

bulletin



Newsletter from the EABH

2/2005



European Association for
Banking and Financial
History e.V.

La Casa Rothschild en España (1812-1941)
Miguel A. López-Morell
 Madrid, 2005, Marcial Pons Historia, 565 pages



The present work attempts to analyse an approach to the investments and financial activities carried out by the Rothschild House in Spain during the nineteenth century and in the first third of the twentieth century. Actually, this is a phenomenon that connects directly with one of the main debates in economic historiography: the impact that foreign capital actually had in the economy of those countries under development during the period when industrialisation and modern capitalism were definitely consolidated. The argument departs from the classical work by Cameron, Lewis and Gerschenkron about the exogenous development of latecomers and endeavours to confirm or argue with new sources the initial hypothesis that well-known authors (such as Broder, Tortella, Nadal, Harvey, Anes or Tedde) have suggested about the role that this merchant bank performed in the evolution of public finances, as well as in the development of bank, mining and railways in Spain during these years.

To sum up, this work has four main objectives. Firstly, to limit the period when the main capital entries sprung from the initiatives taken by the Rothschild family, how consequential they really were, and the sectors they affected. Secondly, to quantify the importance of these investments and financial activities and the weight they had on financial sectors, companies and Spanish markets, as well as in foreign investment in each period. Thirdly, to outline the steps followed and means used by the Rothschild House in order to achieve the success in each of their businesses. Finally, we will undertake to analyse the consequences of this phenomenon in the ac-

tual growth of Spanish contemporary economy, both in a general and in a partial scale. This last step has the aim of weighing the whole of this process, from its origins to the final dissolution of the most important investment in 1941, faithfully following the chronology of events in the period.

In chapters one to three, which covers the period that goes from 1811 to 1850, the operations of the Rothschild House in Spain for the finance of Wellington's Army are described and analysed, from their disagreements with King Fernando the Seventh's government, up to the final opening of a stable agency in Madrid, in 1835, which would become one of the active financial settlements in the city. From then on, the Rothschild family developed a complex network of financial relationships with the Spanish State, which received a substantial amount of loans, and for which they negotiated part of the public debt in foreign countries. The group would make a profit from its financial dominance to affirm its privileged and exclusive presence in several sectors monopolized by the government, especially the contracts on exclusive sellings of the production of the Almadén mines, together with the Ydria mines. These activities allowed the family to exercise an effective monopoly of the mercury supply in the world for more than ninety years. From that moment on, two main rupturing events took place in the following decades, analysed in the following chapters.

The first of those events, starting chapter two, can be placed at the end of 1855, when the Rothschild family started to promote the railway

business in Spain, through the Madrid-Zaragoza-Alicante (MZA) company. This society developed a great investing effort, financed exclusively with French capital, a fact that led to the building of some of the main railway lines in Spain, in competition with “Norte de España”, a railway company with a very similar length, managed by the Pereire family. In a parallel line, the Rothschild family developed their most important financial operations, both with the treasury and with the Bank of Spain, in a growing process of intervention into public finance which became increasingly consequential during the money crisis of 1861 onwards. This process was consolidated during the democratic Sexenio (1868-1874), and lasted until the adjustment of the public debt in 1876 and 1881.

Chapters seven and eight describe and analyse the following ruptures, which can be situated around 1875 and 1880. From those years onwards, and without abandoning their financial relationships with the Spanish government, the Rothschild group took a second turn, essential in the diversification of their investments. The Rothschild family tried to profit from their experience in the raw materials trade, in order to go up to the direct control of industrial production. They would either gain ownership of share capital, or promote specific companies, as it would happen in the case of copper and plumb (metals with which the Rothschild had developed intense exchanges from the middle of XIX century) and petrol, following the success of the *Bnito* Company prospecting for oil in the Caucasian region. In this way the Rothschild's decisive contribution in the creation of the *Deutsch et Cie.* petrol refinery (a company that began in 1879 thanks to an agreement between the Rothschild House of Paris and French refiner *Deutsch de la Meurthe*), the setting up of the *Société Minière et Metallurgique Peñarroya* in 1881 and the control over the *Rio Tinto Company* from 1889 took place. The latter would become unquestionable leaders for the production and transformation of plumb and copper

pyrite in Spain and Europe, respectively, in the coming years.

The ninth and tenth chapters point out the three factors that are related to the decadence of the Rothschild family's businesses in Spain in the first third of twentieth century. On the one hand, the failure of the generational relay in the Rothschild's Agency in Madrid, that did away with the success of their businesses in Spain. This fact led to a considerable reduction of business initiatives. On the other hand, the general crisis in the international economy of the twenties sent markets plummeting and evidenced the lack of corporate organisation in industrial processes and commercial structure, mostly the mining ventures that plunged and had to look for alternative beds in other countries. Finally, Spain underwent a process of political nationalism and progressive transformation of economic and political structures, which put foreign initiative in a disadvantageous position, as compared to domestic ones, losing favours they had enjoyed during the Restoration period.

The eleventh chapter undertakes to cover the main global analytical contributions. This section underlines a series of elements repeated along the whole process, characterising them and explaining the entrepreneurial success accomplished. These factors are mainly the following ones: the Rothschild family's superiority in the providing of financial services, their facility to control markets, their flexibility to apply industrial and financial strategies, and the effective transmission of information. Firstly, the superiority of their financial services is discussed, both in the supply of services to the State and the Bank of Spain, and in their corporate financing, above in quality to the one provided by the domestic market. Secondly, their facility to dominate markets through the establishment of monopolies or cartels at either a national or an international level, developed in all the corporations they controlled in a more or less disguised way. Thirdly, the flexibility they

showed when applying different industrial and financial strategies in their companies, allowed them to profit the most in different scenes. And, lastly, they gave prime importance to effective transmission of information in their way of negotiating through a system of agencies and contacts created for that effect among politicians and business classes in Spain.

The last chapter tries to establish some of the main consequences of the studied phenomenon, both from the Rothschild family's perspective as investors in the Spanish economy - quantifying the profitability of each of their business areas- and their weight in the foreign and national investment in Spain at large. To conclude, their influence on the Spanish Treasury and on the industrial sectors of the country will be analysed. Compared to the global Spanish investment (calculated by Carreras), and to the foreign investment as a whole (compiled by Broder), the general data used assert that the quantities involved were very important. In the field of private investment, the Rothschild family handled between 5 % and 15 % of the total Spanish investment and up to 55% of the whole foreign investment. A figure that gains more power taking into account the factor of the concentration of these capitals in the most dynamic and strategic sectors of the Spanish economy. Besides, MZA supplied around 30% of railway network, mainly in quality, because it controlled four of the most important railway radial lines in the country, apart from raising a similar level in the movement of goods and passengers. Apart from that, Peñarroya and Riotinto covered most part of the national production of plumb, copper and pyrites, and a remarkable participation in the production of coal. With references to the Deutsch et Cie, the figures of the last quinquennium of the 19th Century is the only information available, when its third participation in the national production of refined petrol is confirmed. All of this, not including other productive contributions of these companies that were important as well, for instance, that of the

sulphuric acid, superphosphates, electricity or coal-derived products, where participation was very important as well. On the other hand, these investments were very profitable, mainly that of Riotinto's, which showed an annual financial profitability of 14,6% during the period at large, when they controlled this company (from 1889 to 1936, according to our research), with years of maximum profitability that correspond to the period from 1896 to 1913, when these figures rise to 28,8%.

Finally, it is unavoidable emphasising on the fact that for the development of this project, first-rate resources have been used, located in British and French branches of the Rothschild family's archives (in London and Roubaix), where valuable material has been contrasted with the Spanish and French public administration documentation (Archivo Histórico Nacional, Archivo de la Administración Civil del Estado, Ministère Française des Affaires Etrangères, Ministère Française d'Economie et Finances and Ministère Française d'Industrie et Commerce), as well as records of financial institutions in the period, such as the Bank of Spain. Together with these, archives of companies controlled by Rothschild in Spain have also been analysed, such as the old Société Minière et Metallurgique Peñarroya (at present Metaleurop), the Rio Tinto Company in London and the archives found in the mine itself, and those of the MZA railway company, sited in the Spanish Railway Foundation archives.

Miguel A. López-Morell

University of Murcia
Facultad de Economía y Empresa
Campus de Espinardo S/N
30100 Murcia (Spain)
E-Mail: mlmorell@um.es
Telephone: 00-34-968367934