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Money and Banking in the Twilight of Empire

2.1 Fiscal and monetary problems: the Vales Reales

The eighteenth century was one of slow recovery for the Spanish economy as a whole, thanks largely to internal peace, to legal and administrative modernization by the Bourbon kings, and especially thanks to the gradual opening of the Spanish Americas to trade with the metropolis, which had been subject to tight restrictions before. In 1778 transatlantic trade with Spanish America was open for the most important ports on both shores of the Atlantic and for a series of Pacific harbours also. The so-called Free Commerce Decree of 1778 was followed by a brief trade boom, but politics put an end to this hopeful development.

During the War of the American Revolution, Spain sided with France in support of the future United States of America against England; for both European countries the war effort turned out to be very costly. For Spain military expenditures shot up while revenues fell due to conflicts at home and abroad. Naval warfare took place not only in the Caribbean and the Gulf of Mexico, but also in the Mediterranean, especially around Minorca and Gibraltar. Spanish American revenues used to be a substantial proportion of total government revenues and Britain’s naval blockades were often able to intercept the trade and the remittances, which had just started to soar only a few years before.

The Spanish government soon felt the difficulties of the situation: expenditure about doubled revenue. The King (Charles III) and his government were looking for a way to finance this deficit without burdening their subjects with new taxes. They found a solution under the inspiration of a French banker and businessman long established in Spain, François Cabarrus. In 1780 the government issued a novel type of public debt, the vales reales (a literal translation would be ‘royal vouchers’), which were supposed to play the role of paper money while also yielding a 4 per cent interest rate. The first issue of the vales in October 1780 was successful, and so were the following two in October 1781 and July 1782 (Herr, 1978). As White (1987)
has remarked, the vales had many points in common with other hybrid monetary-public-debt instruments issued at around this time in other countries, such as the assignats in revolutionary France and the Treasury notes emitted by some American colonies. However, in order to increase the acceptability of the vales, Cabarrus resuscitated an old idea many times revived but never before put into practice, and proposed to the king the creation of a national bank.

2.2 The Bank of Saint Charles

With the gradual revival of prosperity since the mid-eighteenth century, the schemes and proposals for public banks had been frequent, but it was not until the needs of the Crown became pressing that one of these plans was made into a reality. The Cabarrus project was accepted and the National Bank of Saint Charles was established in June 1782 ‘under Royal protection’.

There is no doubt that the immediate purpose of creating the Bank was to provide a backing for the vales: the Bank’s charter made this very clear in its preamble. However, this same document invested the new institution with a strange assortment of missions, one of which was not even closely related to banking: this was the supplying of victuals, clothing, weapons, ordnance, etc., to the army and navy. Possibly Cabarrus thought that this would be a solid and profitable business (the Cinco Gremios had been frequent contractors with apparent success), or the king and his government thought this would be a way of centralizing and controlling a crucial military function; but in this they all turned out to be gravely mistaken. Earl J. Hamilton (1970, p. 204) remarked that Alexander Hamilton, the American revolutionary politician and financier, was, at approximately the same time, making a parallel error when he proposed that the First Bank of the United States undertake a similar mission, but this scholar found no evidence of any relation between the two financiers that could explain such unfortunate coincidence.

2.2.1 The Bank’s charter

The charter carefully enumerated the three missions or purposes of the Bank. The supplying of the army was number two. Number one was to discount letters, vales, and bills (article 2); interestingly enough, the text specified that the Bank would enjoy no monopoly on these matters, while it would be sole supplier of the army; the procurement contracts still in vigour, however, would be respected albeit not renewed (article 3). The third mission of the bank was to make foreign payments and transactions on account of the government (article 4). In a strict literal interpretation this meant transferring funds for the embassies and diplomatic missions but the text itself made clear that this could include any kind of foreign monetary transactions. In fact, exporting silver on account of the government and on its own account