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FINANCIAL CRISES AND THE PUBLICATION OF THE FINANCIAL STATEMENTS OF BANKS IN SPAIN, 1844-1868

Abstract: Financial crises have had a decisive influence on banking regulations in Spain. During the mid-19th century the publication of the financial statements of banks was considered key to the stability of the financial system. All new joint stock banking companies were to publish their statements in the *Madrid Gazette* in return for the privilege of limited liability. Similar obligations were placed on issuing banks. The copious publication of financial statements coincided with a period of financial prosperity. However, the crises that followed from 1864 to 1868 led to a reduction in the official publication of statements. This paper is concerned with an early response to crises in financial reporting. The study focuses on the relationship between the publication of accounting statements by banks and the GDP in Spain during the mid-19th century. The results suggest that the frequency of publication of financial statements may be an indicator of economic performance.

INTRODUCTION

As Hernández [1996a, p. 92] has noted, the ideas that helped to shape modern-day accounting in Spain originated in the 19th century. A number of short papers on accounting regulation in 19th century Spain have been published [Goxens, 1985; Fernández, 1988; Giner, 1993]. Explanations for change and the political, economic and social contexts in which it occurred have also been analyzed [Bernal, 2000]. Annisette and Macías [2002] revealed the financial reporting practices of the Banco de España. However, none of these contributions have

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investigated changes in the accounting regulation of joint stock banking companies as a response to crises. Neither has there been any research into the relationship between financial disclosure and the trajectory of the economic cycle in mid-19th century Spain.

Kindleberger [1978] views the financial crisis of the 19th century as a key turning point in the business cycle and as the inevitable consequence of the preceding boom. He stresses the role of adverse expectations, forced liquidation and debt deflation. It has often been suggested that accounting regulation has changed as a response to financial crises and scandals [Previts and Merino, 1979, pp. 270-276; Merino and Neimark, 1982, p. 45; Walker, 1996, pp. 312-319; Bernal, 2000]. The shock effect of financial scandal has long been the catalyst for convincing legislators, businessmen and accountants of the need for reform [Edwards, 1996, pp. 66-67].

In Victorian Britain the lack of compulsory financial disclosure pertaining to manufacturing concerns contrasted with the reporting practices of public utilities, insurance companies, banks, and railroads, whose activities were more closely regulated and reported [Hawkins, 1963, p. 137]. Parker [1990, p. 69] explains the differential treatment of public utilities and regulated companies as being "for reasons of monopoly, privilege and safety, not just, or even primarily, for the protection of shareholders". The British Parliament was not slow to legislate for increased disclosure in the case of particular sectors of the economy, especially where public interest had been aroused as a consequence of financial scandals, such as the City of Glasgow crash in 1878 [Napier and Noke, 1992, pp. 37-38; Walker, 1998].[1] Conversely, Bordo [1986, p. 191] argues that one of the key elements of a financial crisis is the fact that "Runs on particular banks . . . could lead to a general banking panic, where the public at large, fearful of suffering severe losses on their deposits should the banks fail, or of paying a premium on currency in the event of a suspension of payments, attempts to convert deposits into currency". This situation can result in a significant reduction in the official publication of financial statements.

[1] Similarly, McCartney and Arnold [2002, pp. 401-417] have discussed changes in reporting practices by railway companies during the mid-19th century and provoked a re-examination of ideas about the impact of crises on financial reporting.

In this paper, I examine the essential features of the financial crises that occurred in Spain between 1844 and 1868, their influence on accounting regulation, and the publication of financial statements of the joint stock banking companies in the *Madrid Gazette*. The extent to which the volume of accounting publications was related to the level of economic activity is also explored. The study is based on the financial statements of bank and credit institutions published in the *Madrid Gazette*, 1844-1868 (8,760 bulletins). This period coincided with the reign of Isabel II, enabling an analysis of the reasons and consequences of the different accounting regulations that were passed under that regime. A series of financial statements of the numerous banks and credit institutions operating during the time were analyzed.

The findings reveal that the financial crises which occurred in mid-19th century Spain had a significant impact on the regulation and the financial disclosure practices of joint stock banking companies. As these new companies had the privilege of limited liability and the issuing banks had the right to issue notes, the publication of statements in the official government newspaper, the *Madrid Gazette*, was deemed necessary. Hitherto bankers were perceived as a form of trading concern [García López, 2000], subject to the rules of the Commercial Code, 1829 [Blanco, 1980; Hernández, 1996b]. Under this arrangement accounting information was confidential, although its disclosure and examination could be ordered in the event of proceedings in relation to succession or insolvency. Banks only published accounting information when obliged to do so by the state, and additional voluntary disclosures were seldom made.

The paper is structured as follows. The next section explores the background to bank disclosure practices in Spain. There follows a review of the financial statements of the joint stock banking companies and the impact of financial crises; an analysis of published financial statements, 1844-1855, a period when the creation of banks was very restrictive; an analysis of published accounts, 1856-1868, when the policy towards bank formation was more expansive. Then follows an examination of the correlation between the frequency of publication of financial statements and GDP in order to discover whether the extent of disclosure indicated greater macro-economic activity. This analysis of the correlation between financial disclosure and the Spanish GDP suggests that the frequency of publication of financial statements could be interpreted as an indicator of subsequent economic performance.

ANTECEDENTS

In 1833 the *London Gazette* began the monthly publication of notes in circulation issued by the Bank of England and the country banks in Britain [Gilbart, 1837, pp. 95-99]. However, the publication of statements about the assets and liabilities of the issuers and banking departments of the Bank of England, commonly called "the bank return", did not begin until the Joint-Stock Banks Regulation Act, 1844 required the publication of those statements [Parker, 1990; Jones and Aiken, 1994; Withers, 1910, pp. 70-71].[2] These disclosures increased the trust of the shareholders and the public and reduced the risk of bankruptcy of the joint-stock banks [Mill, 1848, p. 138].[3]

Courcelle-Seneuil [1857, pp. 289-299] states that a law in Massachusetts, 1829 obliged banks to periodically submit financial statements to the governor and arrange for their publication. Tucker [1839, p. 212] suggested that the American banks had become sensible of the advantages of publication experienced in Britain. In the same vein, Duncombe [1841, p. 244] indicated that the frequent publishing of statements by the American banks, together with the reports of the state directors following their examination and supervision of the institutions, would enable the public to understand the business of the bank, and to approve or disapprove of the measures taken by the directors.

In Spain, only the Banco Nacional de San Carlos was organized as a joint-stock company, in 1782.[4] In 1829 it was liquidated and became the Banco de San Fernando. The Royal Decree of 12 July 1829 determined that the liquidation statements of the bank, with the table of the dividend and the state of the reserved fund, would be printed every six months, and copies distributed to any shareholders requesting them. Tedde [1999, p. 32] points out that on 10 July 1832 a Commission postponed the second issue of notes until a statement of the funds of the Banco de San Fernando, its operations and results were agreed at the first general meeting and disclosed in order for the public to verify the soundness of the institution. However, in March 1833,

[2] The Parliamentary Commission created to investigate the crisis of 1837, attributed to the excessive issue of notes of the private and commercial banks, recommended the periodical publication of the assets and liabilities of banks [Arrazola et al, 1852, pp. 468-469]. Gilbart [1837, pp. 99-101] highlighted the disadvantages of publishing the balances of the private banks.

[3] This opinion was incorporated in the sixth edition [1865].

[4] On early accounting by the Banco de San Carlos see Hernández [1989].

it was agreed to stop publishing the annual balance sheet of the bank to maintain secrecy with respect to "the chest where the mystery of the credit must be enclosed . . . a mystery that if published destroys its virtue" [Tortella, 1973, p. 29].

It was also established that the management of the Banco de San Fernando would be inspected by a commissioner, a royal appointee paid for by the bank. The commissioner was required to be a civil servant with sound financial knowledge. The appointment of a commissioner by royal appointment would feature in all the subsequent laws creating issuing banks. The commissioner's object was to scrutinize the books, registers and entries to guarantee the legality of the bank's operations, and to examine the report and balance sheet to be presented at the shareholders meetings, ensuring that these agreed with underlying books and documents.

During the mid-19th century it was considered that publication, the existence of capital proportionate to issues of notes[5] and the verification of banking activity by competent inspectors, were essential to the stability of the financial system [Villaumé, 1857, p. 238].

FINANCIAL CRISES AND THE ACCOUNTING REGULATION OF JOINT STOCK BANKING COMPANIES

Although Spain was one of the cradles of liberalism during the 19th century, a stable political system could not be created and sustained in that country. During the reign of Isabel II (1843-1868) heated political dispute took place between two liberal factions: the *moderados* and the *progresistas*. Government was characterized by a high degree of state control [Artola, 1973, p. 212]. The economic situation was greatly influenced by the budgetary imbalances, which resulted from massive military spending during the 1793-1815 period. The country's impoverished state and the loss of colonies following the Spanish-American Wars of Independence (1810-1826) exacerbated the financial problems [Tortella, 1994, p.162]. However, from 1844 until the financial crisis of 1847 a period of growth ensued. This coincided with the end of the civil war and the expansion of the international economy.

[5] Capie and Wood [1999, p. 4] suggest that the crises of 1847, 1857 and 1866 revealed the need to increase bank reserves in order to improve their protection during the financial crises.

In this period of economic well-being tradesmen and businessmen promoted joint stock banking companies. The object was to issue notes, thus securing the same rights as the Banco de San Fernando, the only issuing bank. In 1844 the Banco de Isabel II in Madrid and the Banco de Barcelona obtained this privilege, followed by the Banco de Cádiz in 1847.

Through the Law of 1 May 1844, the Banco de Barcelona was created. Its charters established that a double issue of notes was permissible when the "public had an exact knowledge of the sound bases that the credit of the bank rested upon". The Bank commenced activity on 1 September 1845. Its first report included a statement of operations and a balance sheet as at 31 January 1846. This would be published in the Barcelona newspapers and in the *Madrid Gazette*, where it was stated that the sound functioning of the bank was based on public knowledge of its operations. Under a Royal Decree of 25 February 1847 the Banco de San Fernando and the Banco de Isabel II merged. The government determined that the accounts of the merged bank would be published at specified intervals in the *Madrid Gazette*.

The Royal Order of 25 July 1847 approving the charters of the Banco de Cadiz established that the accounts of the bank were to be distributed to the shareholders, published in the *Madrid Gazette* and in the bulletin of the province of Cadiz. The Royal Order of 14 November 1848 also determined that the bank had to submit a statement, according to a model determined by the Treasury, every fifteen days, specifying the stock that it had in expired bills, and bills not collected or protested [Ruiz, 1977, p. 69].

The Crisis of 1847: The international crisis of 1847 affected Spain "violently" [Sardá, 1948, pp. 91-97]. Its nature was twofold: agricultural, linked to the scarcity of cereals; and financial, caused by the rise in the price of silver. In Spain there was a great shortage of metals which increased the restriction on credit [Tortella, 1994, p. 176] resulting in financing difficulties for the state and the private sector. The nominal capital of the companies in the trade register of Madrid fell from an annual mean of 2,719.5 million "reales" in 1845-1846 to 554.9 million "reales" in 1847-1848 [Martín, 1993]. The majority of companies in the financial and insurance sector disappeared [Tedde, 1999, pp. 136-137].

The international crisis hastened approval of a law regulating companies on 17 February 1848. This imposed tight restrictions on the creation of issuing banks and reinforced inspection and publication requirements. The Royal Order of 31 July 1848 emphasized that the main objective of the Law for the Regulation of Share Companies was to impose strict administrative order on companies and thereby protect the shareholders and those contracting with the company. This could only be guaranteed by frequent inspection and making operations visible through publicity. Such regulation was perceived as the price of limited liability. As a company was only liable in its contracts to the limit of share capital it was fair that those who contracted with it should know the limit of this guarantee.

The special characteristics of the issuing banks led the government to formulate specific regulations. This was especially the case with the most important bank, the Banco de San Fernando. An attempt was made in mid-1848 to tackle the discredit of its notes. The Royal Order of 21 June[6] required the publication in the *Madrid Gazette* of the amount, series and numbers of all notes in order to reduce the number of notes in circulation [Arrazola et al, 1852, pp. 488-489]. An Order of 7 December 1849 determined that, within the first ten days of each month, the Governor of the Bank would send to the Treasury a statement declaring the operations of the previous month, the situation on the last day of the month, and the movement of notes and shares.

Further, the Law of 15 December 1851 reorganized the Banco de San Fernando and obliged the publication in the Monday issue of the *Madrid Gazette* of a statement showing notes in circulation, deposits, current accounts and stock, both in cash and gold or silver bars, and in fixed term current values and current values of probable execution in 90 days. Santillan, the Bank Governor, presented the first such statement on 16 February 1852 [Massa, 1858, p. 716]. He indicated that the form and content of the statement detailed the assets and liabilities of the Bank according to the practice of disclosing information to the board, which from hereon would be revealed to the public. Santillan added that the statement would not "extend to a greater number of entries without the risk of leading to faults or inexact appreciations . . . Now the statement must also include the debits for capital and profits, as well as the securities, which must face up to these interior obligations of the Bank, and due to their nature, not demandable". He concluded by relating difficulties in relation to credits and the need to "accept them for the

[6] See Santillan [1865, pp. 279-280].

value that corresponds to a prudential estimation" [Massa, 1858, p. 716].[7]

At the start of 1856 a Law of Issue Banks was approved, whereby the Banco de San Fernando became the Banco de España. At the same time a number of banks in the main towns were organized as joint stock companies and had the power to develop their activities in the same way as the banks of Barcelona and Cadiz, that is, under the control of the government, through a commissioner. However, a limit was placed on their activity through the requirement that the whole capital of the bank was to be deposited in cash. Although no limit was imposed on the issue volume, they were forbidden to make loans guaranteed by their own shares, or to overdraw or negotiate in government securities. In addition, they were obliged to publish statements each month[8] in the government *Gazette* in a manner prescribed by the Treasury. This system was in force until 1874, when the majority of the banks ceased operating because an issue monopoly was granted to the Banco de España [Tedde, 1997, p. 378].

In the debate about the draft Law of Issue Banks, the deputy, Avecilla, outlined the action necessary to protect the wider interest: "The Government needs to exercise a tutorship and protective influence for the public interest and for the Bank . . . luckily the first guarantee is that the whole capital of the Bank should be in cash. A second guarantee, which is enormous, consists of ordering the Debit and Credit statement to be published in the official newspapers, as well as the balance of all the operations, and for the public through that means, to be able to know the state of the operations of that establishment; and the third guarantee is that the Government will appoint the governors of the Banks" [*Diario de las Sesiones de las Cortes Constituyentes* 1854-1856, 15 January 1856, No. 288, p. 9883].

Credit Institutions: Also in 1856 the Law of Credit Institution Companies was approved with the aim of fostering industrial development. The credit institution has its origins in France,

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[7] In the Royal Order of 18 February 1852 it was determined that the format sent on the 16th to the Treasury should be maintained.

[8] This is contained, in the Charters of the following Banks: *Banco de Malaga* (Royal Order of 28 June 1856), *Banco de Sevilla* (Royal Order of 1 December 1856), *Banco de Valladolid* (Royal Order of 1 May 1857), *Banco de Zaragoza* (Royal Order of 14 May 1857), *Banco de Santander* (Royal Order of 16 May 1857) and *Banco de Bilbao* (Royal Order of 19 May 1857).

though banks for promoting industrial development were created earlier elsewhere, such as the Société Générale in Brussels and the Seehandlung in Berlin [Landes, 2000, p. 246]. During the debate on the Law of Credit Institution Companies,[9] the deputy, Mariategui, argued that the publication of financial statements was in the public interest.

In Spain credit institutions were enabled to devote themselves to an extensive range of financing activities with the exception of note issue. Thus they were able to carry out discounts, loans to promote firms, advance payments to the government and issue short-term bonds. In short, they acted as deposit, discount and investment banks. The government was empowered to approve the creation of credit institutions by royal decree and had a right of immediate inspection. In addition, article 8 of the law required the monthly publication of financial statements in the *Madrid Gazette* and also to provide, whenever the government requested, cash statements, portfolio and summaries of operations.[10] The government could also examine, whenever it deemed advisable, the operations and accounts of the companies, and verify the state of their deposits.[11] For this purpose the companies had to present all books, documents and securities. All these duties would be referred to in the Charters establishing the credit institutions.[12]

The growth of the credit institutions was impressive. In barely ten years, 34 institutions were created.[13] Under the Law they were free to adopt the liquidity and investment policy that

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[9] The Draft Law extended the concessions made to the credit institutions to the railroad companies [*Diario de Sesiones de las Cortes Constituyentes 1854-1856*, 18 June 1856, No. 392, pp. 14294-14295].

[10] In the debate on this article concern for the interests of the shareholders and the public was expressed [*Diario de Sesiones de las Cortes Constituyentes 1854-1856*, 17 January 1856, No. 291, pp. 9958-9961].

[11] Cameron [1971, pp. 141-143] points out how, during the creation of the Société Générale de Crédit Mobilier in 1852, members of the French Government had requested the inclusion of this institution in the tax system and control by government. This would be enforced by an obligation to send periodical financial statements to several government offices and in the examination of the company books by a representative from the Treasury.

[12] Examples of this include: *Crédito Mobiliario Español* (Royal Order of 22 March 1856), *Española Mercantil e Industrial* (Royal Order of 2 April 1856), *Compañía General de Crédito de España* (Royal Order of 26 April 1856), *Catalana General de Crédito* (Royal Order of 30 April 1856) and *Crédito Mobiliario Barcelonés* (Royal Order of 28 June 1856).

[13] On the spatial distribution and origin of capital, see Sánchez-Albornoz [1968].

most suited them. Some, such as the Crédito Mobiliario Español, had an investment portfolio that included railroads, insurance, urban services, real estate construction, national and foreign public debt and investments in French firms [Tedde, 1997, p. 380].

The new legislation on credit companies and a Railroad Law of 1855 encouraged the creation of a large number of companies. The government did not have sufficient trained personnel to perform statutory inspection of the growing number of companies. One commentator, Deputy Gaminde, also observed that the inspectors did not have sufficient accounting knowledge.[14]

The Crisis of 1857-1858: Limited economic recovery during 1849-1852 was disrupted by political and financial turmoil in 1853-1854. Weak governments and corruption scandals at the highest levels of the state precipitated the revolution of 1854[15] and rendered unstable the government of the *progresistas* until July of 1856. In 1857 a new international crisis coincided with the effects of an abysmal cereal harvest in 1856-1857. The scarcity of cereals increased the chronic trade deficit and encouraged the release of monetary metals abroad. The effect of these adversities was partly offset by the increase in fiduciary circulation associated with economic activity generated by the banking and railway laws [Sánchez-Albornoz, 1977, pp. 27-67].

In response to the financial crisis of 1857 the Spanish government attempted to bolster the inspection of share companies. A Regulation of 12 December 1857 established that in addition to a journal, ledger and an inventory record, firms would also keep a share transfer book, a minute book of general meetings, and any other books "advisable for better accounts and order". It was established that having carried out checks, which included particular scrutiny of the existence of shares that the executives should have in "guarantee of their management", a copy of the financial statements for each quarter would be sent to the government, as well as a report on the recent trading and state of the company.

[14] See *Diario de Sesiones de las Cortes Constituyentes 1854-1856* [17 January 1856, No. 291, p. 9959].

[15] The revolution of 1854 resurrected the hopes, foregone in the 1848 revolution, of the European revolutionaries, inspiring Marx and Engels to write *Revolution in Spain*. See also Kiernan [1966].

In the years immediately following the crisis efforts were made to generate sufficient resources to finance industrialization and, above all, the construction of the railway network. Political stability was maintained from 1859 until 1863. This prosperity was only partly disrupted by the effects of the American Civil War.[16]

The Crisis of 1865-1868: By the end of 1864 economic expansion slowed. Expectations of high profits in the railways sector disappeared once the main lines were constructed and income was insufficient to cover the payment of minimum guaranteed interest. The risks assumed by the railway companies and, above all, by the credit institutions, which possessed the majority of their shares and bonds, together with the financing needs of a bankrupt government, caused a fall in security bonds and the subsequent restriction of both national and foreign credit to the private sector. This incited the bankruptcy of many of the newly created credit institutions [Sánchez-Albornoz, 1963, 1967]. The greatest panic took place in May 1866 and coincided with an international financial crisis following the closure of Overend, Gurney & Co. in London. This crisis affected Spanish industry and trade, and together with the bad harvests of 1867 and 1868, resulted in social and political unease. These events culminated in the revolution of September 1868 and the dethronement of Isabel II.

Santillán [1996, p. 462] has highlighted inefficiencies in the system of inspection conducted by commissioners under royal appointment or government delegates, in preventing abuses in the banks and credit institutions. These inefficiencies must have become more evident as the economic situation in Spain worsened. Tortella [1973, pp. 254-274] shows that during the first six months of 1864 ten credit institutions and four issue banks were opened. However, from October onwards, the Compañía General de Crédito, the Banco de Valladolid and the local credit institutions went into receivership, due to corruption scandals. The government's reply was to approve the Regulation for the Inspection of Joint Stock Credit Institutions of 30 July 1865. This Regulation was speedily developed from the Budget Law of 15 July. The reasons for the Law indicated that the existing inspection regime had not prevented abuses. The shareholders

[16] During May 1861 the customers of the Banco de España queued at its doors to withdraw their funds [Santillán, 1865, pp. 207-208].

had also been shown to be apathetic in protecting their interests.

The Regulation of 30 July 1865 required the banking and credit institution companies to compile financial statements, which revealed their financial status and disclosed cash, portfolios and a summary of their operations. Once examined these statements were to be sent monthly, via the General Inspector, to the Treasury. In addition, a civil servant prepared a quarterly summary of the state of the company. These summaries were also published. Further, companies were obliged to submit a literal copy of the minutes of shareholders meetings, the general balance statements together with the necessary notes and explanations, and reports and documents referred to in general meetings.

The inspection model for banks and credit institutions introduced by the Regulation of 30 July 1865 was that already applied to companies granted public works following the issue of bonds.[17] The main difference was that a particular inspector was not allocated to a specific company, leaving the shareholders the task of watching over their interests and of monitoring the managers of the company. The inspection was to be carried out by special inspectors and delegates. These were public employees who were expected to hold degrees or doctorates in administration or jurisprudence.

The inspectors were required to examine the monthly financial statements, the cash statements, and portfolio and operations summaries. Inspectors could make regular or extraordinary visits and seek explanations about any aspect of the financial statements. During ordinary visits, the inspectors were to audit bonds, check cash counts with great care, as well as ensuring the accuracy of the balance statements that were sent to the Treasury following approval at the general meeting. Care was also to be taken that the issues of bonds were in due proportion to the capital realized, and did not exceed legally established limits. Inspectors were also bound to examine operations such as loans on the bank's shares and the acquisition of government securities. Another of the inspectors' tasks was to check that the company had not distributed dividends on the basis of profits not realized, and that the administrators had deposited their shares in guarantee of their management. The results of

[17] Royal Order of 17 February 1862. [*Colección Legislativa de España*, Volumen LXXXVII, pp. 188-189].

the inspection visits were to be notified as quickly as possible, and the discovery of offences reported immediately.

Whenever an extraordinary visit was made, the inspector or delegate had to prepare a statement or balance sheet and draft reports in accordance with the books of account. If the government considered it in the interests of the shareholders or the public the results of such visits could be published in the *Madrid Gazette*. If an inspector did not fulfill his tasks notice of his removal from office was published in the *Gazette*.

To summarize. In the period studied, the three main financial crises that took place in Spain resulted in regulatory change in financial reporting and inspection. The financial crisis of 1847-1848 precipitated the Law and Regulation of Share Companies, 1848; the agricultural and financial crisis of 1857-1858 was associated with the Regulation for the Inspection of Share Companies, 1857; and the financial crisis of 1865-1868 encouraged the formulation of the Regulation for the Inspection of Joint Stock Credit Institutions, 1865.

FINANCIAL STATEMENTS PUBLISHED IN THE *MADRID GAZETTE*, 1844-1855

This section of the paper examines the publication of the financial statements of banks from 1844 to 1855, the period in which the policy towards the creation of new banks was highly restrictive. As revealed in Table 1 disclosures increased markedly from the later 1840s.

No uniformity[18] has been observed in the use of account names and the order in which account categories were presented in the financial statements published by the banks. The use of the same account name by different banks does not imply identical meaning. As a result comparisons of the financial affairs of any two banks are problematical. This lack of uniform presentation is, perhaps, to be expected given the limited theoretical development of Spanish accounting at the time.[19]

The statements and balance sheets of banks published in the *Madrid Gazette* were structured similarly and presented in double sided format. The statement was akin to a monthly list of ledger balances; the balance sheet was in the familiar traditional format. It is possible that the six-month balance statement was a

[18] In the UK uniformity was considered for financial institutions during the passage of legislation relating to banks in 1879 [Parker, 1990, p. 417].

[19] See, for example, Castaño [1861] and Tejedor [1876].

basis for determining the distribution of profits, since an extract of the profit and loss account was included. The statements were aimed at informing the public of the situation of the bank, especially in relation to: whether the limits of issue and minimum cash requirements were fulfilled, the amount of loans in relation to shares, and the recoverability and value of doubtful debts.

TABLE 1

Number of Financial Statements of Banks Published in the *Madrid Gazette*, 1844-1855

Year	*Banco de San Fernando*		*Banco de Barcelona*	*Banco de Cádiz*			*Total*
	Balance sheets	Notes in circulation and cash	Balance sheets	Balance sheets	Statements of situation	Bank operations[20]	
1844	—	—	—	—	—	—	—
1845	—	—	—	—	—	—	—
1846	—	—	1	—	—	—	1
1847	—	—	—	—	—	—	—
1848	—	—	—	2	—	6	8
1849	—	5	5	1	10	6	27
1850	—	4	14	2	23	3	46
1851	—	5	10	_	18	4	37
1852	37	1	7	1	15	6	67
1853	47	—	8	1	9	—	65
1854	47	—	6	2	7	—	62
1855	41	—	—	—	—	—	41
Total	**172**	**15**	**51**	**9**	**82**	**25**	**354**

As can be seen, the Banco de San Fernando only offered information to the public following the years of financial instability, 1847 and 1848. Weekly circulation statements of notes and coins were only published in the *Madrid Gazette* for 14 weeks during 1849-1851. After February 1852 the publication of the weekly balance sheets referred to in the Law of 15 December 1851 commenced. These were published in the *Gazette* without interruption from 1852 to 1855. It should be pointed out that the Banco de San Fernando, as well as being closely linked to the government, was quoted on the Stock Exchange of Madrid. Santillán [1865, p. 87] acknowledged that statements showing the full financial status of the Bank were not published, adding, "care was taken not to show the General Meeting more than what could not be hidden". This throws some doubt on the quality of the information published in the *Gazette*.

From its inception in December 1847 the Banco de Cádiz, published detailed six-monthly balance statements and extracts from its profit and loss account in the *Madrid Gazette*. The exception being 1851. It also published fortnightly statements from June 1849 onwards, which became monthly in 1853. In addition, the Bank published summaries of monthly operations from 1848 to 1852. With the onset of the government of the *progresistas*, in June 1854, the Banco de Cádiz and the Banco de Barcelona ceased publishing their financial statements until mid-1856. Exhibit 1 provides an example of a published statement for the Banco de Cádiz.

EXHIBIT 1

Financial Statement of the Banco de Cádiz, 1850

BANCO DE CADIZ.

NUMERO 51.

DIA 31 DE DICIEMBRE DE 1850.

ACTIVO.		PASIVO.	
Metálico en caja.	12.517,500	Capital desembolsado por el 16 por 100 exigido á los accionistas	7.949,120
Billetes en caja	»	Importe de los billetes emitidos	10.848,000
Letras y pagarés en cartera a realizar	13.182,729..14	Depósitos	793,000
Préstamos sobre metales preciosos	»	Cuentas corrientes	10,794,674..27
Idem sobre efectos públicos	30,000	Efectos á pagar	»
Idem sobre otras materias, según especificación separada	2.809,500	Dividendos a pagar	3,454..12
Efectos protestados de cobre probable	»	Débitos varios......Ganancias y pérdidas	393,353..15
Idem de cobro dudoso	»	Corresponsales de	4,143
Propiedades del Banco	1.565,804..18		
Créditos por corresponsales	494,898. .6		
Idem dudosos	50,000		
Gastos generales	136,279.. 9		
	30.786,711.13		30.786,711..13

NOTAS

1ª Rs. Vn. 100.000,000 capital nominal.
49.682,000 i.d. de las acciones emitidas.
2ª El Banco tiene rescatado un crecido número de acciones.

RESUMEN

Total activo................R.s. vn. 30.786,711..13.
Idem pasivo .... 30.786.711..13.
Igual................. R.s. vn. »

Especificación de los préstamos sobre varias materias.

Sobre acciones varias.......... 1.863,500
Primeras materias.......... 946,000
Rs. vn 2.809,500

Cádiz 34 de Diciembre de 1830. El Subdirector, J.M. Colom. Vº.Bº El comisario regio, Basilio de Peñalver

EXHIBIT 1 (continued)

Financial Statement of the Banco de Cádiz, 1850

BANK OF CADIZ

ASSETS		LIABILITIES	
Coin in cash (in hand)	12.517,500	16% capital paid out as per shareholders demand	7.949,120
Bank notes in cash (in hand)	»	Total amount of bank notes issued	10.848,000
Bill of exchanges (Bills) and promissory notes (IOUs) to be realized	13.182,729..14	Deposits	793,000
		Current accounts	10.794,674..27
Loans on precious metals		Notes payable	»
Idem on government securities	»	Dividends payable	3,454 ..15
Idem on other materials, according to separate specifications	30,00	Debits various ....Profits and losses	393,353
		Agents of	4,143
Referred documents of likely collection	2.809,500		
Idem of doubtful collection	»		
Properties of the bank	»		
Credits to agents	1.565,804..18		
Idem doubtful	494,896..6		
Overheads	50,000		
	136,279..9		
	30.786,711.13		30.786,711.13

NOTES

1ʃ Rs. Vn. 100.000.000 nominal capital
49.682, 000 i.d. of the issued shares

2ʃ The bank has an important number of redeemed shares

SUMMARY

Total assets	Rs. Vn.	30.786,711.13
Total liabilities	Rs. Vn.	30.786,711.13
Equals	Rs. Vn	»

Specification of loans on various materials

On shares various	1.863,500
Raw materials	946,000
Rs .Vn.	2.809,500

FINANCIAL STATEMENTS PUBLISHED IN THE *MADRID GAZETTE*, 1856-1868

In 1856 the financial climate was favorable to a more expansive policy towards company formation. This led to the approval of the Railway Law and the Laws of Issuing Banks and Joint Stock Credit Institutions. These encouraged the formation of new issuing banks and credit institutions and an inflow of foreign technical resources and capital necessary to develop the railway network. Together with the legal obligation to disclose, the competition between financial institutions resulted in an increase in the publication of accounts.

Under the Law of Issuing Banks the banks were only to publish monthly statements. The financial statements display relative uniformity in form and content. This is likely to have been a response to the government's request for a detailed balance sheet with a defined structure to facilitate inspection.[21] The information disclosed reflected the need to inspire public confidence: fiduciary circulation, minimum cash requirement, current accounts and deposits. Other operations were not detailed and the lack of detailed disclosure relating to bank portfolios gave rise to much concern, as this included bills and IOUs, loans guaranteed by shares or public bills, and investments in companies [Pérez, 1991, p. 88].

The statements published by the credit institutions were very succinct. Only four asset accounts and four liabilities accounts were disclosed. These statements were not uniform with respect to the name and ordering of the accounts. It appears that the statements were prepared with the aim of concealing as much information as possible. In 1858 the government prepared a set of draft model statements, which offered greater detail and comparability [Pérez, 1991, pp. 87-91]. However, standardization was not achieved and credit institutions continued to publish information that only partly reflected their financial state. Exhibit 2 reveals the limited extent of the disclosures made.

Table 2 reveals the frequency of accounting publication in the *Madrid Gazette*. The issue banks and the credit institutions regularly fulfilled the legal obligation to publish their statements from 1856 until the end of 1864. The rate of disclosure of financial statements was 84% for the issue banks, and 77% for the credit companies. It should be emphasized at this point that although the publication of accounts was obligatory and an inspection system existed, the state had a limited capacity to force companies to obey the rules. There were no formal penalties for non-compliance. When a failure to disclose occurred, it was the Treasury which published the financial statements in the *Madrid Gazette*.

In 1865 the financial crisis caused panic on the stock exchanges in Spain[22] and this extended to the banking and credit

[21] This occurred due to the Order of 29 January 1863 relating to the Banks of Cadiz, Seville and Jerez de la Frontera.

[22] At this time the Stock Exchanges of Madrid and Barcelona operated. The *Banco de España*, the *Banco de Barcelona* and the most important credit companies of those towns were quoted with various degrees of regularity.

EXHIBIT 2

Financial Statement of the Crédito Mobiliario Español, 1856

SOCIEDAD GENERAL

DE CREDITO MOVILIARIO ESPAÑOL

Estado en 31 de Diciembre de 1856

En caja	En efectivo	2.252,897..92
	Cartera y títulos	23.168,495..74
En poder de varios		57.791,248..08
Diversos		1.049,378..76
Acciones		387.600,000
	Rs. Vn	471.862,020..50
Capital		456.000,000
Cuentas corrientes		15.862,020..50
	Rs. Vn	471.862,020..50

S.E. ú O. Madrid 31 de Diciembre de 1856.==Conforme== el administrador delegado, E. Duclerc.==El Jefe de Contabilidad, Bernardo de Copeda.

SOCIEDAD GENERAL
DE CRÉDITO MOBILIARIO ESPAÑOL

In cash	Coins and bank notes	2.252,897 ..92
	Portfolio	23.198.495..74
In other hands		57.791,248..08
Various		1.049,387..76
Shares		387.600,000
	Rs. Vn.	471.862,020..50
Capital		456.000, 000
Current accounts		15.862,020..50
	Rs. Vn.	471.862,020..50

institutions that had to attend to queues of customers wishing to withdraw their funds. In response the financial institutions temporarily ceased the publication of their accounts. This gave rise to mounting mistrust [Rosés, 1993, pp. 452-453]. During the period 1865 to 1868 there were months of high rates of disclosure and months when no statements were published. Overall, the rate of disclosure in this period fell to 50% for the issue banks and 47% for credit companies. The Treasury attempted to reduce uncertainty, and in compliance with the Regulation on the Inspection of Credit Institutions, published quarterly statements for all companies, 1866-1868.

TABLE 2

Number of Financial Statements of Banks and Credit Institutions Published in the *Madrid Gazette*, 1856-1868

Year	*Banks*		*Credit Institutions*		*Totals*	
	No.	Statements of situation	No.	Statements of situation	No.	Statements of situations
1856	4	20	6	25	10	45
1857	10	55	6	65	17	120
1858	10	101	7	57	17	158
1859	10	115	7	69	17	184
1860	10	116	7	74	17	190
1861	10	109	8	79	18	188
1862	10	120	14	99	24	219
1863	12	129	18	138	30	267
1864	20	157	25	150	45	307
1865	21	141	32	158	53	299
1866	21	104	32	203	53	307
1867	21	125	30	156	51	281
1868	21	100	27	118	48	218
Totals		**1,392**		**1,391**		**2,783**

To further explore the reaction of financial institutions to crisis a further analysis of publication patterns was performed. This involved constructing a de-seasonalized series by means of adjusted moving averages.[23] The results are revealed in Table 3.

The data contained in Table 3 show that the lowest rates of disclosure occurred in the second quarter of 1865 and 1866 and in the second and fourth quarters of 1867 and 1868 (indicated in

[23] For each month of each year the frequency of publication was calculated by dividing the number of published statements by the number of potential published statements. In order to determine the trend the moving averages method is used, thereby enabling us to replace the original series with a softer one, which is taken as a general tendency. Table 3 was obtained by dividing the first series obtained (publication frequency) by the seasonal movement index, thereby obtaining a de-seasonalized series.

TABLE 3

Moving Averages of Financial Statements Published in the *Madrid Gazette*, 1856-1868

	1856	*1857*	*1858*	*1859*	*1860*	*1861*	*1862*	*1863*	*1864*	*1865*	*1866*	*1867*	*1868*
January	0.293	0.444	0.667	0.8	0.782	0.4	0.64	0.808	0.746	0.791	0.746	0.693	0.648
February	0.27	0.82	0.722	0.82	0.82	0.664	0.738	0.82	0.755	0.656	0.385	0.64	0.558
March	0.324	0.982	0.865	0.982	0.982	0.982	0.707	0.894	0.835	**0.049**	**0.049**	0.766	0.619
April	0.384	1.164	0.931	1.164	1.164	1.164	1.164	0.966	0.99	**0.058**	**0.058**	0.908	**0.043**
May	0.46	1.116	1.255	1.395	1.255	1.255	1.13	1.157	1.191	**0.069**	**0**	**0.069**	**0.069**
June	0.433	0.787	1.05	0.787	1.313	1.063	1.181	0.866	0.958	**0**	1.148	**0.076**	**0.065**
July	0.716	0.651	0.759	0.542	0.976	0.293	0.879	0.629	0.814	0.792	0.455	0.738	0.738
August	0.286	0.72	0.694	0.781	0.7	0.781	0.867	0.867	0.711	0.867	0.729	0.546	**0.043**
September	0.588	0.508	0.891	0.624	0.802	0.722	0.891	0.82	0.677	0.695	0.748	0.561	0.561
October	0.721	0.846	0.769	0.865	0.779	0.961	0.961	0.884	0.846	0.606	0.404	**0.048**	0.5
November	0.719	0.844	0.863	0.863	0.959	0.959	0.959	0.806	0.479	0.854	0.652	**0.095**	**0.124**
December	0.487	0.974	0.974	0.974	0.613	0.876	0.974	0.818	0.623	0.915	0.682	**0.097**	**0.126**

bold print) when the statements of the issue banks disappeared from the *Madrid Gazette*. These were also the periods of deepest financial crisis.

THE PUBLICATION OF FINANCIAL STATEMENTS AND GROSS DOMESTIC PRODUCT

The historical dynamics of accounting publication in Spain point to a certain relationship between the extent of publication and the level of economic activity. We may test the hypothesis that the number of publications is a surrogate of the financial situation of banks. To explore this apparent relationship a series for the arithmetic mean of the publications X (first column of Table 4), and a series for the Gross Domestic Product at factor cost (second column of Table 4) were compiled [Prados, 1995].

TABLE 4

Arithmetic Averages of Financial Statements Published and Gross Domestic Product

Years	*X*	*GDP(Y)*	*GDP.X*	*GDP(Y)^2*	*X*
1856-1857	0.469	734.8	344.6212	539,931.04	0.219961
1857-1858	0.783	773.5	605.6505	598,302.25	0.613089
1858-1859	0.694	774.1	537.2254	599,230.81	0.481636
1859-1860	0.867	813.3	705.1311	661,456.89	0.751689
1860-1861	0.9025	829.1	748.26275	687,406.81	0.814506
1861-1862	0.821	859.1	705.3211	738,052.81	0.674041
1862-1863	0.905	871.4	788.617	759,337.96	0.819025
1863-1864	0.853	881.9	752.2607	777,747.61	0.727609
1864-1865	0.783	892.3	698.6709	796,199.29	0.613089
1865-1866	0.5675	873.1	495.48425	762,303.61	0.322056
1866-1867	0.5125	824.6	422.6075	679,965.16	0.262656
1867-1868	0.4425	824.1	364.66425	679,140.81	0.195806
1868-1869	0.361	808.8	291.9768	654,157.44	0.130321
Totals	8.961	10,760.1	7,520.4936	8,933,232.4	6.625484

The data presented in the first two columns of Table 4 was used to conduct a correlation analysis between the average bank publications and the GDP for both the current year and the following year. The results are shown in Table 5. This reveals that no relation exists between the number of publications for the current year and the GDP of the same year. However, the analysis confirms a relationship between the average number of bank publications and the GDP for the following year. It is thus possible to state that there is some relationship between the average number of publications and subsequent economic growth.

TABLE 5

Pearson Correlation Coefficients

	GDPn	GDPn+1
Publn	0.089	0.394

With these results in mind, a linear regression was conducted of the GDP for the 1856-1869 period in n+1 over the number of average publications in n. The number of banks and credit houses was used as a control variable, since the number of financial institutions is also an indicator of economic growth, as indicated by the correlation with the GDP (0.460). Table 6 reveals results that are highly significant (see significance of F-statistic) and have a high explanatory power (adjusted R-square of 0.789). Both the average publications in n and the number of banks in n+1 are positively related with GDP+1, with both variables being highly significant (see significance of t-statistics). The variance inflation factor (VIF) shows that no problems of co linearity exist between the independent variables.

TABLE 6

Regression of GDPn1 on Publications and No. of Banks and Credit Societies

Dependent variable: GDPn1
Number of obs. = 13
Model F-statistic = 23.449
Significance of F-statistic = 0.000
R-square =0.824
Adjusted R-square = 0.789
Std. Error = 21.8233

Independent variables	Coefficient	Std. Err.	t-statistic	Signific. (t-statistic)	VIF
Constant	581.972	37.181	15.652	0.000	
Publn	231.405	39.205	5.902	0.000	1.448
Banksocn1	2.809	0.455	6.169	0.000	1.448

GDPn1 = Gross Domestic Product in n+1
Publn = mean publications in n
Banksocn1 = n of banks and credit societies in n+1
VIF= variance inflation factor to evaluate co linearity.

CONCLUSIONS

The publication and inspection of statements of accounts by joint stock banking companies in Spain was a means of providing the banking system with stability and a remedy for the effects of financial crises. This behavior followed examples set in the US and UK.

This paper has attempted to further our understanding of the disclosure practices of the banking sector in Spain during the 19th century. It has been shown that in terms of the level of disclosure (as revealed by the frequency of published statements in the *Madrid Gazette* during the period when the right to issue notes was exclusive to the Banks of San Fernando, Barcelona and Cádiz), was irregular. The issuing banks published more financial statements than the other credit institutions, and addressed their publications to shareholders and bondholders. In relation to the quality of these disclosures we have found that the information presented was not, in general, very detailed or uniform, despite government efforts to encourage standardized presentation.

Assuming that the publication of financial statements is a surrogate of the financial situation of the bank, the analysis indicates a strong relationship between sound financial situation and abundant publication, and financial crises and reduced publication. Likewise, the study has suggested that the average number of publications could serve as an indicator of future economic activity in Spain during the 19th century. Throughout the period covered by this study there was a widespread tendency among banks and credit institutions not to publish their financial statements during the year which preceded a decline in economic activity.

Finally, the existence of a relationship between the state of the economy and the volume of disclosure would seem to indicate a certain strategic behavior on the part of financial entities. Unlike other countries during the period in question, Spain had a regulated institutional framework. However, the government lacked the necessary means to enforce regulation and accountancy practices continued to be substantially dictated by the directors of the banking houses. The main motivation for such behavior was to gain or maintain the trust of the financial market.

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