912, established in the Law of May 13 1902	Cons/Cons	Not discussed (without report)
26 Jan 1912			
DSCD 74 Appendix 1	Rodríguez's bill to confirm the gold ratio reserves set in 1902, extend the deadline for the complete sale of long-term bonds and establish, meanwhile, a participation of the government in the bond yields	Lib/Lib	Not discussed
11 Dec 1912			
DSCD 200 Appendix 4	Navarro Reverter's bill to intervene in the market to help the peseta exchange reach parity, as a pre-requisite to joining the gold standard	Lib/Lib	Not discussed



Politics and interests in the classical gold standard. Spain (1876-1913)

ABSTRACT

Spain never formally joined the classical gold standard, partly because its aspiration for gold convertibility did not match the financing needs of the Treasury. This paper illustrates how preferences for convertibility, that is, for fixed exchange rates, were shared by the parliamentary representatives of its manufacturing provinces because of their dependency on imported inputs (coal and cotton). However, to explain their preference for currency stability, trade policy must be considered. Without the high tariffs that the cotton industry enjoyed thorough the whole period and the steel industry from 1891 onwards, the renouncement of a pro-competitive depreciating peseta might not have been so clear-cut. Thus, beyond the Spanish case, this paper supports the theoretical assumption that the input-output structure of a productive sector influences its currency stance, while reinforcing the argument that trade policy plays a key role in the understanding of currency politics.

KEYWORDS: groups of interest, gold standard, Spain

JEL CODES: N13, N23, N43, E42



Política e intereses en el patrón oro clásico. España (1876-1913)

RESUMEN

España nunca adoptó formalmente el patrón oro, en parte, porque sus aspiraciones de convertibilidad chocaron con las necesidades financieras del Tesoro. Este artículo ilustra como la preferencia por la convertibilidad, es decir, la preferencia por tipos de cambio estables fue compartida por los representantes parlamentarios de provincias industrializadas, cuya dependencia importadora (carbón y algodón) los llevó a priorizar la estabilidad monetaria al efecto protector de una depreciación. Esta preferencia por la estabilidad monetaria, sin embargo, no se explica al margen de la política comercial en vigor. Sin la protección deparada al textil algodónero a lo largo del período 1876-1913 y a la metalurgia desde 1891, la renuncia al efecto protector de una depreciación podría no haber sido tan clara. De esta forma, el caso de España apoya la hipótesis de que la estructura de costes de un sector influye en sus preferencias monetarias, al tiempo que apoya el argumento de que la política comercial es clave para entender la economía política del tipo de cambio.

PALABRAS CLAVE: grupos de interés, patrón oro, España

CÓDIGOS JEL: N13, N23, N43, E42



Política i interessos en el patró or clàssic. Espanya (1876-1913)

RESUM

Espanya mai adoptà formalment el patró or, en part, perquè les seves aspiracions de convertibilitat toparen amb les necessitats financeres del Tresor. Aquest article il·lustra com la preferència per la convertibilitat, és a dir, la predilecció per tipus de canvi estables, va ser compartida pels representants parlamentaris de les províncies industrialitzades, la dependència importadora de les quals (carbó i cotó) els va dur a prioritzar l'estabilitat monetària a l'efecte protector d'una depreciació. Aquesta preferència per l'estabilitat monetària, però, no s'explica al marge de la política comercial vigent. Sense la protecció atorgada al tèxtil cotoner durant el període 1876-1913 i a la metal·lúrgia des del 1891, la renúncia a l'efecte protector d'una depreciació podria haver estat menys evident. Així, doncs, el cas d'Espanya dona suport a la hipòtesi segons la qual l'estructura de costos d'un sector influeix en les preferències monetàries, alhora que reforça l'argument que la política comercial és clau per entendre l'economia política del tipus de canvi.

PARAULES CLAU: grups d'interès, patró or, Espanya

CODIS JEL: N13; N23; N43; I42