ECONSTOR
Make Your Publications Visible.

A Service of
ZBW
Leibniz-Informationszentrum Wirtschaft
Leibniz Information Centre for Economics

Jorge-Sotelo, Enrique

Working Paper

Politicians, bankers and the Great Depression: The Spanish banking crisis of 1931

eabh Papers, No. 22-01

Provided in Cooperation with:
The European Association for Banking and Financial History (EABH) e.V., Frankfurt a.M.

Suggested Citation: Jorge-Sotelo, Enrique (2022) : Politicians, bankers and the Great Depression: The Spanish banking crisis of 1931, eabh Papers, No. 22-01, The European Association for Banking and Financial History (EABH), Frankfurt a. M.

This Version is available at:
https://hdl.handle.net/10419/265141

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

WWW.ECONSTOR.EU

Mitglied der Leibniz-Gemeinschaft

eabh Papers | No. 22 – 01 | October 2022

Politicians, bankers and the Great Depression: The Spanish banking crisis of 1931

Enrique Jorge-Sotelo[1]

ABSTRACT

This paper contributes to the literature on moral hazard, lending of last resort and the political origins of banking crises. Drawing on newly accessed quantitative and qualitative archival sources the paper documents how a bank—*Banco de Cataluña*—formed a coalition with the Dictatorship of Primo de Rivera (1923-30) in order to depart from the framework of "constructive ambiguity" that characterized central bank lending of last resort in Spain. As a result, the bank developed a uniquely risky portfolio and incurred in insider lending to internationally exposed firms at the onset of the Great Depression. The fall of the Dictatorship and democratic transition, the collapse of international trade, and global deflation during 1929-31 made fragilities emerge causing the bank to fail.

Keywords: moral hazard, lender of last resort, Great Depression

JEL Codes: N24, E58, G01

[1] Postdoctoral researcher, Departament d'Historia Economica, Institucions, Politica i Economia Mundial, Universitat de Barcelona, email: enriquejorgesotelo@ub.edu

The material presented in *eabh* Papers is property of the authors and should be quoted as such. The views expressed in this working paper are those of the authors and do not necessarily represent the views of the *eabh* or its members.

I

In the long-standing debate over lending of last resort moral hazard emerges prominently as the main unintended consequence of providing a backstop to banks[2]. Recent works show that throughout history, central banks—in most cases private institutions serving public goals but accountable to their shareholders—devised strategies to protect their balance sheets from the hazards of the potentially risky behavior of their borrowers. In particular, during the nineteenth century, leading central banks employed a framework of "constructive ambiguity" as a way to mitigate moral hazard. This involved a lending regime that was ultimately uncertain, pushing banks to factor in the possibility that they might not be provided liquidity assistance during a crisis[3]. In addition, political connections feature as an essential element in the creation of moral hazard and risky behavior on the side of firms[4]. In particular, historical political economy literature has argued that banks might engage in informal coalitions with politicians that allow the former to escape from the constraints imposed by already existing formal coalitions, thus generating extraordinary rents. This can result in financial fragility for a number of reasons, but these ultimately revolve around the moral hazard implications of counting on emergency liquidity provision or even a fiscal backstop to capital losses in case of need[5].

To contribute to this literature, this paper provides detailed evidence on how a group of bankers approached authoritarian politicians in order create their own lending of last resort facilities, departing from the regime of "constructive ambiguity" that applied for the rest of the banking sector. I show that the main consequence of this departure was a very specific materialization of moral hazard: excessive risk taking (portfolio allocation), poor governance (discretionary management)

---

[2] Goodhart, '*The evolution';* Goodhart and Schoenmaker, 'Should the functions'; Calomiris, 'History as antidote'; Ugolini, '*The evolution'*; Bindseil, '*Central banking'*.
[3] Bignon et al., 'Bagehot for beginners'; Flandreau and Ugolini, 'Where it all began', 'The crisis of 1866'; Schneider, 'The politics'; Avaro and Bignon, 'At your service!'; Ugolini, 'Moral hazard'.
[4] Shleifer and Vishny, 'Politicians and firms"; Faccio, 'Politically connected'; Braun and Raddatz, 'Banking on politics'; Nys et al., 'Political connections'.
[5] Calomiris and Haber, '*Fragile by design'*.

and insider lending (continued lending to insolvent firms). Evidence presented in this article shows how this ultimately resulted in bank failures.

In particular, the article revisits the fundamental causes of bank failures in Spain during the 1931 triple financial crisis. On 7 July 1931, *Banco de Cataluña*—the largest bank in Catalonia—and two of its subsidiaries (*Banco de Reus de Descuentos y Préstamos* and *Banco de Tortosa*) failed. The failure caused a sharp and protracted contraction in financial intermediation in Catalonia, Spain's most outward-oriented and largest contributor to GDP at the time[6]. Failed banks accounted for 2.6% of total Spanish bank deposits and for 25.1% of deposits of banks headquartered in Catalonia. As a consequence of the crisis, lending by banks headquartered in the region fell sharply (Figure 1).

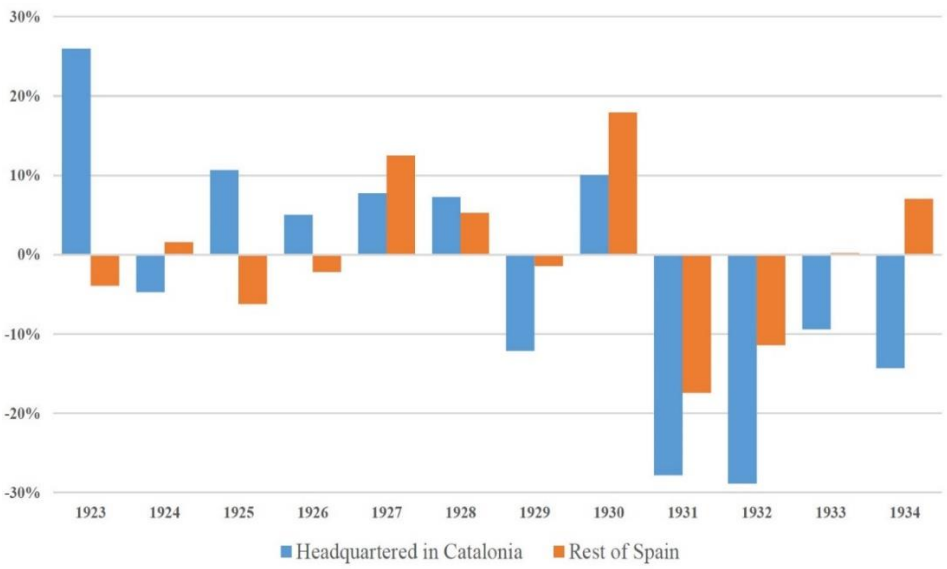


Figure 1. Annual % change in aggregate bank lending in Catalonia and Spain

Note: blue bars do not include branches in Catalonia of banks headquartered elsewhere in Spain and foreign banks.
Source: own elaboration based on *Boletines del Consejo Superior Bancario.*

To back my argument, I draw from a number of newly accessed archival primary and secondary sources from different historical archives. I show how the collusion of a group of bankers with the

[6] Diez-Minguela et al., '*Regional inequality in Spain'.*

Dictatorship (September 1923 - January 1930) shaped the creation of *Banco Exterior de España*, a state-backed export-import fostering bank in 1928 and whose management was granted to *Banco de Cataluña*. This provided a discretionary and "unambiguous" source of liquidity to the latter, which also relied on an implicit fiscal backstop by the Dictatorship. Accordingly, *Banco de Cataluña* developed a portfolio that was non-eligible at *Banco de España*—Spain's only effective lender of last resort—and developed risky insider lending to internationally exposed firms right at the onset of the Great Depression.

As soon as the Dictatorship ended in January 1930 and a new interim political regime began—the so-called Softatorship (*Dictablanda)*, which lasted until April 1931—the implicit fiscal backstop of the Dictatorship disappeared. *Banco de Cataluña*'s access to *Banco Exterior de España* liquidity ceased to be "unambiguous" and the risks the bank had taken began to surface. The global deflation and the collapse of international trade that ensued from 1929 evidenced the effects of insider lending on in the solvency of these banks and raised concerns over their viability and governance. Against this backdrop, alluding collateral limitations and solvency concerns stemming from insider lending and the outward exposure of the bank, Minister of Finance of the provisional government of the Republic (1931-36) denied a fiscal backstop to *Banco de Cataluña* in July 1931. In turn, *Banco de España* stick to its "constructive ambiguity" stance and refused purchasing securities (bills of exchange) from *Banco de Cataluña*, in order to minimize losses. While *Banco de España* lent to the bank during the worst days of the crisis, the latter quickly ran out of eligible collateral and failed.

The rest of the paper is organized as follows: Section II provides a literature review and Sections III and IV describe the coalition between Banco de Cataluña and the Dictatorship, and its effects for the bank, respectively. Section V documents the key insider lending episode. Sections VI and VII describe how coalitions changed with the end of the Dictatorship and how the Great Depression impacted banks. Section VIII concludes.

II

The interaction between bankers and politicians is a key feature of financial development, but it also features prominently in financial crises[7]. Crucially, the nature of the informal coalitions between the two groups depends on the nature of the political regime[8]. In autocratic regimes, because decision making is not the product of a competitive political process, these informal coalitions and the stream of rents they generate are likely to depend on the autocrat remaining in power. To maximize per capita rents among banks, given uncertainty about the future of the regime, these coalitions are expected to involve a small number of players, leading to scarce, narrow and unstable credit. Banks entering these coalitions can also be expected to have a different liability structure and to be more risk-prone. First, while banks might engage in these coalitions precisely to attract new sources of funding[9], banks will face shorter average maturities in their liabilities because retail depositors are likely to refuse holding long term deposits, due to uncertainty about the coalition. For the same reason, shareholders will demand higher than average returns. The result is that both groups grow reactive to changes to the future rents, which can happen due to changes in the regulatory, political or economic outlook. This fragile equilibrium can lead to more risk-taking. Because banks in these coalitions—and hence connected to incumbent powerful politicians—are more likely to be bailed out[10], in a scenario in which doubts about the viability of the bank increase—e.g. during a political regime change—banks in question might have incentives to "double down" on risk. This aims at reaching higher returns to compensate depositors and shareholders for the increase in uncertainty or to extract more returns from state-owned institutions that are about to change hands, thus aggravating the potential outcomes of an eventual failure[11].

---

[7] For example, Bordo and Rousseau, 'Legal-political factors' and Calomiris and Haber, '*Fragile by design'* highlight the complexities of bank-politician relationships that make them difficult to tackle empirically.
[8] Calomiris and Haber, *ibid*.
[9] Nys et al., *ibid*.
[10] Faccio et al., 'Political connections'.
[11] Martinez-Peria and Schmukler, 'Do depositors punish banks'; Cheng et al., 'Connected banks'; Gonzalez and Prem, 'Losing your dictator'.

The literature on bank-politician coalitions and political connections is naturally related to the literature on central banking during financial crises, not the least because the establishment of lending of last resort facilities is the outcome of a political bargain, and throughout history it has been influenced by political economy[12]. The literature on central banking theory and history analyses the historical importance of "constructive ambiguity" regimes as a device to limit moral hazard when establishing lending of last resort facilities. This regime is by its very nature hard to define, but it involves the deliberate creation of *ex ante* uncertainty for banks that the terms in which lending of last resort might take place remain at the discretion of the institution responsible for generating the needed liquidity[13]. To some authors, the rise in the potential macroeconomic costs of bank failures has caused policymakers to depart from "constructive ambiguity" and strict lending of last resort, resulting in the creation of implicit fiscal backstops for banks (bailouts), with a concomitant increase in moral hazard[14]. Others, however, argue that "constructive ambiguity" can have adverse effects by exacerbating financial crises, although these side-effects of ambiguity can be tamed if a worst-case scenario is clearly defined in which banks can be provided with liquidity under defined conditions of collateral eligibiliy[15].

Historically, these dynamics have been particularly important for universal banking. Historians have documented how universal banks played a key role in industrialization in several regions of Europe, while they were also particularly exposed to insider lending and liquidity problems stemming from the very nature of their business model[16]. There is ample evidence of these dynamics playing an important role in the growing fragility of European banks during the 1920s and the Great Depression, both under democratic and autocratic rule[17].

---

[12] Calomiris et al., 'Political foundations'.
[13] Freixas, 'Optimal bail out policy'; Freixas et al., 'The lender of last resort'; Enoch et al., 'Transparency and ambiguity'; Schneider, *ibid*; Ugolini, *ibid*.
[14] Calomiris, *ibid*.
[15] Caballero and Krishnamurthy, 'Collective risk'; Vinogradov, 'Destructive effects'.
[16] Boyd et al., 'Moral hazard'.
[17] See Feinstein (ed.), '*Banking, currency and finance'*; James et al. (eds.), '*The role of banks'* and Cottrell et al. (eds), '*European Industry',* for an overview. For Germany, James, 'The causes*'* or Schnabel, 'The German crisis'; for Italy, Battilossi, 'Did governance

Interestingly, in the international historiography of the Great Depression, Spain features as a country enjoying remarkable banking stability: 1931 has been frequently described as a non-crisis year until very recently, mostly because bank failures have been considered of little importance and completely unrelated to the forces of the Great Depression[18]. Still, historians have disagreed over the causes of July 1931 banking failures in Spain. On the one hand, some have argued that *Banco de Cataluña* was a fundamentally solvent bank that was targeted by the provisional Republican Minister of Finance due to a variety of reasons, including a personal animosity[19], a willingness to use the failure of the bank to favor competing banking and industrial interests in the north of Spain[20] and as an attempt to boycott Catalonia´s aspirations for increased political autonomy in 1931[21] and consequently to weaken the political and social elite akin to that[22]. Under this account, neither Republican fiscal authorities nor Banco de España attempted a solution to keep the bank afloat[23]. On the other hand, other authors argue that fiscal and monetary authorities decided to let the bank fail after factoring in solvency concerns and due to collateral limitations[24]. According to this account there is no evidence that fiscal or monetary authorities took a discriminatory policy against the bank[25]. Overall, however, and mostly due to a lack of comprehensive and publicly accessible evidence, there has been little advance in understanding the fundamental causes of July 1931 bank failures over the last four decades[26].

---

fail'; for Netherlands, Colvin et al., 'Predicting the past'; for Austria and Hungary, Macher, 'The Austrian' and 'The Hungarian'; for Frane, Baubeau et al., 'Flight-to-safety'; for Sweden, Straumann et al. 'How the German crisis'.

[18] See Jorge-Sotelo, '*Escaping',* 'The limits', for a recent discussion.

[19] Cabana, "*La banca a Catalunya*", "Bancs i banquers"; Lluch, "Indalecio Prieto, innocent?', 'Respostes sobre el Banc','Notes per a persuadir*'*; Pla, "*Prólogo*".

[20] Cabana, '*La banca a Catalunya',* p.149.

[21] As reported in Velarde, '*Indalecio Prieto, como gestor'*.

[22] By the 1920s, Banco de Cataluña's directors had joined political party *Lliga Regionalista,* and had become closer to its leader, Francesc Cambó, who also participated in the expansion of the bank (see text). *Lliga Regionalista* represented the interests of the Catalan industrial class that seeked for higher political and economic autonomy for Catalonia. As I explain in the text, the interests of this class can explain the emergence of both Banco de Cataluña and Banco Exterior de España.

[23] Cabana, "*La banca a Catalunya*", "Bancs i banquers"*,* 'Carta oberta', 'Segona carta', '*Caixes i bancs',* '*Madrid i el centralisme'* and Canosa, '*Un siglo de banca'*, Beltran and Sardà, '*Els problemes'*.

[24] Tortella and Palafox, 'Banking and industry'; Velarde, 'Indalecio Prieto en Hacienda'.

[25] Martin Aceña, "*La política monetaria en España",* p.233.

[26] "*It is sad that Mr. Francesc Recasens* [Vice-Director of Banco de Cataluña] *has not informed us better of what happened*", Letter from Josep Tarradellas to historian Francesc Cabana, 19/02/1966, p.2. I thank Joan Esculies for sharing this source. Similarly, Balcells, "*Crisis económica*", p.74, claims: "*The responsibility of central powers in the suspension of payments of the bank is something that has not been yet fully understood".*

The new archival sources used in this article (detailed in the Appendix) contribute to the understanding of this crisis in four ways. First, new evidence allows for rationalizing decisions taken by all actors involved in the buildup and the resolution of the crisis. To this end, I develop an analytic narrative in order to document the role of politician-banker coalitions and their dynamics in banking crises, with an emphasis on specific changes in measurable bank metrics. Second, I present new factual evidence and present metrics and decisions by several actors that that had not been considered before and that are crucial to understand the origins and extent of the vulnerabilities of the failed banks. Third, new evidence allows for reconciling the role of bank-politician coalitions and the importance of regime change with the decision of Republican fiscal authorities to not bail out the bank using public money. In doing so, I emphasize the role of the institutional features of the Spanish central banking and monetary system, the importance of moral hazard and insider lending and the fundamental role of the Great Depression as the main force causing the fragilities of banks involved to surface. Finally, it allows for explaining the timing of bank failures. So far, it has not been possible to explain why banks failed in early July 1931, rather than right after the proclamation of the Second Spanish Republic in April or May 1931, when most Spanish banks were under pressure and when ex-post accounts by the directors of the bank argued that Republican authorities launched a campaign against the bank[27]. I provide evidence on the timing of the crisis which allows to understand why the bank failed on 7 July 1931.

[27] "*Suspensió de pagaments: expedient, Junta de la suspensió: VII o VIII del 31" (FCV UB GB*).

III

Due to the economic boom brought about by Spain's neutrality during the First World War, banking activity increased rapidly between 1914 and 1920, particularly in Barcelona[28]. In June of 1920, a group of bankers—Eduard and Francesc Recasens and Evarist Fàbregas—turned their small but growing, export-oriented banking house, Fàbregas i Recasens SRC, into *Banco de Cataluña*. The bank was much more than just the natural expansion of a growing banking business, but it embodied the aims of reverting what historians have labeled as "the decay of Catalan banking", a growing perception that the leading industrial region of Catalonia would never fulfill its economic potential if it did not have strong and powerful banks to compete with Spanish banks established in Catalonia (including the branch of *Banco de España* in Barcelona)[29]. Given the outward oriented nature of the Catalan economy, however, the crucial competing force was foreign banks. British, French and American banks had gained substantial market share in the city during the First World War, at the expense of local bankers[30], so *Banco de Cataluña* was founded to "*facilitate the rapid commercial and industrial development of Catalonia*" and to "*curtail the invasion of foreign banks that are taking over Catalonia, particularly Barcelona*"[31]. Soon after its creation, *Banco de Cataluña* became the largest bank in Catalonia; on 25 December 1920, the sudden failure of *Banco de Barcelona*—the largest bank in the region since 1844—left a large hole in the provision of financial services in the city and the region[32].

[28] Sudrià, 'Los beneficios', García Ruiz, '*La banca extranjera';* Arroyo, 'La actividad'; Tejada Bergado, '*La banca extranjera',* Castro, '*La banca francesa'.*
[29] Tallada, '*Informació sobre la necessitat';* Cambó, '*El pensament';* Recasens, 'Petites notes', Lluch, 'Sobre la burgesia'; Cabana, "*Bancs i banquers"*; Sardà and Beltran, "*Els problemes"*; Belford, '*El sistema bancario';* Sudrià, 'Desarrollo industrial', '*La banca catalana',* 'La necesidad'.
[30] Cabana, *'La banca a Catalunya'*; *'*Canals, '*La crisis exterior';* Blasco and Sudrià, '*El Banco de Barcelona, 1874-1920*'
[31] *De les terres catalanes, La Veu de Catalunya,* Any 30, Núm. 7614, 6/08/1920, p.9.
[32] Blasco and Sudria, '*El Banco de Barcelona, 1874-1920'.*

The first years of *Banco de Cataluña* anticipated, to a very large extent, what would be the end of the bank a decade later. The bank was already on the verge of failure in the last months of 1921, due to the postwar deflation, and the bank's exposure to foreign exchange, particularly to German marks and Austrian crowns (See Tabe 3 in the Appendix)[33]. In early October 1921, rumors about the health of the bank and accusations of fraud started circulating in Barcelona[34]. This caused deposit withdrawals, albeit this did not escalate into a run on the bank. *Banco de Cataluña*—a small bank at the time—submitted a copy of its balance sheet to *Banco de España*, who on 8 October 1921 provided 3 million pesetas in short term credit against eligible domestic private stocks, because the bank did not hold government bonds on its balance sheet. The situation improved somewhat, but then by late December 1921, the bank was again on the verge of failure and asked for a personal loan—syndicated by all members of the board of the bank—of 2.5 million pesetas. Eventually, *Banco de España* learned that the actual aim of the credit was to issue a personal loan to Evarist Fàbregas—President of *Banco de Cataluña*—in order to lend to his industrial enterprises, that were in deer need of liquidity and were dragging on the bank. This second operation was then refused by *Banco de España*. The bank survived this episode, but remained dormant until mid-1927, when "*after verifying that the bank´s situation had improved ostensibly, that it holds bills of underlying commercial nature and with solid guarantees*", *Banco de España* authorized the withdrawal of collateral posted to guarantee the rediscount operations after the 1921 crisis[35].

Shortly after this, the bank embarked into a new expansion. By mid-1928, *Banco de Cataluña* director Eduard Recasens approached Dictator Primo de Rivera and his Minister of Finance José Calvo Sotelo to suggest the creation of a state-backed export-import bank[36]. Over time, Recasens had developed a "personal friendship and excellent professional relationship" with Calvo Sotelo[37].

---

[33] *AHBE, DGS, L.1248).*
[34] *La Vanguardia, 23/10/1921*.
[35] *AHBE, DGS, L.1248.*
[36] *ACA BEX, Acta 1, 03/6/1929, p.1*.
[37] Cabana, "*Cien empresarios", p.432.*

The idea was well received by the Dictatorship, as the resulting institution, *Banco Exterior de España* (*Banco Exterior*, henceforth), was an institutional device that was expected to help strengthen the current account on the balance of payments and to counter the effects of exchange rate volatility and depreciation, a problem that was contributing to erode the Dictator´s reputation[38]. The idea that *Banco de Cataluña* presented to the Dictator was not new. Several countries created state-backed export-import credit agencies or banks during and after the First World War with similar aims[39]. Importantly, governments soon realized about the need of turning international trade acceptances into liquid securities that banks could bring to the main monetary institution´s discount window in case of need. Accordingly, the Bank of England, the Federal Reserve and even German monetary authorities deemed these counterparties and securities eligible at their discount window soon after their creation[40].

To a very large extent *Banco Exterior* was born to solve old, protracted problems in the institutional design of the Spanish monetary system. Since the late nineteenth century, the Spanish peseta had been declared inconvertible to gold. This exceptional situation had resulted in a vacuum of accountability regarding the evolution of the exchange rate, something that banking regulation passed in 1921—the 1921 Banking Law—had not solved. The main result of the law was that obliged Banco de España to advance short-term credit against domestic public debt to Spanish banks, something that did contribute to Spanish banks' liquidity during crisis times[41]. However, the law also gave full discretion for BdE on the outright purchase of 90-day commercial bills of exchange. The same was true for accepting privately issued securities (shares and bonds) as collateral; the BdE would only accept the latter if these were regularly quoted in official stock

[38] *"Investigaciones al problema monetario", El Financiero, Num. 1475,* 05/07/1929 and *Num. 1478,* 26/07/1929. See also Eguidazu, 'La crisis de la peseta'.
[39] Myles '*Steering the wheels'*; Darbellay and Gaillard, 'Moral hazard'.
[40] Myles, *ibid.*; Broz, 'The International origins'; Balderston, '*German and British*'.
[41] Martin Aceña, "*La política monetaria en España"*.

markets. Regarding foreign securities or operations involving liabilities denominated in foreign exchange (gold-convertible currencies) *Banco de España* retained also full discretion, as no agreement was reached regarding exchange rate policy[42]. Overall, the law introduced changes while protecting the BdE from losses associated with lending to ailing banks.

Crucially, in terms of eligible collateral, the 1921 Banking Law created a regime of "constructive ambiguity" in lending of last resort for all operations except advances against public debt. Because *Banco de España* could always reject rediscount operations discretionally and the potential eligibility of commercial bills of exchange was not determined in the money market (as in more advanced money markets), Spanish banks could not count on the certainty about the liquidity of these securities in case of deer need[43]. Even banks that used the rediscount facility frequently were uncertain about the position of *Banco de España* regarding the eligibility of the bills they held if a crisis eventually took place[44]. Therefore, Spanish banks willing to have a sufficiently large portfolio of commercial paper and privately issued stocks, had to compensate it with a large portfolio of public debt, as this was the only reliable liquidity buffer. This, as the 1921 Banking Law had sought, ensured the liquidity of Spanish banks in the absence of other constraints[45], but at the same time, introduced financial repression by inducing banks to develop an inward oriented model based on the accumulation of domestic public debt. Unsurprisingly, this framework caused some bankers to

---

[42] Cambó, '*Ordenación bancaria*'; Olariaga, *'La política monetaria';* Martin-Aceña, '*La política monetaria';* Comin and Cuevas, 'The deadly embrace'; Jorge-Sotelo, '*Escaping';* Martin-Aceña and Martínez-Ruiz, '*100 años de la Ley'.* Regarding the position of Banco de España towards rediscounting foreign bills or securities, see the reports of French "money doctors" Charles Rist, Pierre Quesnay and Michel Mitzakis discussed in Barbaroux et al., 'Rist, Quesnay and Mitzakis*'.*

[43] Jorge-Sotelo, '*Escaping*'.

[44] One example is Banco Urquijo de Madrid, a bank that historically was otherwise very close to Banco de España. On 10 January 1931, the bank directors wrote: *"Try to keep our relations with Banco de España, regarding rediscount, as constant as we can, giving preference to the signatures that might be doubtful because doubts about them will grow if there is an eventual urgency in liquidity needs and demands to Banco de España in exceptional circumstances".* (*LABU, p.367, 10/01/1931).* Similarly, on 22 April 1931: "*do not accept discounts that do not reflect underlying commercial transactions, something that should be decided based on who is signing the bills. (…) And even once this has been considered, only discount bills for which there is absolute certainty that will be rediscounted by Banco de España."* (*LABU, p. 400, 22/04/1931)*. Other banks like Banco Central also considered that before discounting a bill, "*check previously with Banco de España, and obtain security that the bill will be rediscounted".* (LACPBC, Libro 3, p. 146, 29/07/1925).

[45] Thus, determining what Caballero and Krishnamurthy, *ibid* and Vinogradov, *ibid*, define as the ex-ante conditions for the worst-case scenario.

flag that lacking an appropriate domestic supply and liquidity backstop for acceptances originated in international trade finance placed Spanish outward-oriented firms and banks in disadvantage vis-à-vis their international competitors[46]. Already in the late 19th century, demands for exchange rate stability, a commitment between fiscal and monetary institutions and the resulting liquidity of international trade acceptances had been pushed for by industrialists in Catalonia[47]. In other words, while "constructive ambiguity" in the conditions for lending of last resort might have contributed to prevent moral hazard, it is unclear as to how "constructive" these were for economic modernization, due to its built-in inward-looking bias, particularly for outward-oriented regions. Overall, therefore, it is not surprising that the initiative to create a state-backed export-import bank came from a group of bankers headquartered in Catalonia.

In August 1928 a public bid was publicly announced. The main role of *Banco Exterior* would be the facilitation of trade finance for Spanish outward oriented firms and to help Spanish firms' expansion abroad[48]. For this, it would rediscount bills of exchange stemming from international trade transactions and lend against foreign securities. The bank would be constituted on private and public capital and would fund its lending operations in foreign exchange by borrowing in foreign exchange markets. In short, BEX would provide the liquidity facilities that *Banco de España* would not provide by virtue of the 1921 Banking Law[49]. As such, *Banco Exterior* was given a subset of central banking functions that were developed outside the country's main monetary authority, *Banco de España*.

There were important fragilities in the design of *Banco Exterior* that contrasted with the way in which other countries established their export-import fostering agencies. By the very nature of its

---

[46] *"Sociedad de estudiós económicos de Barcelona", El Financiero, Num. 1478, 26/07/1929, p.14 et passim.*
[47] Sudrià, '*La banca* catalana'; Sabaté et al., 'Politics and interests'.
[48] RDL 06/08/1928.
[49] Some of its proponents even talked about BEX as the first step towards the creation of a New-York like "call money" market (*El Financiero*, N.1478, 26/07/1929).

purpose, *Banco Exterior* would develop a large portfolio of international trade acceptances that were, ex-ante non-eligible at *Banco de España*, as per the framework created by the 1921 Banking Law[50]. This was seen by contemporaries as a limitation: "*above all it is worth emphasizing the agreement to be reached between Banco de España and Banco Exterior de España for the discount and rediscount of operations and the new bank's portfolio"*. Observers also acknowledged that *"(...) because of its nature as a firm of national interest, the Governor of Banco de España has the power, granted in its Statutes, to refuse any agreement that it might consider inconvenient. (...)"*[51]. Unlike the case of similar institutions in the UK, Germany or the US, the fiscal authorities that backed the creation of *Banco Exterior* (the Dictatorship) and the monetary authorities that held the power of liquidity creation (*Banco de España*) did not reach an agreement and the signature of *Banco Exterior* was not included in the list of eligible counterparties for rediscount.

In parallel to financial fragility, political fragility originated in the way in which the Dictatorship granted the management of the bank, particularly given the potentially large rents that this created. Two groups bid for *Banco Exterior* charter. The first was a group of 95 banks led by *Banco Urquijo de Madrid*, one of Spain's main universal banks and with historical ties to *Banco de España*[52]. The other bidder was a consortium of 9 banks led by *Banco de Cataluña*[53]. Unlike *Banco Urquijo de Madrid*, and due to the crisis episode in 1921, the signature of *Banco de Cataluña* did not enjoy the highest rating at the rediscount window of *Banco de España*[54]. From the two bidding proposals, the Minister of Finance of the Dictatorship Mr. Calvo-Sotelo decided to grant *Banco Exterior* to the group led by *Banco de Cataluña*. Reactions to this decision came from a number of sources. The Council of State alluded to the public accountability and purpose of the bank, and suggested a joint

[50] ACSB, 10/07/1929, p.102 *et passim.* Base 8ª, *Régimen Especial con el Banco Exterior,* ACSB, 10/07/1929, p.103-104.
[51] *El Financiero, Num 1430, 24/08/1928, p. 1532.*
[52] Since the late 19th century, this bank had enjoyed "*the protection of Banco de España".* See Jorge-Sotelo, '*Escaping'*.
[53] RDL 27/03/1929, available in *El Financiero 29/03/1929 (p.565 et passim)*. A summary of the RDL can be found in the Appendix.
[54] Letter from Pere Coromines to Eduard Recasens, 19/09/1929. FCV, GB.

solution[55]. The Spanish association of banks (*Consejo Superior Bancario*) and *Banco de España* voted against Calvo-Sotelo's decision, also advocating for a joint solution[56]. Foreign observers also seem to have expected a joint solution[57]. Mr. Calvo Sotelo responded by arguing that granting the management of *Banco Exterior* to a large number of banks would "*atomize each managing bank´s interest and harm BEX's action*"[58]. The result was that a narrow coalition was formed, when the group led by *Banco de Cataluña* won the bid by one vote and on 1 June 1929 Eduard Recasens, Director of *Banco de Cataluña*, was appointed Director (*Director Primero)* of BEX.

Name/ nobiliary title	Political role	Banco de Cataluña	BEX	Cogeco	Banco Central
José CALVO SOTELO	Minister of Finance (1925- February 1930)				President (February 1930)
Eduard RECASENS i MERCADÉ		President	First Director	Board member	Board member (February 1930)
Francesc RECASENS i MERCADÉ		Vice-President	Second Director	Board member	
Francesc CAMBÓ i BATLLE	Minister of Finance (1921-1922)			President	
José Luis de USSÍA y CUBAS (Count of Gaitanes)				Board member	Ex-President, Board member

Table 1. Summary of presence of main actors in firms and banks' boards

Because *Banco de España* did not include *Banco Exterior* as an eligible counterparty, in case of need the latter depended on an eventual fiscal backstop granted by the incumbent government. This was particularly the case as following the result of the public bid, the state-backed bank was seen by contemporary observers as a blatant case of cronyism[59]. Therefore, in order for *Banco de Cataluña* to take on the risks of running *Banco Exterior*, large rents were required. Accordingly,

[55]RDL 27/03/1929.

[56] ACSB, 10/07/1929, p.102 *et passim.* For the position of Banco de España, see *Orígenes y primeros tiempos del Banco de Cataluña, Economía, 31/08/1931.*

[57] *The Situation in Spain, Financial Times, 25 March 1929.*

[58] RDL, 06/08/1928.

[59] Canals, '*La crisis exterior';* "*El Banco Exterior de España*", *El Financiero, Num. 1430, 24/08/1928* or *"Un match entre banqueros", El Financiero, Num. 1513, 28/03/1930*. See also *"Unas aclaraciones del presidente de la Unión de Comerciantes e Industriales", La Nación, 14/08/1930, p.14.*

right after signing the creation of *Banco Exterior*, its three directors granted themselves full discretion to use their Director signature in "*all types of receiving and payment operations, giro, deposits, current and credit accounts, acceptances, endorsements and the rest of similar cases"*[60]. This gave the state-backed bank substantial flexibility and facilitated the expansion of *Banco Exterior* and *Banco de Cataluña*, at the cost of creating room for moral hazard and insider lending between the two institutions. A more obvious rent was generated when *Banco Exterior* managers decided to grant their own banks a reduction in the rediscount rates with *Banco Exterior*[61]. Non-managing banks complained, arguing that it created an "*unsustainable division*" and an unfair competitive edge for managing banks, especially for *Banco de Cataluña*, whose Directors were in charge of *Banco Exterior* operations[62].

[60] Eduard Recasens, president of Banco de Cataluña was in charge of operations of Banco Exterior. (Acta 1, 03/06/1929, *ACA BEX.)* Later on, he suggested that the same powers should be granted to the operators of BEX branch in Barcelona Acta 5, 22/11/1929, *ACA BEX*.

[61] ACA BEX, Acta 1, p.4, 3/06/1929.

[62] ACSB, 28/08/1929, 18/11/1929. Banco Urquijo de Madrid, the bank that had led the losing bid was not declared eligible for rediscount at BEX until December 1931 (*ACA BEX, Acta 33, 16/12/1931, p.270).*

Being granted with the discretionary management of state-backed BEX, did indeed give *Banco de Cataluña* a sudden competitive edge and a large stream of rents, not only vis-à-vis Spanish competitors but also against foreign banks. More importantly, however, the discretionary management of BEX allowed *Banco de Cataluña* to escape the "constructive ambiguity" described above. It did so because it created the certainty that bills of exchange brought to *Banco Exterior* for discount by *Banco de Cataluña* would be always deemed eligible, as this decision was taken by the very same person (Eduard Recasens) who had discretion in the management of both banks (Table 1). Consequently, as soon as the Dictatorship granted *Banco de Cataluña* with the management of *Banco Exterior*, the bank began to draw on the newly created liquidity facility and entered a path of unprecedented expansion (Figure 2).

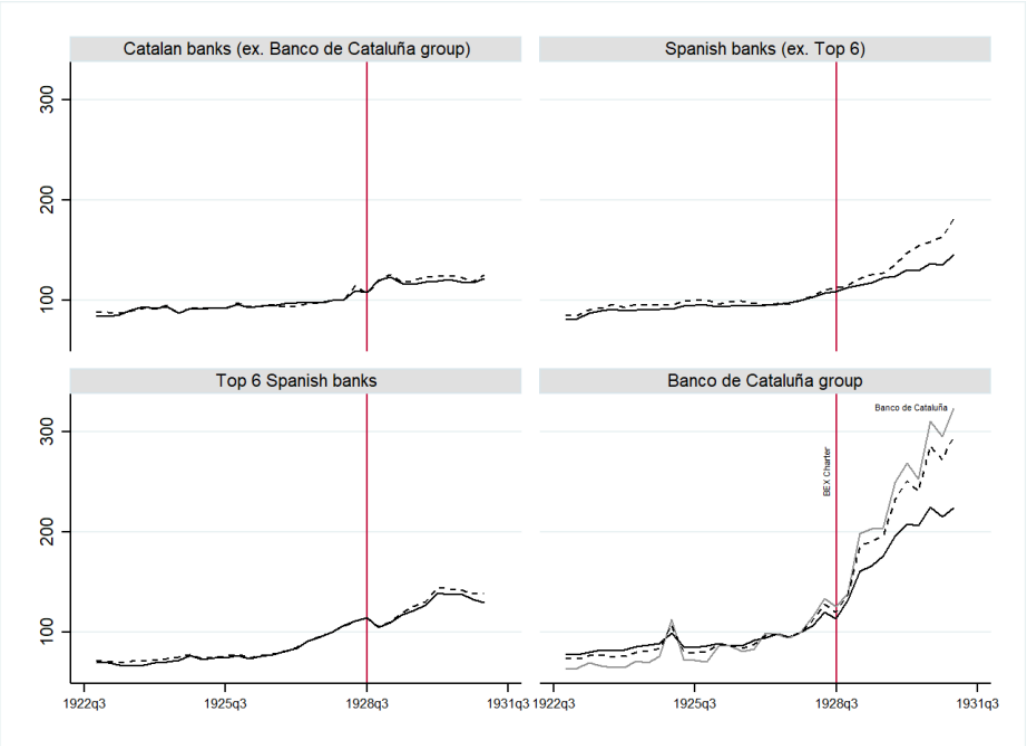


Figure 2. Banco de Cataluña's growth compared, 1922-1931
Note: solid line is non-weighted average, dashed line is asset weighted average.
Source: *Boletines del Consejo Superior Bancario*

In parallel to the expansion, as soon as *Banco de Cataluña* replaced the regime of "ambiguity" with one of "certainty", it began to develop a uniquely risky portfolio. To illustrate this, Table 2 compares the evolution of the portfolio of assets and liabilities of Spanish banks before the 1931 crisis. First it shows the share of government debt in banks' portfolios of securities, both as a proportion of assets and total securities but also as a percentage of short-term liabilities (call deposits). This captures the extent to which banks compensated more liquid liabilities with more liquid assets, that is, if they abode by the "constructive ambiguity" regime. It also provides the share of call deposits over total liabilities. The table shows how, as soon as *Banco Exterior* started operating in July 1929, *Banco de Cataluña* became an outlier. All Spanish banks grew their holdings of public debt to ensure their liquidity as they expanded their balance sheets during the second half of the 1920s.

In contrast, *Banco de Cataluña* began to rely on its own narrow coalition with the Dictatorship through the discretionary management of *Banco Exterior*. The result was that *Banco de Cataluña* got rid of public debt and began accumulating privately issued securities for which there was no ready market and commercial paper resulting from its international expansion. *Banco de Cataluña* depositors also understood that the future of the bank relied, to a large extent, on the survival of the Dictatorship, causing the bank to hold most of its liabilities in call deposits. No other bank combined this liability structure with such a small portfolio of public debt (Table 2). Besides this, *Banco de Cataluña* also began intermediating foreign exchange operations. To illustrate this, Figure 3 shows the ratio between its short-term foreign exchange liabilities and its holdings of public debt. The bank had traditionally been more exposed to foreign exchange liabilities, but at the time of failure this ratio had grown beyond any comparable measure (Figure 3). As intended, the creation of *Banco Exterior* directly affected foreign banks by reducing their market share in short-term commercial

lending. The Anglo South-American Bank, the largest foreign bank in Spain began to lose market share for these operations, resulting in a large increase of idle cash (Figure 4).

	Public debt as % of:									Call deposits as % of:		
	total assets			securities			call deposits			total deposits		
	1927q4	1929q1	1931q1	1927q4	1929q1	1931q1	1927q4	1929q1	1931q1	1927q4	1929q1	1931q1
B. Español de Crédito	11	15	20	26	29	37	41	39	65	50	56	44
B. Hispano Americano	22	23	23	41	42	46	33	39	43	93	79	72
B. de Bilbao	18	23	24	43	47	49	55	63	69	52	51	48
B. de Vizcaya	21	31	21	48	50	42	73	100	75	44	41	40
B. Urquijo de Madrid	10	20	20	23	35	35	25	65	65	68	50	47
B. Central	6	10	14	20	26	32	37	49	83	44	35	31
B. Guipuzcoano	18	17	15	41	36	38	57	52	57	52	47	38
B. de Cataluña	7	17	**5**	23	42	**16**	18	52	**12**	70	62	**70**
B. Pastor	19	29	21	47	53	41	81	136	107	36	28	25
B. Herrero	39	36	38	63	62	60	87	48	48	53	87	90
B. Mercantil	30	40	37	62	67	61	113	171	153	38	29	29
B. de Aragón	32	28	26	55	51	47	105	89	104	48	41	31
B. de Valencia	19	13	17	59	55	54	54	61	96	71	57	29
Average	**19**	**23**	**22**	**42**	**46**	**43**	**60**	**74**	**75**	**55**	**51**	**46**

Table 2. Portfolio composition of Spanish banks, 1927-31

Note: same banks as in Table 4. Call deposits is the sum of “Sight Deposits” and “Deposits in foreign exchange”. Source: own calculatiosn based on *Boletines del Consejo Superior Bancario*.

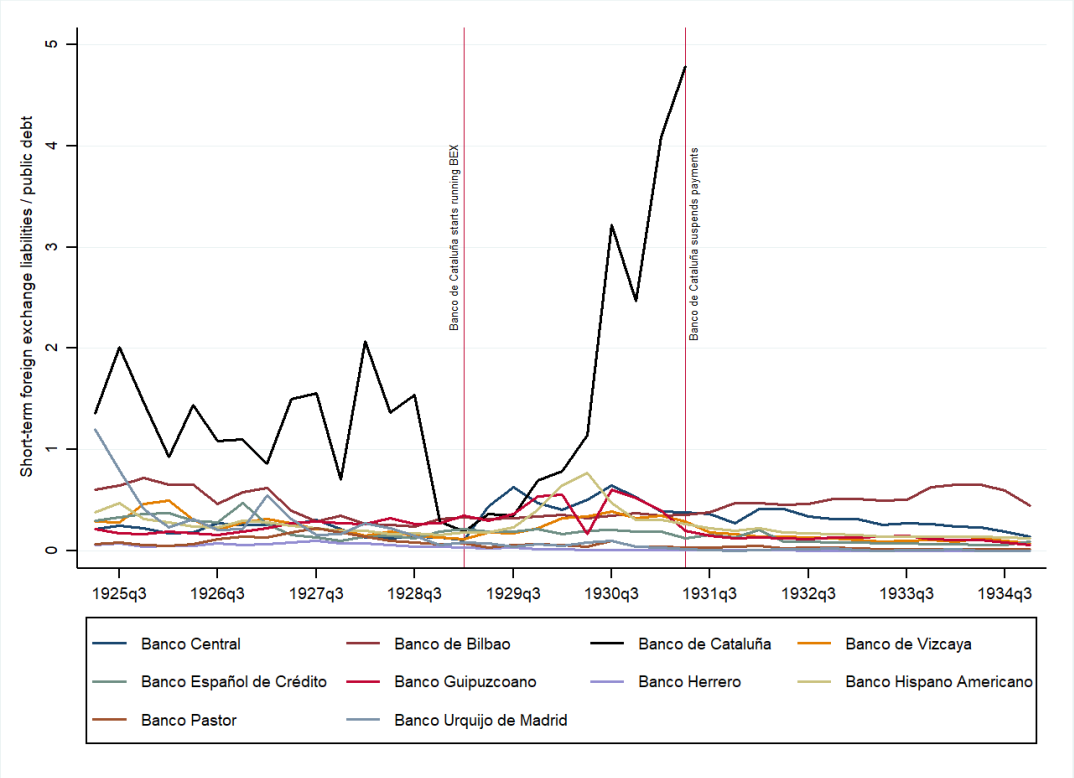


Figure 3. Exposure to short-term foreign exchange liabilities
Source: Own calculations using *Boletines del Consejo Superior Bancario*

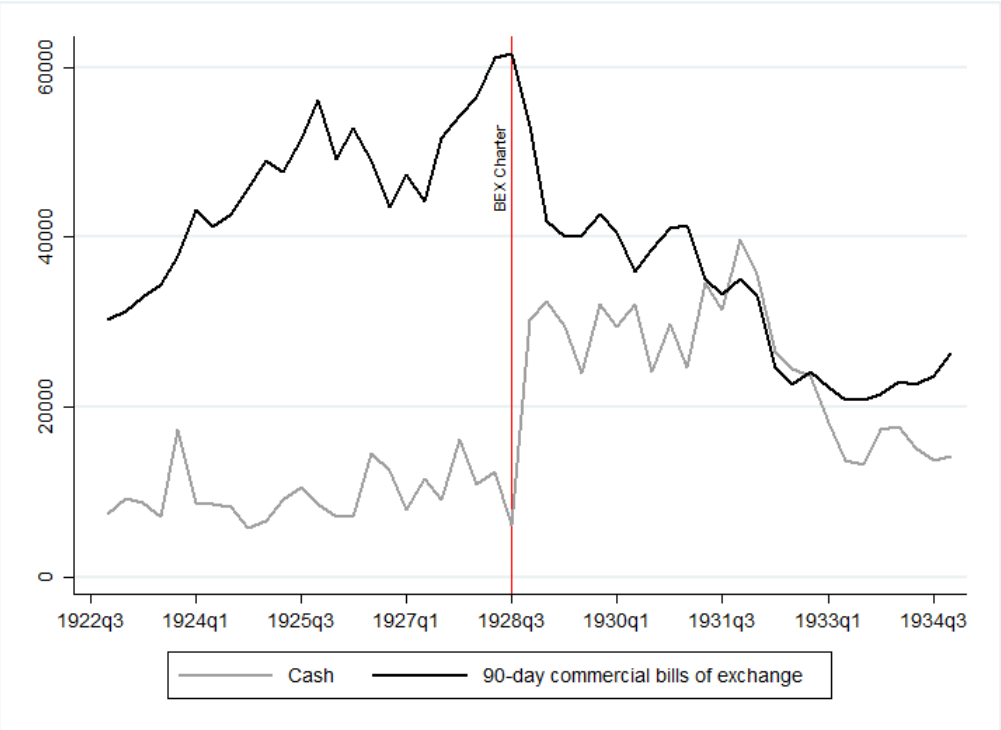


Figure 4. Anglo South-American Bank, portfolio composition (1922-34)
Note: thousand pesetas. Source: Own calculations using *Boletines del Consejo Superior Bancario*

If *Banco de España* could not be expected to depart from the regime of "constructive ambiguity" created by the 1921 Banking Law, the implication was that risk-taking by *Banco de Cataluña* and reliance on continued BEX credit counted on an eventual backstop by the Dictatorship. But, where did the expectation of such backstop come from? The answer lies on the precedent set by the Dictatorship in 1925. On that year, *Banco Central*—a bank whose director was also closely related to both the Dictator and the Minister of Finance—had already been on the verge of failure due to risks stemming from insider lending and illegal stock market practices[63]. Because of lack of eligible collateral, *Banco de España* refused providing liquidity to the ailing bank. As solvency concerns arose, Dictator Primo de Rivera issued two Royal Orders: the first announced a fiscal guarantee to all credits provided by *Banco de España* to *Banco Central*, while the second extended the fiscal guarantee to all *Banco Central*'s liabilities in the case of default[64]. This kept *Banco Central* afloat, at the cost of setting a precedent that would be repeated again some years after.

[63] García Ruiz and Tortella, 'How strategies determine'.
[64] Martin-Aceña, '*Crisis bancarias'*.

V

In October 1929, and with the explicit endorsement of the Dictatorship, Eduard Recasens—Director of both *Banco de Cataluña* and *Banco Exterior*—joined financier and ex-Minister of Finance Francesc Cambó in the creation of *Compañía General del Corcho S.A.* (henceforth Cogeco), a cork manufacturing and exporting trust. Officially, the trust responded to the Dictatorship´s willingness to "*avoid that this commodity fell in the hands of foreigners",* and accordingly "*this danger was precisely what pushed the Government to support the project"*[65]. Hence, "*the bank* [*Banco Exterior*] *was required by the Government in 1929 to cooperate in the nationalisation of the manufacturing industries of such an important national commodity as cork*"[66]. Cogeco was created by the merge and acquisition of the Belgian industrial holding *Compagnie Commerciale et Industrièlle du Liège* (CIL) and 17 other companies across Europe and the North of Africa[67], resulting in the largest cork manufacturing trust in Europe[68].

Cork was indeed a key commodity for Spain, particularly for Catalonia[69]. In 1929 cork came right after oranges, olive oil and wine as Spain´s main source of export revenues[70], accounting for 10% of total Spanish exports[71]. However, the timing and procedure of the creation of *Cogeco* were not promising. On 24 October 1929, the very day of Wall Street's Black Thursday, Eduard Recasens met with Primo de Rivera and Minister of Finance José Calvo Sotelo, who authorized him to *"sign whichever public or private documents that might be needed for the participation of Banco Exterior in Cogeco"*[72]. Following the meeting, a formal request was sent to Primo de Rivera and he issued the Royal Oder authorizing for the creation of the trust. A day after, when presenting the project to

[65] *ACA BEX, Acta 4, 25/10/1929, p.18.*
[66] This was explained by Eduard Recasens at the 1930 annual BEX shareholder meeting. (*JGA BEX, 1930.)*
[67] See Appendix for details on the companies merged into Cogeco.
[68] *ACA BEX, Acta 4, 25/10/1929, p.16.*
[69] Branco and Parejo, 'Incentives or obstacles?'; Parejo, 'El negocio del corcho'.
[70] *Comercio total de las principales mercancías exportadas en los años de 1927 a 1931 (INE AH 1931).*
[71] *"Comercio total de las principales mercancías exportadas en los años 1927 a 1931" and "Movimiento del comercio exterior de España, por clases de arancel, 1930" (INE AH 1931).*
[72] *ACD BEX, Acta 16, 24/10/1929 and Acta 17, 31/10/1929.*

the *Banco Exterior* board, Eduard Recasens argued that "*given the urgency of the issue, the Governing Committee of the bank* [BEX] *had started negotiations, with the approval of the Minister of Finance*", and added that "*all parties involved agreed in that the project was extremely convenient for Spain*"[73].

While Recasens alluded to "*urgency*", he did not explain the underlying motivation to the rest of the board. The reason for this urgency was that the foundation of *Cogeco* was part of a covered bailout for *Banco Central*, the very same bank that had been bailed out by the Dictatorship in 1925. By mid-1929, *Banco Central* had become exposed to the Belgian company CIL, the main company that *Cogeco* merged and acquired in its foundation[74]. In September 1929, *Banco Central* President, Conde de los Gaitanes, met his personal friend, ex-Minister of Finance, politician and financier Francesc Cambó and asked him to find a solution to his ailing bank (see Table 1)[75]. The solution devised by Cambó was the creation of *Cogeco* and to absorb, the assets of Belgian company CIL in the balance sheet of the company. However, because Cambó was not in good terms with the Dictatorship, he asked Eduard Recasens to intermediate the operation[76].

[73] *ACA BEX, Acta 4, 25/10/1929*.
[74] García Ruiz and Tortella, 'El Banco Central', 'How strategies determine*'.*
[75] In his autobiography, Cambó wrote:*"Towards the end of September* [1929] (…) *I met Conde de los Gaitanes. He presented me with the situation of his Banco Central de Madrid, and he asked me if I could do something to help him. Much to my misfortune, I acceded and mixed emotions with business and the result was, for me and for everybody that was involved in the affair, a true disaster, which filled my life with bitterness for many years."* (Cambó, '*Memòries*').
[76] ACA BEX, *Acta 4, 25/10/1929.* As described by Lluch, 'Sobre la burgesia': "[Cogeco] *was an initiative from them* [Directors of Banco de Cataluña] *and presided by Francesc Cambó. This was the first large enterprise in which the Recasens Bank* [Banco de Cataluña] *intervened that went wrong".*

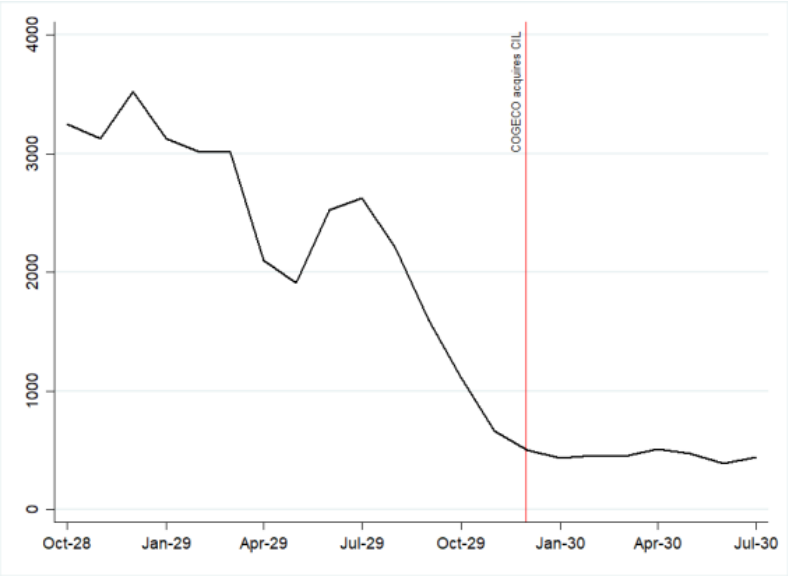


Figure 5. Monthly share price, *Compagnie Commerciale et Industrièlle du Liège (CIL)*

Source: SCOB Database, University of Antwerp, Cours authentique de la Bourse de Bruxelles

By the time this decision was taken, however, CIL was already insolvent. As Figure 5 shows, when *Cogeco* was founded, CIL's share price had already collapsed and the company was widely seen as insolvent in Belgian financial circles[77]. In other words, the creation of *Cogeco* transferred the known costs of insolvency from a private bank (*Banco Central*) to a state-backed bank (*Banco Exterior*), with the intermediation of a politically connected bank (*Banco de Cataluña*). Despite this, and having received the endorsement of the Dictatorship, *Cogeco* was founded on 4 November 1929 with a capital of 100 million pesetas, from which only 28 million were potentially available, as 38.5 million were included in the asset side as CIL preferential shares in suspension and 33.5 in other assets in suspension when the company was founded. After the operation, Cambó, Recasens and Conde de los Gaitanes became President, and Board members, respectively[78].

[77] Van Meerten, 'Faktor zeven'; Willems, 'Multiple voting'. By 14 March 1930, as Banco Central had sold all its shares to COGECO, the bank was considered to be in good health again (*El Financiero, 14/03/1930, p.381).*
[78] Cabana, 'La Companyia'.

Suspicion about the ultimate motivations behind *Cogeco*'s foundation led to several members of *Banco Exterior* board to demand a detailed explanation of the feasibility and risk of the operation. To these, Eduard Recasens replied that "*asset valuation had been conducted by competent people and when in doubt, assets had been valued at zero"*[79]. Tellingly, when Recasens finished his explanation, *Banco de España*'s representative at BEX board flagged concerns over the solvency of CIL and *Cogeco* and asked explicitly for these concerns and the explanation provided by Recasens to be written down in the minutes[80]. Scepticism about *Cogeco* did not only come from insiders; in mid-November 1929, *Cogeco* initiated a public offering of its shares that was largely undersubscribed[81].

These suspicions grew larger as the Great Depression began to unfold. *Compagnie Commerciale et Industrielle du Liège (CIL)* had reached the end of 1929 in a "*very adverse situation*", with "*insufficient liquidity*". Already by then, CIL board members had been "*considering whether the company should be liquidated, as it was unable to find the capital needed to maintain the activities of the company"*[82]. Besides the fall in stock prices and international cork prices, CIL was also "*affected by the fall of the Spanish peseta",* as it imported raw cork from Spain and held large balances in pesetas. Moreover, the "*international economic depression was unsettling shareholders of the company's affiliated firms"*[83]. All these factors caused the company to close the year 1929 with 51 million Belgian francs in losses (4.2 million pesetas).

[79] Cogeco included CIL's shares on its assets with no defined nominal value (*Recuéil Financier, 1931, T.II, p. 1029).*
[80] Acta 4, 25/10/1929, *ACA BEX.*
[81] *ACA BEX, Acta 20, 21/11/1929.*
[82] *Compagnie Commmerciale et industrielle du Liège (CIL), Projet de Rapport, 05/03/1930,* published in *Porquoi Pas?, 21/02/1930, Vigntième Année, Num. 812, p.51.*
[83] *Recueil Financier,* 1931, p.1379.

VI

The growing perception of cronyism contributed to erode the reputation of the Dictatorship[84]. After growing discredit, Minister of Finance José Calvo Sotelo resigned on 20 January 1930 and Dictator Miguel Primo de Rivera did the same on 28 January 1930. The end of the Dictatorship brought the implicit promise of a fiscal backstop to *Banco de Cataluña* to an end, it broke the informal coalition and brought the bank suddenly back to the "constructive ambiguity" regime from which it had departed. With the Dictator gone, complaints about the favoritism of the Dictatorship with *Banco de Cataluña* through the discretionary management of *Banco Exterior* and rent extraction ensued[85]. This pushed Eduard Recasens to denounce a "*climate of hostility*" against the bank[86]. Criticism reached the public sphere because right after resigning in his duties as Minister of Finance, Calvo Sotelo was appointed Director of *Banco Central*, the very same bank that had been bailed out by the Dictatorship in 1925 and through the creation of *Cogeco* in 1929, as documented above[87]. To appease criticism, on 19 February 1930 Eduard Recasens eliminated the reduction in the rediscount rate that had been granted to banks managing *Banco Exterior*[88]. As expected, however, this directly hit *Banco de Cataluña's* expected future profits and its shareholders reacted, causing the share price to fall to its historical minimum (Figure 6).

[84] Eguidazu, '*La crisis de la peseta*', Ben Ami, '*El cirujano de hierro'*.
[85] Letter sent from Pere Coromines, Secretary of Banco de Cataluña, to Eduard Recasens on 28 January 1930, "Entre la Literatura i l'economia (1917-1931), La crisi i el banc de Barcelona (sic) *(FCV, GB).*
[86] ACA BEX, Acta 7, 24/01/1930.
[87] See for exemple, *El caso del Sr. Calvo Sotelo y el Banco Central, El Sol, 16/04/1930, p.1*.
[88] ACSB, 19/02/1930.

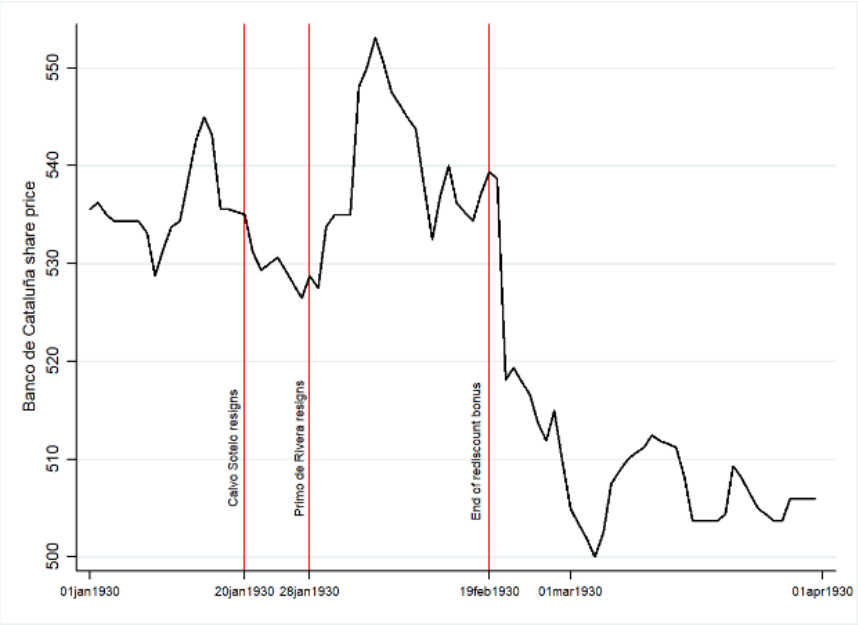


Figure 6. Banco de Cataluña daily share price, January to April 1930
Source: *La Veu de Catalunya, Seccció Borsa i Banca.*

The end of the Dictatorship had already caused some members of *Banco de Cataluña*'s board to suggest a sharp reorientation of the bank's business and had warned Eduard Recasens: "*we have grown very fast, and perhaps the public thinks that too fast (...) under these circumstances, it is imperative to reduce immobilization of our assets (...) we should think ten times before embarking Banco de Cataluña in an operation that might immobilize an important part of its assets. Only cash, truly commercial paper and government debt are liquid"*. Interestingly, the warning to Recasens also advocated rather explicitly for a return to the portfolio composition induced by the "constructive ambiguity" regime before an eventual crisis hit: *"We need to get rid of stocks. (...) end long term lending (...) reinforce strongly our cash positions to reach 40% of our liabilities (...) I would rather rediscount all our portfolio of commercial bills with Banco de España now. Large cash balances, those that can't be questioned in moments of danger, are the best armor"*[89]. The recommendation was disregarded by Recasens and *Banco de Cataluña* doubled down in risk in order to compensate

[89] Letter sent from Pere Coromines, Secretary of Banco de Cataluña, to Eduard Recasens on 19 November 1929, "*Entre la Literatura i l'economia (1917-1931), La crisi i el banc de Catalunya*, p.479 *et passim (FCV, GB).*

for the yield lost. Accordingly, on 14 February 1931, the bank embarked in the purchase of 90% of the shares of *Banca Arnús*—a bank from Barcelona—to the ailing French banking house *Bauer, Marchal et Cie*[90]. The purchase, conducted in French Francs, totaled 23.5 million pesetas, or 10% of *Banco de Cataluña's* total assets. To finance the operation, the bank tried to place 10 million pesetas of its own shares in the market. However, markets only absorbed 2.1 million pesetas and the remaining 7.9 million pesetas had to be repurchased by the bank's managers. Then the bank sold 30% of its remaining public debt portfolio (4.6 million pesetas) to raise cash. Still unable to raise the 23.5 million pesetas required for the operation, the bank structured the purchase in four installments[91]. The operation further reduced the bank's liquidity and increased the relative size of its short-term liabilities, but it had the intended effects: following the purchase, share price registered the strongest one-day increase recorded (Figure 7).

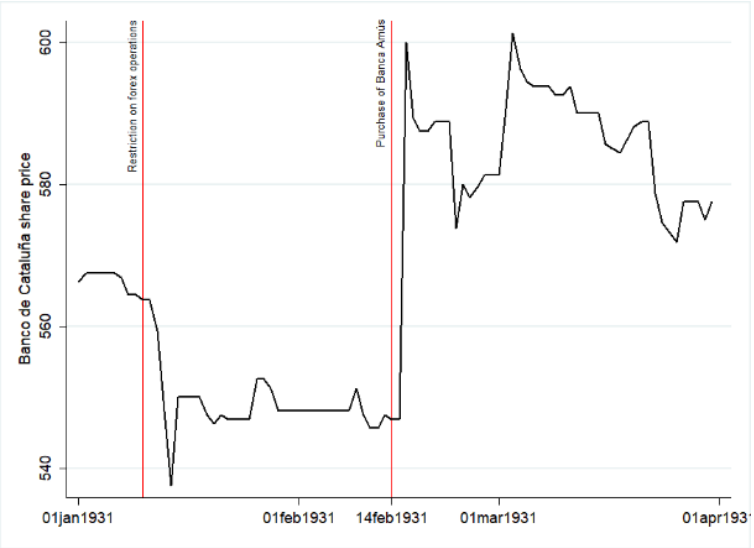


Figure 7. Banco de Cataluña daily share price, January to April 1931
Source: *La Veu de Catalunya, Seccció Borsa i Banca.*

[90] Lacoue-Labarthe, 'La France, a-t-elle connu'.
[91] A first payment of 6 million pesetas was done in cash, and then three payments were scheduled for 15 May 1931 (5 million), 15 August 1931 (5 million) and 15 November 1931 (7.5 million) (FCV, 23/1).

In parallel to these operations, internal complaints against the way in which *Banco de Cataluña* had managed *Banco Exterior* emerged during 1930 and pointed at different aspects. Some argued that the bank had become an international investment bank, after its involvement with *Cogeco* and other international export-oriented trusts[92], thus departing from its initial role as an outward oriented commercial bank[93]. Others argued that the bank might have contributed to the deterioration in the exchange rate by short-selling pesetas[94]. The concentration of *Banco Exterior* operations in *Banco de Cataluña* was also raised as a potential problem both from the point of view of risk and conflict of interests[95]. Therefore, when the Second Spanish Republic was proclaimed on 14 April 1931, the reliance of *Banco de Cataluña* on liquidity from *Banco Exterior* was well understood both by insiders and outsiders.

[92] In June 1930, Banco de Cataluña had also fostered the creation of *Compañía de Colonización Africana* (ALENA) and convinced the board to participate in the creation of the firm despite initial resistance from some members of the board due to skepticism about the future of commodity prices. *(Actas 44* and *46, ACD BEX, 4/06/1930* and *16/06/1930,* respectively*).* The firm joined the wood-export market from Gabon and Guinea, mostly to Germany. Due to the particularly acute impact of the Great Depression in Germany and the subsequent financial crisis, exports of wood from these countries halved between 1930 and 1931, and the business did not recover until 1933 (Pascual Ruiz-Valdepeñas and Guerra Velasco, 'Civilizando la selva'.)
[93] *ACA BEX, Acta 13, 17/06/1930.*
[94] *ACA BEX Acta 16, 26/09/1930.*
[95] *ACD BEX Acta 84, 08/04/1931.*

VII

While virtually all Spanish banks were affected by the triple financial crisis (currency, banking and stock market) that ensued following the proclamation of the Second Spanish Republic from April 1931, international deflation and the collapse of global trade had a differential impact both in *Banco Exterior* and *Banco de Cataluña*, due to their high international exposure[96]. From the second half of 1930, following the introduction of US tariffs on European cork manufactures (as part of the Smoot-Hawley Tariff), "*market prices of manufactured cork rapidly slumped and demand declined"*[97], causing the quantity and value of Spanish cork exports to fall by more than 50% and 80% respectively[98]. As a result of the shock, *Cogeco* asked *Banco Exterior* for a first exceptional loan of 10 million pesetas[99]. By November 1930, *Cogeco* was again under liquidity pressure and asked *Banco Exterior* for rolling over the loan, as it was unable to raise cash[100]. On 18 December 1930, *Cogeco* asked for another loan to *Banco Exterior*. This time, part of the company´s liquidity problems were solved by "*interested members, who made a personal contribution*"[101].

Insolvency concerns were obvious by the end of 1930. *Cogeco´*s main company, CIL, closed 1930 with losses amounting to 49.3 million pesetas, more than 90% of its own equity or 49% of *Cogeco*'s total equity[102]. As concerns grew among *Banco Exterior* board members and shareholders[103], in early 1931, Eduard Recasens addressed them arguing that *"it was expected that the company would get better perspectives if a reaction in cork consumption took place*"[104]. However, by mid-March 1931 *Cogeco* was on the verge of default and asked *Banco Exterior* to extend a 2 million peseta

[96] Martin-Aceña, '*La política monetaria'*; Jorge-Sotelo, '*Escaping',* 'The limits'; Battilossi et al., 'Scuttle for shelter'.
[97] *Dividends and reports, Financial Times, 01/10/1931, Issue 13.326* (FTHA).
[98] *Índices del movimiento del comercio exterior, 1930-1934 (INE AH 1934).*
[99] *ACD BEX, Acta 51, 23/07/1930; Acta 54, 22/08/1930, and Acta 56, 11/09/1930.*
[100] *ACD BEX, Acta 67, 20/11/1930.*
[101] *ACD BEX, Acta 71, 18/12/1930.*
[102] *Recuéil Financier*, 1931, p.1381.
[103] On 13 April 1931, BEX board members sued Banco Central for having sold CIL to Cogeco when the company was already insolvent (*AHBS, C5583-1-14)*.
[104] *JGA BEX, 1930.*

loan for an additional 6 months[105]. Problems in the cork industry began to affect other firms, and by mid-April 1931, Vigas SA, a cork manufacturer suspended payments in Barcelona[106].

As liquidity and solvency problems mounted for *Cogeco*, *Banco Exterior* began to realize that the only way in which it could continue providing liquidity to the company and its other borrowers—namely *Banco de Cataluña*—would be if Banco de España allowed *Banco Exterior* to access its discount window. To this end, on 13 May 1931, members of *Banco Exterior* board held a meeting with *Banco de España*'s Vice-Governor, Pedro Pan, who answered that "*these operations were not feasible*". *Banco Exterior* then suggested guaranteeing its signature by pledging its own shares as collateral, but BdE replied that it "*would be able to consider this option only when Banco Exterior had disbursed at least 50% of its capital*"[107], something that given stock market conditions and the evolution of the company was also not feasible. Following the meeting, and having ruled out the possibility that *Banco de España* would purchase commercial paper and industrial securities from *Banco Exterior* in case of need, the latter began demanding additional guarantees and a detailed report on its exposure to *Cogeco*[108]. Eduard Recasens reported to the board that *Banco Exterior* exposure to the cork trust amounted to 14.5 million pesetas, around 20% of the bank´s total commercial and loan portfolio. In total, *Banco Exterior*'s loans to the cork industry accounted for 32% of its loan portfolio[109]. As a result, on 21 May 1931, *Banco Exterior* board began pushing for "*consolidating operations and bringing expansion to a halt*"[110]. A day after, on 22 May 1931, Eduard Recasens lamented that "*one of the fundamental pillars of Banco Exterior is the need for rediscount facilities with the Banco de España*" [111]. *Cogeco´*s situation continued to deteriorate and on 11 June 1931, recently appointed BEX President Gabriel Franco asked Eduard Recasens for more

[105] *ACD BEX, Acta 81, 17/03/1930,* and *Acta 87, 07/05/1931.*
[106] *ACD BEX, Acta 85, 21/04/1931.*
[107] *ACD BEX, Acta 88, 13/05/1931.*
[108] *ACD BEX, Acta 89, 21/05/1931.*
[109] See Table 4 in the Appendix.
[110] *ACD BEX, Acta 89, 21/05/1931.*
[111] *ACA BEX, Acta 26, 22/05/1931.*

details about the bank´s exposure to the cork trust. He judged it "*excessive*" and decided to keep reducing *Banco Exterior* exposure to *Cogeco*[112]. An internal dispute between Eduard Recasens and BEX board members ensued, with Recasens asking for more time to reorganize *Cogeco* before it was cut-off *Banco Exterior* credit, and *Banco Exterior* Director claiming that the latter had already lent to the company in excess of what its collateral allowed. The result was that *Banco Exterior* board denied extending more loans. On the same day, Eduard and his brother Francesc Recasens, Directors of *Banco de Cataluña*, resigned as *Banco Exterior* Board Members[113].

As anticipated, the change in *Banco Exterior* position towards protecting its own balance sheet added pressure to *Banco de Cataluña*. With *Banco de Cataluña*'s Directors out of *Banco Exterior* management, the granted access to liquidity facilities for their bank was gone. This pushed *Banco de Cataluña* to resort to *Banco de España* in order to try and borrow against the eligible collateral that remained on its portfolio but also using personal loans to its directors. On 13 June 1931, *Banco de Cataluña* borrowed 29 million pesetas (or more than 10% of its balance sheet) from *Banco de España*, pledging its left eligible securities (see Table 5 in the Appendix). The difficulties that *Banco de Cataluña* was experiencing and the growing risks at BEX reached the Minister of Finance of the Republic, Indalecio Prieto. On 16 June 1931, newspaper *Crisol* published an interview in which Mr. Prieto expressed his discontent with the insider lending episodes discussed above. When asked about the current situation of the Spanish banking sector, Prieto replied[114]:

> *"I think it is deeply flawed; bank capital is not organized in a way in which it could provide a democratic expansion of credit. Banks seem to be effectively organized in a way in which they serve the businesses of its managers and, therefore, banks' boards operate as a cacique domain in which there is an excessive aim at directing credit in favour of the companies of these managers. I also think there are too many banks. (…) And there is lack of cooperation between Spanish banks. There are virtually no banks created by the joint efforts of merchants, agricultural or industrial interests, (…) And it is worth mentioning that whenever some of these types of banks have been created in Spain, they have either disappeared rapidly or have degenerated from their initial aims towards becoming a mere instrument for the enrichment of half a dozen men."*

[112] *ACD BEX, Acta 92, 11/06/1931.*
[113] *ACD BEX, Acta 93, 18/06/1931.*
[114] *Crisol*, 16/06/1931. See Appendix for a discussion on the role of CAMSPA funds.

On 22 June 1931, two emergency meetings were held at *Banco Exterior* "*in order to exchange views on the difficulties that are affecting Banco de Cataluña, which has an exposure of around 11 million pesetas with Banco Exterior* [around 16% of its total commercial and loan portfolio]". On that day, and lacking public debt or eligible securities to use as collateral, *Banco de Cataluña* had to secure a 17 million pesetas emergency short-term personal loan from *Banco de España* to be made effective next day (see Table 5 in the Appendix). This bought the bank time but *Banco Exterior* board decided to "*stay alert on the evolution of this issue and watch out in order to make the most of all opportunities to protect Banco Exterior interests*". Moreover, the board insisted that it ought to be careful with the potential impact of *Banco de Cataluña*'s eventual failure to *Banco Exterior*, because the latter was "*an official institution*"[115].

By mid-June 1931 the only solution left for *Banco de Cataluña* to remain receiving liquidity support was to obtain a fiscal backstop from the Ministry of Finance. Given solvency concerns, *Banco de España* stick to its "constructive ambiguity" regime and demanded a state guarantee[116]. In other words, the only left solution was to replicate the intervention done in 1925 by the Dictatorship, and push *Banco de España* to purchase assets from *Banco de Cataluña* by guaranteeing them with a fiscal blanket. However, Prieto had already made public his skepticism about the way in which private interests had managed state-backed banks during the Dictatorship. Either extending a fiscal guarantee to the bank or letting it fail was seen as a potentially costly decision[117]. On the one hand, solvency concerns about *Banco de Cataluña* and its exposure to the international economy, as well as the collusion between the Dictatorship and the bank directors in the creation of state-backed institutions increased the political cost of a publicly-funded solution. This was particularly the case

[115] *ACD BEX, Acta 94, 22/06/1931 and Acta 95, 25/06/1931.*
[116] *Suspensió de pagaments: expedient, Junta de la suspensió, VII o VIII del 31 (FCV UB GB).*
[117] *ACD BEX, Acta 95, 25/06/1931.*

in Catalonia, where conflict over labor conditions exerted strong political pressure[118]. On the other hand, not extending a fiscal guarantee to keep the bank afloat could cause a sharp contraction in financial intermediation that would hit the outward-oriented industrial sector, already under stress. Moreover, the decision to let the bank fail could cause contagion among other banks.

In order to evaluate the situation, on 25 June 1931, *Banco Exterior* and *Banco de Cataluña* board members met with Prieto in the Ministry of Finance in Madrid to ask for a public guarantee. Prieto raised solvency concerns and argued that while "*he was unwilling to cause problems to Banco de Cataluña"* in order to minimize the risks taken by the state in the operation the former "*had to provide the best guarantee to Banco Exterior*"[119]. *Banco de Cataluña* then suggested borrowing from *Banco Exterior* against the security of the latter's shares and against shares of *Banco de Cataluña*'s subsidiaries. Prieto denied the operation alluding to "*technical difficulties*" to rediscount more paper to *Banco de Cataluña* (impossibility to rediscount it with *Banco de España*) and to "*moral and legal obstacles*" for *Banco Exterior* to lend against its own shares as collateral[120]. Instead, Prieto provided a temporary guarantee to existing credits in order to give *Banco de Cataluña* additional time while he met with the Board of *Banco de España* to ask the latter to "*intermediate in the rediscount of the commercial paper that Banco de Cataluña is offering* [to *Banco Exterior*]"[121].

While the negotiations between fiscal and monetary authorities and *Banco de Cataluña* did not seem promising, the final blow to the bank came on 25 June 1931 when *Cogeco* announced a default on

---

[118] Balcells, '*Crisis económica'*; Carreño, 'La huelga de la telefónica'.
[119] *ACD BEX, Acta 95, 25/06/1931.*
[120] Without data on the actual signatures contained in the bills of exchange provided by Banco de Cataluña it is impossible to faithfully evaluate their quality. However, the developments during the crisis clearly show that collateral limitations more generally were at the core of the liquidity problems faced by the bank. For instance, after the failure, in October 1932, Francesc Recasens addressed the board of Banco Exterior de España to provide his personal account. He explained how he tried to intermediate between Banco de Cataluña and Banco Exterior and tried to borrow on the latter's shares as collateral. He also argued that bills presented for rediscount were of "good guarantee without doubt". At the moment of these negotiations, the commercial paper provided was considered "brown paper" (*"papel de estraza"*) by the director of Banco Exterior, (*ACA BEX, Acta 42, p. 371, 24/10/1932).*
[121] *ACD BEX, Acta 96, 02/07/1931.*

its bond payment due on 1 July 1931[122]. This caused alarm in *Banco Exterior*, *Cogeco´*s main creditor and shareholder, and its new Director addressed the board by denouncing that "*there had been negligence from Cogeco towards Banco Exterior*" and continued to add that "*Cogeco used to see Eduard Recasens* [Director of *Banco de Cataluña*] *as the main representative of BEX and usually dealt directly with him in order to economize in time when approving its operations*"[123]. Right after *Cogeco* defaulted on its bond payment, on 2 July 1931, *Banco Exterior* turned into protecting its own balance sheet and cut all liquidity provision to *Banco de Cataluña*[124]. Despite *Banco de España* was by far the most exposed counterparty to the eventual failure of the bank, it stood by its ex-ante defined eligibility criteria, and at that stage it did not rediscount to *Banco Exterior* or *Banco de Cataluña*[125]. Lacking all sources of interbank liquidity, *Banco de Cataluña* turned again to the Minister of Finance. Negotiations between the Minister of Finance, *Banco de España* and *Banco de Cataluña* took place over the weekend of 4 and 5 July 1931, and a final emergency meeting was held on 6 July 1931 in Madrid. At midnight, the central office in Barcelona received a call from Madrid to announce that the bank would not be bailed out and could not reopen[126]. Cut off from its sources of interbank liquidity, *Banco de Cataluña* made its suspension of payments public on 7 July 1931 and on the same day its two subsidiaries also closed their doors.

On 8 July 1931, the day after the failure, international funding deteriorated rapidly for *Banco Exterior*. Chase National Bank, Barclays Bank and Banco Español de Chile suspended their credit facilities to *Banco Exterior* or demanded immediate repayment[127]. *Banco Exterior* response to the failure of *Banco de Cataluña* and the subsequent sudden withdrawal of foreign sources of funding was to conduct a sharp contraction in all its commercial operations. Unable to obtain liquidity from

---

[122] *ACD BEX, Acta 95, 25/06/1931.*
[123] *ACD BEX, Acta 96, 02/07/1931.*
[124] *ACD BEX, Acta 96, 02/07/1931.* On 3 July 1931, Bauer y Cia, the Rothschilds representative in Spain suspended payments (Lopez Morell, '*Rothschild*'; Jorge-Sotelo, '*Escaping'*, Chapter 5.
[125] *FCV UB, 26/2.*
[126] Personal letter from Banco de Cataluña clerk to historian Francesc Cabana (*FCV UB, GB).*
[127] *ACD BEX, Acta 98, 08/07/1931* and *Acta 99, 16/07/1931 and Acta 101, 04/08/1931*.

Banco de España, *Banco Exterior* decided that "*not accepting new operations will make our liquidity position improve with the cash inflows of those that are paid back*"[128]. During July 1931, *Banco Exterior* contracted its loan and commercial portfolio by almost 40%, from around 70 to 40 million pesetas, which continued to drop to around 25 million in the following months, thus contributing to the sharp credit contraction that Spain experienced[129].

Banco de Cataluña defaulted on 35.8 million pesetas to *Banco de España*, 23.1 million to state-backed institutions and 87 million to retail depositors[130]. The magnitude of these quantities and the decisions taken by policymakers during the crisis raises a last important question: was the bank insolvent? Right before the failure, between 2 July 1931 and 6 July 1931, Directors and some board members liquidated part of their own debtor balances and allowed some employees to withdraw their funds from the bank[131]. After this, a closing balance sheet was published with assets totaling 225 million pesetas, resulting on 26 million positive equity. This result pushed several contemporary observers to claim that the bank was solvent[132]. This balance sheet, however, did not include future non-performing loans and unpaid bills, which matured after the very day of the failure. In September 1932, another balance sheet was published by the committee in charge of the liquidation. By then, assets and liabilities had been reduced to a total nominal of 178 million pesetas. From these, 94 million pesetas (or 52% of the remaining assets) were deemed "*non-realizable assets (losses)*"[133]. In addition, unpaid bills rediscounted by *Banco de Cataluña* with *Banco de España* in its branch in Barcelona amounted to 4.6 million pesetas (or 20% of the bank's total portfolio of commercial paper at the time of closure)[134].

---

[128] *ACD BEX, Acta 98, 08/07/1931.*
[129] *MBEX, 1931.*
[130] *FCV 26/2.*
[131] *FCV UB 23/3, 23/7, 23/8 GB.*
[132] Cabana, '*La banca a Catalunya'*.
[133] In the original it reads "Activo no realizable (pérdida)", (*FCV 27/6*).
[134] DGS, *AHBE, L. 1248.*

The opaque nature of politician-banker informal coalitions and the discretionary nature of these agreements make it hard to identify the channels through which these result in moral hazard. This article uses new archival evidence on the fundamental causes of bank failures in Spain in July 1931 to show how *Banco de Cataluña* used an informal coalition with the Dictatorship of Primo de Rivera, which allowed the bank for a temporary departure from the regime of "constructive ambiguity" for last resort lending that operated at the discount window of *Banco de España*, Spain's main monetary authority. This resulted in moral hazard. In particular, the bank developed a uniquely risky portfolio and incurred in insider lending through loans to insolvent banks and firms close to the Dictatorship, right at the onset of the Great Depression. The end of the Dictatorship and its coalitions, brought *Banco de Cataluña* back to the regime of "constructive ambiguity" from which it had departed. Democratic transition (1930-31) and the forces of the Great Depression evidenced the liquidity and solvency consequences of risk-taking and insider lending when the fiscal backstop from the Dictatorship was gone, cutting the bank off from its interbank liquidity sources, and resulting in the failure of *Banco de Cataluña* and its subsidiaries.

REFERENCES

Arroyo, J.V., *Actividad de la banca extranjera en España entre 1920 y 1935* (Bilbao, 1999).

Avaro, M. and Bignon, V., 'At your service! Liquidity provision and risk management in 19th Century France', *CEPR Discussion Papers,* N. 13556 (2019).

Balcells, A., *Crisis económica y agitación social en Cataluña, 1930-1936* (Barcelona, 1971).

Balderston, T., 'War finance and inflation in Britain and Germany, 1914-1918', *The Economic History Review,* 42 (2), pp. 222-244.

Barbaroux, N., Jorge-Sotelo, E. and Torre, D., 'Rist, Quesnay and Mitzakis: different French ways to stabilize the Spanish peseta, 1928-1931", Mimeo.

Battilossi, S., 'Did governance fail universal banks? Moral hazard, risk taking and banking crises in interwar Italy', *The Economic History Review,* 62, 2009, pp.101-134.

Baubeau, P., Monnet, E., Riva, A. and Ungaro, S., 'Flight-to-safety and the credit crunch: a new history of the banking crisis in France during the Great Depression', *The Economic History Review,* 74 (1), 2020, pp.223.250.

Belford, N., 'El sistema bancario durante la Dictadura de Primo de Rivera', *Cuadernos Económicos del ICE,* 10, 1979, pp. 227-266.

Beltrán, L. and Sardà, J., *Els problemes de la banca catalana* (Barcelona, 1933)

Bignon, V., Flandreau, M. and Ugolini, S., 'Bagehot for beginners: the making of lender-of-last-resort operations in the mid-nineteenth century', *The Economic History Review,* 65(2), pp. 580-608.

Bindseil, U., *Central banking before 1800: a rehabilitation* (Oxford, 2020).

Blasco, Y. and Sudrià, C., *El Banco de Barcelona, 1874-1920* (Barcelona, 2016).

Bordo, M. and Rousseau, P., 'Legal-political factors and the historical evolution of the finance-growth link', *NBER Working Papers,* N. 12035 (2006).

Boyd, J., Chang, C. and Smith, B.D., 'Moral hazard under commercial and universal banking', *Journal of Money, Credit and Banking,* 30 (3), pp. 426-468.

Branco, A. and Parejo, F.M., 'Incentives or obstacles? Institutional aspects of the cork business in the Iberian Peninsula, *Revista de Historia Económica, Journal of Iberian and Latin American Economic History,* 26 (1), 2008, pp. 17-44.

Braun, M. and Raddatz, C., 'Banking on politics', *The World Bank Economic Review,* 24 (2), pp. 234-279.

Broz, L., *The international origins of the Federal Reserve System* (Cornell, 2009).

Caballero, R. and Krishnamurthy, A., 'Collective risk management in a flight to quality episode', The *Journal of Finance,* (63 (5), pp. 2195-2230.

Cabana, F., *La banca a Catalunya* (Barcelona, 1965).

Cabana, F., *Bancs i banquers a Catalunya* (Barcelona, 1972).

Cabana, F., ‘Carta oberta a l’Ernest Lluch’, *Avui,* 4/08/1985, p. 21.

Cabana, F., ‘Segona carta a l’Ernest Lluch’, *Avui, 11/08/1985,* p.11.

Cabana, F., *Madrid i el centralisme: un fre a l’economia catalana* (Barcelona, 2003).

Cabana, F. (ed.), *Cien empresarios catalanes* (Madrid, 2006).

Cabana, F., *La CHADE i altres aventures de Cambó, Ventosa i Garí* (Barcelona, 2015).

Cabana, F., ‘La Companyia General del Suro, SA’, *Enciclopèdia.cat.*

Calomiris, C.W., ‘History as antidote to misunderstandings about the lender of last resort’, *Sveriges Riksbank Economic Review,* 3 (2016), pp.29-38.

Calomiris, C.W., Flandreau, M. and Laeven. L., ‘Political foundations of the lender of last resort: a global historical narrative’, *Journal of Financial Intermediation,* 28, 2016, pp. 48-65.

Calomiris, C.W. and Haber, S., *Fragile by design* (New Jersey, US, 2014).

Cambó, F., *El pensament català davant el conflicte Europeu* (Barcelona, 1915).

Cambó, F., *Ordenación Bancaria de España: antecedentes y elementos para el estudio del problema bancario español. Proyecto de Ley de Francisco de A. Cambó, sobre régimen ulterior de la banca de emisión y de la banca privada* (Madrid, 1921).

Canals, S., *La crisis exterior de la peseta: exposición de causas examen de soluciones* (Madrid, 1930).

Canosa, R., *Un siglo de banca privada (1845-1945)* (Madrid, 1945).

Carreño, R., ‘La huelga de la telefónica de 1931 y la Organización Telefónica Obrera Española en Málaga, *Baética, Estudios de Historia Moderna y Contemporánea,* 41, 2021, pp. 337-366.

Castro, R., *La banca francesa en la España del Siglo XX* (Madrid, 2012).

Cheng, H., Gawande, K., Ongena, S. and Qi, S., ‘Connected banks and economic policy uncertainty’, *Swiss Finance Institute Research Paper No. 20-77* (2022).

Colvin, C.L., de Jong, A. and Fliers, P.T., ‘Predicting the past: understanding the causes of bank distress in the Netherlands in the 1920s’, *Explorations in Economic History,* 55, 2015, pp. 97-121.

Comín, F. and Cuevas, J., ‘The deadly embrace between the banks and the State in Spain, 1850-2015’, *Revista de Historia Económica, Journal of Iberian and Latin American Economic History,* 35 (3), pp. 387-414.

Cottrell, P.L., Lindgren, H. and Teichova, A., *European industry and banking between the wars: a review of bank-industry relations* (Leicester, UK, 1992).

Darbellay, A. and Gaillard, N., ‘Moral Hazard in the export credit industry’, in ‘Moral hazard: a financial, legal and economic perspective’ by J. Flores Zendejas, N. Gaillard and R. Michalek (London, 2022), pp. 57-79.

Diez-Minguela, A., Martínez-Galarraga, J. and Tirado-Fabregat, D., *Regional inequality in Spain, 1860-2015* (London, 2019).

Eguidazu, F., ‘La crisis de la peseta y la caída de la Dictadura’, *Cuadernos Económicos del ICE,* 10, 1979, pp. 299-352.

Faccio, M., ‘Politically connected firms’, *American Economic Review,* 96 (1), pp.369-386.

Faccio, M., Masulis, R.W. and McConnell, J.J., ‘Political connections and corporate bailouts’, *The Journal of Finance,* 61 (6), pp. 2597-2635.

Feinstein, C., *Banking, currency and finance in Europe between the Wars* (Oxford, 1995).

Flandreau, M. and Ugolini, S., ‘Where it all began: lending of last resort at the Bank of England Monitoring during the Overend-Gurney Panic of 1866’, in ‘The origins, history and future of the Federal Reserve: a return to Jeckyll Island’ by M. Bordo and W. Roberds (Cambridge, UK, 2013), pp. 113-161.

Flandreau, M. and Ugolini, S., ‘The crisis of 1866’, in ‘British Financial Crises since 1825’ by N. Dimsdale and A. Hotson (Oxford, 2014).

Freixas, X., ‘Optimal bail out policy, conditionality and constructive ambiguity’, *Working paper N. 400, SSRN,* 1999.

Freixas, X., Rochet, J.C. and Parigi, B.M., ‘The lender of last resort: a twenty-first century approach’, *Journal of the European Economic Association,* 2(6), 2004, pp. 1085-1115.

García Ruiz, J.L., ‘La banca extranjera en España tras la Restauración, 1874-1936’, in ‘Peseta y Protección: comercio exterior, moneda y crecimiento económico en la España de la Restauración’ by C. Sudrià and D. Tirado, 2001, pp.197-220.

García Ruiz, J.L. and Tortella, G., ‘How strategy determines structure: the organizational history of the Banco Hispano-Americano and the Banco Central (1900-1992), *Enterprises et Histoire,* 48, 2007, pp.29-42.

González, F. and Prem, M., ‘Losing your dictator: firms during political transition’, *Journal of Economic Growth,* 25, (2020), pp. 227-257.

Goodhart, C.A.E., *The evolution of central banks* (Cambridge, US, 1988).

Goodhart, C.A.E. and Schoenmaker, D., ‘Institutional separation between supervisory and monetary agencies’, *Giornale degli Economisti e Annali di Economia,* Nuova Serie, Anno 51, No. 9/12, 1992, pp. 353-439.

James, H., ‘The causes of the German banking crisis of 1931’, *The Economic History Review,* 37 (1), 1984, pp. 68-87.

James, H., Lindgren, H. and Teichova, A., *The role of banks in the interwar economy* (Cambridge, UK, 1991).

Jorge-Sotelo, E., “*Escaping” the Great Depression: monetary policy, financial crises and banking in Spain, 1921-1935,* Ph.D. Dissertation, London School of Economics and Political Science (2019).

Jorge-Sotelo, E., ‘The limits to lender of last resort interventions in emerging economies: evidence from the Gold Standard and the Great Depression in Spain’, *European Review of Economic History,* 24 (1), 2020, pp. 98-133.

Lacoue-Labarthe, D., ‘La France a-t-elle connu des paniques bancaires ineficientes? Une analyse exploratoire de la crise des anées trente’, *Revue d’Économie Politique,* 115 (5), pp. 633-656.

Lluch, E., ‘Sobre la burgesia catalana. Els orígens del Banc de Catalunya, *Serra d’Or,* March 1968, pp. 57-59.

Lluch, E., ‘Nota per a persuadir: Manuel Azaña i el Banc de Catalunya’, *Serra d’Or,* March 1970, p.33.

Lluch, E., ‘Indalecio Prieto, innocent?’, *El Món, 26/07/1985,* p. 170.

Lluch, E., ‘Respostes sobre el Banc de Catalunya’, *El Món, 9/08/1985,* p. 172.

López-Morell, M.A., *Rothschild: una historia de poder en influencia en España* (Madrid, 2015).

Macher, F., ‘The Austrian banking crisis of 1931: a reassessment’, *Financial History Review,* 25 (3), 2018, pp. 297-321.

Macher, F., ‘The Hungarian twin crisis of 1931’, *The Economic History Review,* 72 (2), 2018, pp. 641-668.

Martin-Aceña, P., *La Política monetaria en España, 1919-1935* (Madrid, 1984).

Martin-Aceña, P., ‘Crisis bancarias: nada nuevo bajo el sol’, in ‘Las crisis financieras en la España contermporánea, 1850-2012’ by Martin-Aceña, P., Martinez-Ruiz, E. and Pons, M.A. (Madrid, 2013), pp. 53-114.

Martin-Aceña, P. and Martínez-Ruiz, E., *100 años de la Ley de Ordenación Bancaria de 1921* (Madrid, 2021).

Martinez-Peria, M.S. and Schmukler, S.L., ‘Do depositors punish banks for bad behavior? Market discipline, deposit insurance and banking crises’, *The Journal of Finance,* 56 (3), 2002, pp. 1029-1051.

Myles, J., *Steering the wheels of commerce: state and enterprise in international trade finance, 1914-1929,* Ph.D Thesis, Université de Genève.

Nys, E., Tarazi, A. and Trinugroho, I., ‘Political connections, bank deposits and formal deposit insurance’, *Journal of Financial Stability,* 19 (2015), pp. 83-104.

Olariaga, L., *La política monetaria en España* (Madrid, 1933).

Parejo, F.M., *El negocio del corcho en España durante el siglo XX* (Madrid, 2010).

Pla, J., ‘Prólogo’, in ‘Escritos’ by F. Recasens (Barcelona, 1956).

Recasens, E., *Petites notes sobre la banca en el present i en l’avenir* (Barcelona, 1918).

Ruiz-Valdepeñas, H.P. and Guerra Velasco, J.C., ‘Civilizando la selva: capital, espacio negocio forestal en la antigua Guinea continental española, c. 1926-1936, *Historia Agraria,* 72, 2007, pp. 135-166.

Sabaté, M., Fillat, C. and Serrano Sanz, J.M., ‘Politics and interests in the classical gold standard: Spain 1876-1913, *Revista de Historia Industrial,* 31 (84), 2022, pp. 15-58.

Schnabel, I., ‘The German twin crisis of 1931’, *The Journal of Economic History,* 64 (3), 2004, pp. 822-871.

Schneider, S., ‘The politics of last resort lending and the Overend & Gurney crisis of 1866. *The Economic History Review,* 75 (2), 2022, pp. 579-600.

Shleifer, A. and Vishny, R., ‘Politicians and firms’, *The Quarterly Journal of Economics,* 109 (4), pp. 995-1025.

Straumann, T., Kugler, P. and Weber, F., ‘How the German crisis of 1931 swept across Europe: a comparative view from Stockholm’, *The Economic History Review,* 70 (1), 2017, pp. 224-247.

Sudrià, C., ‘La necesidad de una banca catalana (en minúscula), *El País,* 27/01/1983.

Sudrià, C., ‘Los beneficios de España durante la gran guerra’, *Revista de Historia Económica, Journal of Iberian and Latin American Economic History,* 8 (2), 1990, pp. 363-396.

Sudrià, C., ‘Desarrollo industrial y subdesarrollo bancario en Cataluña, 1844-1950’, in ‘Lecturas de historia empresarial’ by J.L. García Ruiz and J.H. Hernández Andreu (Madrid, 1994), pp. 217-262.

Sudrià, C., ‘La banca catalana en los años de entreguerras y el debate sobre la decadencia’, *Revista de la historia de la economía y de la empresa,* 1, 2007, pp. 269-287.

Tallada, J.M., *Informació sobre la necessitat de crear banca catalana* (Barcelona, 1908).

Tejada Bergado, C., *La banca extranjera en España, 1898-1921* (Madrid, 2013).

Tortella, G. and Palafox, J., ‘Banking and industry in Spain, 1918-1936’, *The Journal of European Economic History,* 13 (2), 1984, pp. 81-111.

Ugolini, S., *The evolution of central banking: theory and history* (London, 2017).

Ugolini, S., ‘Moral Hazard and lending of last resort’, in ‘Moral hazard: a financial, legal and economic perspective’ by J. Flores Zendejas, N. Gaillard and R. Michalek (London, 2022), pp.37-54.

Van Meerten, M., ‘Faktor zeven op de beurs : de wilde jaren twintig en de crash van 1929’, in Declercq, G., ‘O.C.’ (Brugge, 1992), pp.235-253.

Velarde, J., ‘Indalecio Prieto, en Hacienda’, *Studia Historica, Historia Contemporanea,* 1, 1983.

Velarde, J., ‘Indalecio Prieto como gestor de la economía Española’, in ‘Indalecio Prieto, Ministro de Hacienda’ by J. Velarde (Madrid, 2015).

Vinogradov, D., ‘Destructive effects of constructive ambiguity in risky times’, *Journal of International Money and Finance,* 31 (6), pp. 1459-1481.

Willems, H., ‘Multiple Voting Rights in the shareholders’ general meeting in Belgium during the interwar period’, in C. Brautaset ‘Essays in European business Performance in the 20th century’, (London, 2005), pp.69-90.

APPENDIX

The present Appendix contains information and details on the archival sources used in the article. It also contains Tables and figures to which I refer during the text but that for space restrictions are not included. Finally, it also includes specific references to elements of this crisis that are important in the historiography of the crisis but that for space reasons I can't discuss in the main text. These elements are considered when elaborating my argument.

Archival data sources

Historical archives:

- Archivo Histórico del Banco de Bilbao Vizcaya Argentaria:
    - Banco Exterior de España:
        - Actas del Consejo de Administración (ACA BEX)
        - Actas del Comité de Dirección (ACD BEX)
        - Junta General de Accionistas (JGA BEX)
        - Memorias (MBEX)
- Arxiu Històric del Banc de Sabadell:
    - Banco Urquijo de Madrid:
        - Libro de Actas (LABU)
- Archivo Histórico del Banco de España:
    - Dirección General de Sucursales, Legajo. 1248 (AHBE, DGS, L.1428)

- Biblioteca del Banco de España:
    - Consejo Superior Bancario
        - Actas (ACSB)

        - Boletines del Consejo Superior Bancario

- Archivo Histórico del Banco de Santander Central Hispano:
    - Libro de Actas de la Comisión Permanente del Banco Central (LACPBC)
    - Informe de la Dirección General al Consejo de Administración presentado en la sesión del día 29 de Abril (C.5583).

- Fons Cabana Vancells, Universitat de Barcelona (FCV UB):
    - Box 23 Folder 1 (FCV UB 23/1)
    - Box 23 Folder 3 (FCV UB 23/3)
    - Box 23 Folder 7 (FCV UB 23/7)
    - Box 23 Folder 8 (FCV UB 23/8)
    - Box 26 Folder 2 (FCV UB 26/2)
    - Box 27 Folder 6 (FCV UB 27/6)
    - Green Box, no numbering (FCV UB GB)

- Institutio Nacional de Estadística (INE)
    - Anuario Histórico (INE AH)

Newspapers:

- La Veu de Catalunya, Financial Times, La Vanguardia, El País, El Financiero, La Nación, Crisol, Porquoi Pas?, Recuéil Financier.

Legislation:

- Real Decreto Ley de 6 de Agosto de 1928.
- Real Decreto Ley de 27 de Marzo de 1929.

Tables and Figures

ASSETS				LIABILITIES			
Cash			2813935	Capital			25000000
Securities			10772916	Correspondents			1743979
Correspondents			8732954	Current accounts			15721848
Current accounts			484866		Call deposits	12402567	
Credit accounts			3315076		Term deposits	1375963	
					Others	1943318	
Foreign correspondents			59650945	Foreign correspondents			4818
Foreign exchange			93771270	Foreign exchange			153935232
	Long term				Long term		
	German marks	54200000			German marks	37812494	
	Austrian crowns	32000000			Austrian crowns	597888	
	Italian liras	3562535			Italian liras	3665494	
					British pounds	241238	
					US Dollars	49650	
					French francs	13040024	
	Short term				Short term		
	French francs	1802805			French francs	12380284	
	British pounds	147267			British pounds	48123	
	US Dollars	212860			US Dollars	228934	
	German marks	1345586			German marks	27915672	
	Austrian crowns	367956			Austrian crowns	54054824	
	Italian liras	132188			Italian liras	3697687	
	Belgian francs	0			Belgian francs	164888	
	Portuguese escudos	73			Portuguese escudos	27729	
					Swiss francs	8185	
					Norwegian crowns	2118	
Foreign long term commercial paper			53757059	Foreign long term commercial paper			54102858
Other assets			5555261	Other liabilities			3345547
Own shares			15000000				
Total assets			253854282	Total liabilities			253854282

Table 3. Balance sheet of Banco de Cataluña, December 1921

Source: *Expediente Crisis del Banco de Cataluña y su vuelta a la normalidad, 1928, Banco de España (AHBE, DGS, L.1248).*

List of companies merged into Compañía General del Corcho (Cogeco)

CIL went into liquidation in 1931, with assets of 60 million francs and liabilities of 208 million[135]. Besides CIL, Cogeco also merged Belgian companies *Le Linoleum*, *Bouchonneries reunies* and *La Quercine*, French companies *Societé Française de Liege i Solomite*, Italian *Fratelli Sasso*, *Società Sarda dei Sugheri*, *C.M. Bellu Sardaigne*, *Union Mercantile Italienne*, German *Vereinigte Korkindustrie AG*, Swedish, *Aktiebolaget Wicanders Korkfabriker*, British *Motolinio*, *National Cork Industries*, US *Johnson & Turner*, Algerian *Compagnie Africaine du Liège*, and Portuguese *The Algarve Co.* Spanish companies were *La Suberina*, *Esteva y Masser*, *La Corchera Catalana*, *Corchera Levantina*, *La Industria Corcho-Taponera*, *Industrial Corchera Mallol Hermanos* and a small firm in Almería[136].

Commodity	Amount (pesetas)	% share of total
Cork	12.134.777	32%
Olive oil	6.698.072	17%
Other exports	5.298.540	14%
Textiles	4.046.388	11%
Fruit	1.978.245	5%
Wine	1.763.430	5%
Chemical products	1.646.449	4%
Preserves	994.143	3%
Books	594.422	2%
Wool	970.186	3%
Metals	971.294	3%
Shoes	589.916	2%
Leather	823.921	2%
Total	38.509.783	

Table 4. Banco Exterior de España, loans by commodity (December 1930)

Source: "*El Banco Exterior de España en su primer ejercicio social, El Financiero*, Num. 1557, 30/01/1931, p.153 et passim

[135] *Liquidation, Comptes Rendus Financiers, Compagnie commercial et industrielle du Liège (C.I.L.), Revue generale du froid, avril 1932* (Les Enterprises Coloniales Françaises, 08/12/2020, www.enterprises-coloniales.fr). One year after the company had gone into liquidation, in 1932 BEX had already abandoned the idea of succeeding in its claims for COGECO´s foreign assets (*ACA BEX, Acta 38, 10/05/1932, p.327).*

[136] "*El monopolio mundial del corcho y la industria corchera nacional", El Financiero*, Num. 1461, 29/03/1929, p.2.

Liquidity provision by Banco de España to Banco de Cataluña

Day	Amount	Maturity	Type	Collateral / Guarantee / Comments
13 Jan	714.500 ptas	90 days	Advance	Not reported
3 Feb	721.710 ptas	90 days	Advance	
3 Feb	668.250 ptas	90 days	Advance	
27 Feb	2.400.000 ptas	90 days	Advance	
6 Mar	935.550 ptas	90 days	Advance	
8 May	460.000 ptas	90 days	Advance	
24 May	535.000 ptas	90 days	Advance	
29 May	1.800.000 ptas	90 days	Advance	
13 Jun	7.000.000 ptas	90 days	Advance	Shares BEX, B.Arnús, CEPSA, ALENA.
13 Jun	716.250 ptas	90 days	Advance	Not reported
13 Jun	5.559.750 ptas	90 days	Advance	
13 Jun	7.314.750 ptas	90 days	Advance	
13 Jun	8.514.960 ptas	90 days	Advance	
19 Jun	1.000.000 ptas	90 days	Advance	Railways bonds (*Deuda Ferroviaria)*
23 Jun	10.000.000 ptas	90 days	Advance	Signed by all board members (including Eduard, but not Francesc Recasens).
24 Jun	7.000.000 ptas	90 days	Advance	
30 Jun	1.560.000 ptas	90 days	Advance	Not reported
Collateralized	32.900.720 ptas			
Personal	24.000.000 ptas			
Total all	**56.900.720 ptas**			

Table 5. Liquidity provision from Banco de España to Banco de Cataluña, Jan. to Jul. 1931

Source: *Dirección General de Sucursales, Legajo. 1248* and *Actas de la Comisión de Operaciones del Banco de España, Archivo Histórico del Banco de España.*

Summary of the Real Decreto that founded Banco Exterior de España

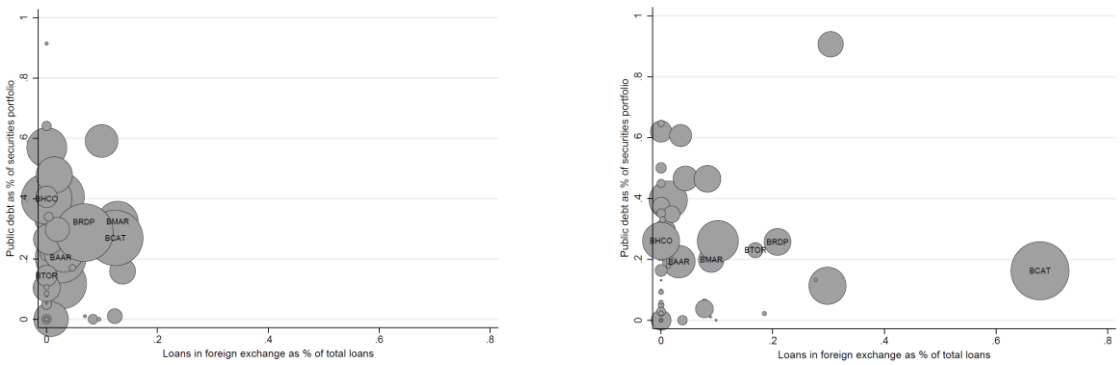
Two groups aimed at ownership and management of the newborn bank. On the one hand, Banco Urquijo de Madrid and other 94 banks. On the other, *Sociedad Anonima de Credito Nacional Peninsular y Americano*, a consortium formed by Banco Internacional de Industria y Comercio, Banco de Cataluña, Banco Central, Banco Hispano Colonial, Banco de Reus, Banco de Tortosa, Banca March, Banca Marsans and Banca Arnus-Gari. Finally *Credito Nacional Peninsular y Americano* was granted with the ownsership and management of BEX. According to the Real Decreto-Ley of 27/03/1929, the latter was assigned the project because: "*(...) the only improvement offered by Banco Urquijo´s proposal was the free management of the Treasury´s accounts in foreign countries. The ones by Credito Nacional Pensinsular y Americano (OLYPA) were reducing the permanent subsidy of the State in the bank from 10 to 5 million pesetas, returning the 15 million pesetas advanced by the State in 15 years, rather than in 40 as had been established, increase the participation of the State in the bank´s profits and accelerate capital disbursement. Regarding operations of the bank, Urquijo´s proposal is limited to general considerations, but OLYPA is very thoroughly detailed (...) and it includes suggestions and offerings of great value (...).*" After this initial statement, the State Council suggested that an agreement should be reached between the two different groups. The Government dismissed this option by arguing that *"it would atomize each bank´s interest excessively and would harm the bank´s action".* The Real Decreto-Ley went on to discuss the specific terms of the contract.

Uniqueness of Banco de Cataluña strategy compared to other Catalan banks

Figure 8 below shows the unique departure of Banco de Cataluña from the collateral framework based on public debt that virtually all Spanish banks adhered to. I compare the evolution of Banco de Cataluña's portfolio to other banks headquartered in Barcelona in order to show that the mechanisms affecting Banco de Cataluña were unique to this bank and not necessarily a feature of the business model of banks in Barcelona. The charts show the share of loans in foreign exchange in the x-axis and the share of public debt in the portfolio of securities on the y-axis for 1928 and 1931. Circles reflect bank size (total assets). Banks having their initials written are those that were also members of the group of banks that was granted the management of BEX.

Figure 8. Liquidity risk and foreign exposure of BEX banks (1928 vs 1931)

1928 1931



Source: own calculations based on *Boletines del Consejo Superior Bancario*. BCAT is Banco de Cataluña, BHCO is Banco Hispano Colonial, BRDP is Banco de Reus de Descuentos y Préstamos, BTOR is Banco de Tortosa, BMAR is Banca Marsans and BAAR is Banca Arnús.

The role of the withdrawal of CAMPSA funds in the failure of the bank

In the interview quoted in the text, the Minister of Finance of the provisional government of the Republic, Indalecio Prieto also alluded to CAMPSA, the state oil monopoly that a group of Spanish banks had been running since 1927. The interviewer continued by asking *"which are your projects regarding the national oil monopoly* (CAMPSA)*"?:*

> *"Well… my idea consists in taking it away from the hands of banks. I think banks are not doing any special function in running CAMPSA and more than helping, they are a hindrance. I would just go towards a direct managing of the oil rent, and for this I would trust the organization of the State. This is actually a problem. If I had faith (and I don´t have it) in the ability of public administration to run this, it would be a very easy problem to solve: I would just rescind the contract and go towards a direct administration of the oil rent by the State. But even given all its inconveniences, that are enormous—among them the fact that banks are involved in the company—the organization of the company as a monopoly is actually a better solution. To put this in hands of public administration would be a disaster. (…)".*

Some authors have argued that Prieto's order to withdraw CAMPSA funds from Banco de Cataluña in the first days of July was the cause of the failure[137]. Others, however, argue that it was rather an outcome of the imminent failure of the bank[138]. A shortcoming when assessing these debates has to do with the actual amounts involved. Some authors mention CAMPSA deposits totaling more than 4 million pesetas[139]. Estimates from the quantities differ, and contemporary newspapers did not provide any figure. However, a letter sent from an ex-employee of Banco de Cataluña to historian Francesc Cabana in 1982 reads:

---

[137] Cabana, '*La banca a Catalunya'.*
[138] Tortella and Palafox, 'Banking and industry'.
[139] Sudrià, '*La banca catalana',* p.282.

> "*The funny thing is that CAMPSA had a balance* [with Banco de Cataluña] *which was between 5 and 7 million pesetas (...) and I recall that there was a floating hypothesis that the withdrawal of these deposits pushed the bank to fail. There was also the alternative opinion that the bank failed because of the collapse of the Núria mountain train line.*"[140]

The amounts involved seem small, compared to the exposure of other state-backed institutions to the failure of Banco de Cataluña and for which no withdrawal of funds was possible, like BEX or COCM (see main text). Given the size (10% of the total amounts of emergency liquidity borrowed by the bank during the crisis), the absence of an ex-ante discussion of this withdrawal in the press and the number of alternative explanations that insiders had for the failure, it does not seem that the CAMPSA funds did actually play a key role in the failure, but their withdrawal was instead a consequence of it.

Similarly, some authors have also argued that newspaper *El Sol* published an article on 4 July in which it alluded to a bank that "had problems" in Barcelona[141]. The argument in this case is that this news pushed depositors against the bank. The fact is, however, that on 6 July, the bank was still open and there was not a single report in the press about a run on the bank. Depositors only ran on the bank once it failed to open its doors on 7 July 1931 morning. The failure of the bank does not seem to have been anticipated by common retail depositors. This is consistent with the account presented in this article, that points to interbank funding problems (through *Banco Exterior*) and deteriorating assets, rather than a run on the bank's retail deposits.

Another interesting element that I can't discuss in the paper is that Banco de Cataluña directors cancelled large shares of their own debts before declaring the suspension of payments. In some

[140] Carta de Pere Camps i Serra a Francesc Cabana, 23/11/1982, FCV GB.
[141] Cabana, *ibid.*

cases, they did so by selling their own Banco de Cataluña shares to the bank and in others without providing any assets in exchange. For example, On 2 July 1931, Eduard Recasens closed a 3.67 million debtor balance without providing any inflow of cash or securities for the bank and on 6 July 1931, he sold Banco de Cataluña 741.000 pesetas in shares at the nominal value of 500 pesetas per share, while shares were trading at 295 pesetas. Board member Laureano Hereter, for example, liquidated a debtor balance of 5.9 million pesetas without providing the concomitant payments to close the operation[142]. In the same letter sent by a Banco de Cataluña clerk to historian Francesc Cabana in 1982, he reported:

> "*On 6 July 1931 (...) management allowed whoever of us had a deposit or current account in the bank to withdraw their funds in order to reduce the amount owed to creditors.*"[143]

After these episodes, and alluding to Articles 307 and 308 of Spanish Penal Code, Eduard Recasens was prosecuted after the failure of the bank[144]. Right after the failure of the bank, he flew to Paris, and following these charges, he was sentenced to prison on 1 November 1933[145].

---

[142] *Carta de los Interventores al Juzgado,* 7 January 1932, FCV UB, 23/3.
[143] Carta de Pere Camps i Serra a Francesc Cabana, 23/11/1982, FCV UB GB.
[144] FCV UB, 23/7 and 23/8.
[145] Cabana, '*Cien empresarios*', p.435.

The ***eabh* Working Papers Series** (***eabh* Papers**), launched in 2014, gives scholars in banking, financial, business, and economic history and related fields the opportunity to distribute their research-in-progress. Making these findings available to a wider audience, even at an early stage, supports authors' search for qualified feedback, makes their work visible to international audiences, and increases their research's impact. These are important steps towards publication in a top-ranking scientific journal.

eabh offers

- 'Light-touch editing': ensuring that basic scholarly standards are met. Papers may be sent to outside experts for advice.
- Language editing (papers must be submitted in English): ensuring that a basic English language level is met.
- Copyediting in line with the RePEc standards.
- Promotion through our international network and listing of papers in relevant on-line databases.

Submission

Submissions should go to Ms Carmen Hofmann (c.hofmann@bankinghistory.org)

Series Co-Editors

Andrea Papadia, University of York

Sarah Quincy, Vanderbilt University

Further information

Submission guidelines and a full list of *eabh Papers* are available from the *eabh* website (http://bankinghistory.org/publications/eabh-papers/)