Montes de piedad and savings banks as microfinance institutions on the periphery of the financial system of mid-nineteenth-century Barcelona

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This article departs from the dominant interpretation of montes de piedad as charitable pawnshops, typical of Catholic Europe, by framing the analysis of their activities as microfinance institutions. Fieldwork documents two cases in the industrial city of Barcelona during the mid-nineteenth century. The long established Monte de Piedad de Nuestra Señora de la Esperanza de Barcelona (MPB) offered small loans to the most disadvantaged sectors, with more than 70% of its clients being very low-income women. In contrast, the Montepío Barcelonés covered a broader spectrum, granting larger loans to clients, of whom the majority were working-class men. But during periods of extreme illiquidity, such as the financial and industrial crisis of 1847–48, the Montepío Barcelonés would even support traders and manufacturers. Hence, this article shows how not-for-profit financial institutions, located on the periphery of the new and burgeoning financial system, are able to contribute to mitigating the social costs of industrialisation, through alleviating situations of crisis and adding to the resilience of the financial system as a whole.

Keywords: microfinance institutions; montes de piedad; montepío; savings bank; formal credit; informal credit; pawnbrokers; usury; poverty; women and gender; Spain; Barcelona; mid-nineteenth century

Introduction

There is a strand of research in economic history which emphasises the role played by financial intermediaries in economic growth and the modernisation of different countries during the nineteenth and twentieth centuries (Levine, 1997, 2005; Rousseau, 2005; Wu, Hou, & Cheng, 2010). More recent research in the sphere of development economics at both institutional and neo-institutional levels highlights the importance of some intermediaries in fostering social cohesion and how this, in turn, can lead to higher levels of growth, development and well-being (Easterly, Ritzen, & Woolcock, 2006; Glaeser, La Porta, Lopez-de-Silanes, & Shleifer, 2004; North, 1990; Rodrick, 2000; Rodrick, Subramanian, & Trebbi, 2004). This article sheds light on the role played by small urban credit and savings institutions in the embryonic financial system of Spain in the mid-nineteenth century. As a result, it shows how not-for-profit financial intermediaries offer a good example of financial

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institutions becoming instrumental in strengthening social ties and augmenting economic growth.

The intermediaries studied in this article prevail to the present day, having overcome many difficult situations, because they were equipped with sufficient flexibility to adapt to changes in social practices and in the regulatory framework (Haber, North, & Weingast, 2008; North, 1990; Ray, 2000, 2002; Reis 2005). Their process of growth and evolution has been documented through systematic studies at the individual and sector levels (e.g. Bátiz-Lazo, 2004; Comín, 2008; Comín & Torres, 2003; Nadal & Sudrià, 1981; Sudrià, 1982; Sudrià & Pascual, 1999). This article departs from this literature to re-examine the survival of the montes de piedad and their links with savings banks as early microfinance institutions. The latter are financial intermediaries which lend large volumes of very small amounts of money and offer fast and easy access to credit for working-class consumers. Such loans are closely linked to family consumption and to the acquisition of modest supplies to develop activities that guarantee sustenance (Hollis & Sweetman, 1998b, 2001). These financial intermediaries are also characterised by attracting large volumes of small savings from individuals and big deposits in the form of donations, bequests or charity.

For business historians it may seem anachronistic to frame the analysis of early European financial institutions, such as the montes de piedad, under the umbrella of poverty alleviation activities of the late twentieth century in developing countries in Africa, Asia and Latin America. Yet despite this apparent contradiction, there is a growing trend to re-examine philanthropic institutions formed throughout the Western world of old to address the pressing social needs of their day through the common and encompassing framework of the microfinance discourse (Guinnane, 2005; Hollis & Sweetman, 1998b, 2001; Seibel, 2005; Samy, 2008).

The montes de piedad, after amalgamating with savings banks, can be considered microfinance institutions as their activities during the nineteenth century were located on the ‘periphery’ of the formal finance sector while contributing to mitigating the social costs of industrialisation. The term ‘periphery’ refers to activities of those financial institutions specialised in offering services to previously neglected low-income sectors which were often somewhere between informal lending practices (usually engaging with moneylenders or usurers) and those able to secure advances from joint stock banks. Von Pische (1991) introduced the idea that there is a ‘frontier’ between joint stock banks and the financial institutions specialising in the low-income sectors. Floro and Ray (1997) and Ray (1998) documented the complexity of the financial systems of some developing countries and concluded that these are composed of formal and informal sectors, which complement each other and which transfer clients and resources between them. Taken together, these ideas enable a discussion of ‘periphery’ as a spatial metaphor to replace the term ‘frontier’ with another which evokes a broader reality. The ‘periphery’ of the financial system encompasses a broad range of the retail lending market positioned between the core of the formal financial system – the commercial and merchant banks – and the informal finance sector. It is populated by people who, for different reasons, are unable to access credit from joint stock banks (the formal sector) and, at the same time, seek alternatives to the high interest rates of moneylenders and usurers (the informal sector). As a result of recasting the montes de piedad linked to the savings banks in the nineteenth century as microfinance institutions active on the periphery of the financial system, this article documents evidence as to how they were...
instrumental in addressing the needs of the poor, and thus fostering economic growth and increasing the resilience of the nascent Spanish financial system.

The remainder of this article is organised into three sections. The next section offers a conceptual framework to locate the montes de piedad, pawnshops, as microfinance institutions within not-for-profit financial intermediaries. The third section shows the links between montes de piedad and savings banks in Spain, and maps the network of credit for pledge and savings for two microfinance institutions within Barcelona in the mid-nineteenth century. The results show how each institution specialised according to differing clients and products and how each generated specific but complementary responses. The final section offers conclusions.

Microfinance and not-for-profit financial intermediaries: an analytical framework

The supply of credit in nineteenth-century Spain covered a broad spectrum. The formal and the informal sectors lay juxtaposed to one another, and together formed a single financial system. Formal credit included loan agreements between individuals and the first banking institutions in which the obligations of the lender and debtor were clearly outlined. Contracts included those with a mortgage origin (bonds, life annuities) and contracts linked to commercial and productive activities (promissory notes, bills of exchange or shares). Such institutional arrangements coexisted with several forms of informal credit that were not subject to clearly defined written conditions. Instead, contracts were agreed orally, placing them beyond the jurisdiction of the courts (Fontaine, 2008; Hoffman, Postel-Vinay, & Rosenthal, 1999, 2001).

Informal credit agreements were a common feature of household budgeting by the emerging urban working classes in the late eighteenth century and during the nineteenth century. These arrangements underpinned continued consumption in a context characterised by an irregular income flow for most families and individuals. Lack of permanent employment amongst the urban proletariat forced people into the informal credit market as a mechanism by which to survive periods of unemployment (Fontaine, 2008; Fontaine, Postel-Vinay, Rosenthal, & Servais, 1997). The supply of informal credit was dominated by moneylenders (usurers), who sat alongside other providers such as artisans, shopkeepers, masters, servants and landlords (Johnson, 1985; Taylor, 2002; Tebbut, 1984).

Informal credit practices by moneylenders (usurers) tended to involve high interest rates, given the risk of their lending, lack of guarantees from the borrowers and flexibility in the repayment conditions (Floro & Ray, 1997; Ray 1998). The montes de piedad, pawnshops whose origins go back to the end of the fifteenth century in Italy, appeared with the aim of providing the poor with affordable credit (Avallone, 2002, 2007; Muzzarelli, 2001, 2003, 2007). The montes de piedad expanded across Catholic countries in Europe (Ferrière, 2004, 2007; Fontaine, 2008), including Spain (Carbonell, 1997, 2000, 2005, 2007; Lopez Yepes, 1973; Rumeu de Armas, 1944; Titos Martínez, 1976) and its colonies in America (Francois, 2006). Liquid funds were secured mainly from donations, bequests and charity. Through the practice of camouflaging alms left by the borrowers on repaying loans and recovering pledges, the montes de piedad effectively acted as retail financial intermediaries by lending out deposits, savings or donations at extremely low interest rates. The risk inherent in this activity has always been the uncertainty around the repayment of principal and interest arising from the asymmetry of information between borrowers and the financial institution. The latter knew
nothing of the borrowers or the use that they intended to make of borrowed funds (adverse selection). Nor did the institutions have any information on how funds were actually used and whether repayment in the allotted period was possible (moral hazard) (Rothschild & Stiglitz, 1976).

As is the case with microfinance institutions, the montes de piedad were able to offer financial services to an unserved market niche made up of people with low incomes, although not necessarily the poorest. These institutions became active in the formal credit markets specialising in small loans, with low interest rates and considerable transaction and informational costs (Coase, 1937; Stigler, 1961). Costs were even more significant as small loan sizes led to high enforcement costs (lawsuits, auctioning of the pledges and other administrative expenses) if loans were not repaid. The low interest rates could only be maintained if the institutions were subsidised by donations, bequests or charity.

In contrast, informal credit providers (i.e. moneylenders), well-established and with a high degree of knowledge of the community, incurred smaller information and transaction costs. They adopted more flexible practices, but had a greater exposure to the risk inherent in the lending and as a consequence charged the higher interest rates characteristic of an imperfect credit market (Ledgerwood & White, 2006; Murdoch, 1999, 2000; Ray, 1998; Remenyi & Quiñones, 2000; Yunus, 1997). These rates, considered abusive by contemporaries, were precisely what the montes de piedad were keen to avoid.

Some authors have questioned the long-term financial sustainability of intermediation activities along the lines of those at the montes de piedad (Adams & von Pische, 1992; Gutiérrez-Nieto, 2006; Hulme & Mosley, 1996). Specifically, the low interest rates subsidised by donors and philanthropists made supplying the lending institution with capital financially unsustainable and generated an effect opposite to what was originally hoped for. The low interest rates weakened the incentive to save, thus reducing the capital available to grant small loans. At the same time, these low interest rates sparked the demand for low interest loans among the better-off which ended up absorbing the financial resources that were initially destined for the poor.

In short, current ideas on microfinance highlight important levels of agreement on the reduction of efficiency and the mobilisation of savings in the subsidised institutions with low interest rates. Nevertheless, arguments persist on deciding the point when a microfinance institution ought no longer to be subsidised (Armendáriz & Morduch, 2005; Canning, Jefferson, & Spencer 2003; Floro & Ray, 1997; Ghosh, Mookherjee, & Ray, 2000; Gutiérrez-Nieto, 2006; Gutiérrez-Nieto, Serrano-Cinca, & Moliner, 2007; Murdoch, 2000; Ray, 1998, 2000). The case of the montes de piedad in Spain offers a good example of those subsidised institutions that survived with low levels of activity and efficiency until they amalgamated with the savings banks during the second half of the nineteenth century. The logic of piety that characterised the early modern period was replaced by the logic of saving and social welfare.

The network of not-for-profit financial intermediaries in mid-nineteenth-century Barcelona

Savings banks and montes de piedad in nineteenth-century Spain

In the 1820s, Spanish liberals exiled in Britain began to come into contact with individuals within English utilitarian circles. The influence of Jeremy Bentham’s
doctrines gradually began to penetrate politics and social and legislative reforms that took place in Spain in the first half of the nineteenth century. A legislative process began in the 1830s in relation to the establishment of savings banks in all the main cities of the country (Comín, 2008; Comín & Torres, 2003; Martínez Soto, 2003; Martínez Soto, Cuevas, & Hoyo, 2005; Nadal & Sudrià, 1981). The first, the Caja de Ahorros de Madrid (1839), was followed by many more. This expansion process culminated with the Royal Decree of 29 June 1853 on ‘the establishment of Savings Banks in all the capitals of the province together with branches in some of their towns’, and the act of 1880, which considered savings banks and montes de piedad as welfare institutions, alongside hospices, hospitals and maternity hospitals and orphanages.

Different authors debated the advantages and disadvantages of these new savings institutions in Spain. In 1874 Braulio Antón Ramírez defended the role played by the savings banks as

> a highly moralizing element of material progress, because they contribute to improving the customs, to reducing pauperism, to creating small ownership and consequently to making men peaceful, diligent and hardworking, keeping them away from vice and crime ... [the savings banks] are almost a barometer of the civilization and prosperity of peoples. (López Yepes, 1973, p. 241)

In the same period, Ramón de Mesonero Romanos stated that ‘these savings banks are an essentially anti-revolutionary institution, associating the proletariat through their own work with interests and the pleasures of ownership and order’ (Nadal & Sudrià, 1981, p. 52).

This debate begs the question: what was the main problem with the establishment of savings banks in Spain? In the rest of Europe, government bonds represented a safe investment for the savings deposits of workers. But the deplorable state of the Spanish treasury made it risky to invest savings banks deposits in government bonds. The safest investment was to use these savings to extend loans to the montes de piedad. This explains the link between the two institutions, the savings banks, which were an example of modernity, and the montes de piedad, which could be construed as prototypical institutions of late medieval Europe.

The majority of savings banks took advantage of the montes de piedad that were already established in the different cities. It was observed in 1876 that, ‘the combination of montes de piedad and savings banks in Spain was giving excellent results’ (Hernández Iglesias, 1876, p. 405). Despite this, the same author indicated that, in the long term, only one of the two institutions would survive: ‘as the ideas and the customs which favour savings banks develop, the needs which encourage the montes will decrease ... [the latter] will always have a very limited action, incompatible with the major development of the savings banks’ (Hernández Iglesias, 1876, p. 405).

The link between the two types of institution was not always as straightforward as their rationale, and was in many respects contradictory: the savings banks displayed the characteristics of a savings and welfare institution of the new liberal paradigm in which the payment of interest on money was accepted, while the montes were exemplars of an older period in which charity prevailed over interest rates. This was the case in the city of Barcelona in the mid-nineteenth century, where there was a peculiar process of institutional diversification in working-class finance.
Microfinance in Barcelona

In the mid-nineteenth century Barcelona was the main industrial city of Spain, and specialised in textiles, in particular spinning and manufacturing cotton fabrics. The labour market developed as emigration and urban development intensified. The associations of workers (friendly societies, provident societies, emergency funds, the first trade unions) and the struggle to improve working conditions erupted with force in the 1840s (Garcia Balan˜ a, 2004). It was in this context of change and modernisation that different initiatives were developed in relation to financial organisations which were favoured through legislation (specifically that relating to savings banks in 1835 and 1853; and that to commercial and note issuing banks of 1856).

The financing of trade and business throughout Catalonia during early modern capitalism was carried out through merchant houses (compan˜ı´as de comercio or casas de comercio), which were private firms engaged in both trading and banking (Castan˜ eda, 1991; Castañeda & Rodrigo, 2006; Maixé-Altés, 1994, 1995; Pascual, 1991; Sudrià & Pascual, 1999). But between 1840 and 1865 there was a profound transformation in the way Spanish firms financed themselves. This was particularly the case in Barcelona, where a stock exchange and joint stock banks were established. According to Pere Pascual, these new financial institutions replaced traditional modes of finance and they complemented each other in creating liquidity, mobilising resources and enhancing the supply of credit (Pascual, 1991, p. 351).

In the mid-1840s, a network of newly specialised financial organisations began to emerge in this city: the Banco de Barcelona was dedicated to servicing trade and business (Blasco & Sudrià, 2009); then there were those concerned with working-class finance (namely savings banks, montes de piedad and monte pios). It was not until 1856 that the first investment banks, Societat Catalana General de Crédit and the Crédit Mobiliari Barcelonés, were founded following the passing of the first legislation on financial organisations (Cabana, 1996, vol. 1; Castañeda, 1991; Pascual, 1991; Sudrià, 1982; Sudrià & Pascual, 1999). Hence, in the mid-nineteenth century the Barcelona-based Catalan financial system had commercial and investment banks servicing businesses and the well-off as well as intermediaries specialising in credit and deposit-taking servicing the working proletariat.

In relation to the financing of the poorest elements in society, older institutions were juxtaposed with those recently created. In the mid-nineteenth century three institutions offering credit and savings facilities for the working class coexisted in the city of Barcelona, one of which had been founded in the mid-eighteenth century while the other two had been created in the mid-nineteenth century (Table 1). The old monte de piedad (the MPB) founded in 1751, acted as both a pawnshop and deposit-accepting institution. The Caja de Ahorros de Barcelona, created in 1844–45, was an institution oriented towards saving by the city’s working classes and artisans. The other institution, the Montepı´o Barcelone´s, founded in 1846, operated as a monte de piedad. Its stated objective was to lend small amounts of money against pledges, thus giving an outlet for the capital deposited with the Caja de Ahorros de Barcelona. The Caja de Ahorros de Barcelona and Montepı ´o Barcelone ´s grew as independent but closely related institutions. The success of the new pawnshop institution, the Montepio Barcelonés, is demonstrated by the proliferation of branches in the main working-class neighbourhoods at the end of the nineteenth
century (Table 1). The persistence of the old *monte de piedad* and the coexistence of the three institutions illustrate the complexity and richness of the formal microfinance sector located on the periphery of the burgeoning financial system. All three institutions are now incorporated in a single savings bank, La Caixa.7

| Institution                      | Founding date | Savings | Credit upon pledge |
|---------------------------------|---------------|---------|--------------------|
| Monte de Piedad (MPB)           | 1751          | X       | X                  |
| Caja de Ahorros de Barcelona    | 1844          | X       | X                  |
| Montepío Barcelonés             | 1846          |         |                    |
| Branch 1 (Raval)                | 1881          |         | X                  |
| Branch 2 (Raval)                | 1889          | X       |                    |
| Branch 3 (Gracia)               | 1897          |         |                    |

Source: Own elaboration; Actas de la Caja de Ahorros de Barcelona y Montepío Barcelonés 1844–1907; AHC.

**Institutional profiles: monte de piedad, montepío and the savings bank**

In general, savings banks expanded in Spain alongside the old *montes de piedad*, following the steps of that pioneering institution, the Caja de Ahorros y Monte de Piedad de Madrid (founded in 1839). In Barcelona, however, it was impossible to reconcile the old *monte de piedad* and the new savings bank. The factors explaining the refusal of the old *monte* to join the new savings bank were first of all related to the internal politics of the institution, which reflected conflicts and disagreements among the members of its General Council.8 The second explanation is related to strategy, because a defining characteristic of the *monte* was not accepting deposits but of attracting charity and providing liquidity to the poor through pawn transactions. Success in setting criteria for the issue and recovery of advances rather than in setting interest rates was a condition that guaranteed the inflow of external funds. As mentioned above, these originated in the form of charity, donations and legacies from private individuals as well as contributions from the state and the Catholic Church. Attracting these funds was crucial for its long-term survival. Thus the logic of the *monte* enabled it to endure the vicissitudes of the market and isolate environmental changes.

The standoff was resolved in 1844 when the Board of the Caja de Ahorros de Barcelona again attempted to persuade the old MPB to accept new conditions and allow it to receive monies deposited in the savings bank. This offer was made under the proviso that loans were to be made at an annual interest rate of 5% and that the MPB should open its offices for three days of every week. The MPB, reaffirming its traditional ideological position of safeguarding the free nature of its loans, did not accept these conditions in order to maintain its independence. This inflexibility made it easier one year later, in 1845, for the Board of the savings bank to establish a new *monte de piedad* to act as a new secured loan institution to provide an outlet for the savings bank’s funds. It gave the new institution a name which would clearly differentiate it from its intransigent counterpart and this new establishment opened its doors in 1846 as the Montepío Barcelonés. It was closely linked to the Caja de Ahorros de Barcelona, and was in effect ‘a section or dependency of the savings bank.
situated in the same premises, served by the same employees [and] managed and administered by the same governing body’ (Reglamento, 1853).

The new Montepío was created with its own profile which distinguished it from the old institution (Table 2). It was intended that it should offer an outlet for the funds deposited at the savings bank while lending from 50 to 30,000 reales to individuals against valuable pledges, which could be:

gold or silver jewels or valuable metals of any kind, fine stones or pearls, manufactured or non-manufactured hemp, flax, silk, wool or cotton, paper of all kinds, sugar, coffee, cacao, wax, certificates of consolidated debt and any other objects of intrinsic and permanent value in the opinion of the Appraiser or Valuer and with the prior authorisation and agreement of the duty Manager. (Reglamento, 1853)

Interest on the loans was fixed according to its regulations at 6% per year, and payment of the interest was always made at the time of redeeming the pledge. The maximum repayment period was 12 months, which could be extended upon request and approval by the Council (Table 2).

The guarantee and loan conditions of the MPB were different, as shown in Table 2. The type of pledges accepted as guarantees, the time foreseen for the redemption or renewal of loans and the maximum loan values show the heterogeneity of these similar institutions. In the older MPB the pledges accepted were of lower value (jewels and metals, textiles and clothes, and kitchen utensils) and the repayment period of loans was shorter at six months, with renewal also subject to the Council’s approval. The issue of interest chargeable had been a central issue for the old institution since its establishment in 1751. This was resolved in 1861, when the older

| Conditions of loans | Monte de Piedad (MPB) | Montepío Barcelonés |
|---------------------|-----------------------|---------------------|
|                     | Regulation 1751, 1858, 1861 | Regulation 1853 |
| Guarantees accepted |                       |                     |
| Jewels and metals   | X                      | X                   |
| Yarns, textiles and clothes | X | X |
| Other goods*       | X                      |                     |
| Certificates of indebtedness | X | X |
| Furniture          | X                      |                     |
| Tools              | X                      |                     |
| Kitchen utensils   | X                      |                     |
| Loan: amount of principal | varies according to period | 50–3000 reales |
| Interest rate payable | Regulation 1751: free for all the loans | 6% |
|                     | Regulation 1861: free for loans < 800 reales; 5% for loans > 800 reales |
| Maximum time for redemption** | 6 months | 12 months |
| Days open to the public per week | varies according to period | 3 |

Notes: *Sugar, paper, coffee, cocoa, tobacco, wax. **The loan could be renewed.
Sources: Own elaboration; Reglamento, 1853; Constituciones del Real Monte de Piedad, 1751; Monte de Piedad, Actas 1836–71, ANC.
Monte decided to charge a 5% annual interest rate, but only on loans exceeding 800 reales. This was made possible by the Act of 14 March 1856 which abolished the interest rate cap on money lent.

From then on the fabric of the city’s new microfinance network was composed of the three microfinance institutions: one specialised in credit-for-pledge and receiving funds (the MPB); another specialised in promoting thrift by accepting retail deposits (the savings bank); and a third specialised in making advances in exchange for pawn and pledges (Montepío Barcelonés).

The stratification of the credit market and the disappearance of the poorest from the formal microfinance sector

The consumer credit market in Barcelona thus became segmented around the mid-nineteenth century through the process of specialisation in different clients based around the conditions of loans and guarantees. This entailed deciding upon the type of pledge acceptable, linking its value to that of the loan and determining the maximum time which the item could be held in trust. The conditions for offering credit reflected the number of days that an institution’s office remained open for the different transactions, the credit limit allowed and the interest that could be charged at the time of repayment or, in the case of renewal, the surcharges incurred. In short, the difference in the conditions of the guarantee, that is of the pledge, and of the loan, allowed the different institutions to find their own clients.

The dynamics of the microfinance institutions contributed to the increased segmentation of the credit market and its clientele. One of the mechanisms used by Montepío Barcelonés to avoid potential losses when a loan was not repaid was to take exhaustive measures to assess the potential marketability of each pledge. Lending guidelines induced the appraiser to attribute a very low value to those objects which would be difficult to sell at public auction after failure to repay the related loan. The Articles of the Montepío Barcelonés required the appraiser to cover the difference between the loan granted and the part which was not repaid after the sale of the pledge at public auction whenever the borrower did not pay this difference. Consequently, the options to obtain credit for the poorest were: either being diverted to another institution specialised in an even lower stratum of the credit market, or being squeezed from the formal microfinance sector to using

Table 3. Secured loan institutions and loan values relative to the average daily wage of a factory labourer in Barcelona, 1848.

|                     | MPB     | Montepío Barcelonés |
|---------------------|---------|---------------------|
| Number of loans     | 5195    | 3264                |
| % to women          | 72      | 35                  |
| Loan values (in day’s wages) |         |                     |
| Micro (>21 days’ wages, in %) | 74   | 34                  |
| Small (21–57 days’ wages, in %) | 19  | 35                  |
| Medium (>57 days’ wages, in %) | 7   | 31                  |

Note: Cerdà (1867, vol. II, p. 645) estimates the average daily wage of a factory labourer as 9.40 reales for the year 1856.

Sources: Own elaboration, Monte de Piedad, Libros de Contaduría, 1848, Arxiu Nacional de Catalunya (ANC); Caja de Barcelona y Montepío Barcelonés, Estadísticas, AHC; Cerdà (1867).
traditional lenders from the informal sector. Both options were available in Barcelona in the second half of the nineteenth century. Thus the poorest, who tended to have the least interesting pledges to offer, were gradually expelled from the periphery of the financial system’s formal sector and into the hands of the moneylenders (informal sector).

Table 3 indicates that the two secured loan institutions specialised in different products and, most likely, in different client sectors. In 1848, the MPB offered credit to the most disadvantaged sectors: it granted a much larger number of loans than the Montepío Barcelonés and, at the same time, the average value of these loans was lower (Figure 1): 74% of the loans granted in 1848 were below 21 days’ earnings of a typical factory labourer (‘microloans’), using the estimates of Ildefons Cerdà (Cerdà, 1867). The old MPB specialised in granting loans to the largest possible number of families, which it did through granting loans to women. In 1848, for example, 72% of the loans granted were to women. In contrast, in the Montepío Barcelonés women represented only a third of borrowers and only a third of the loans granted were microloans. The clients of the Montepío Barcelonés spanned a broad spectrum: poor widows, day labourers, but also merchants, shopkeepers, textile manufacturers, traders and even, probably, informal lenders who used the montepío to deposit the pledges from their own clients and thus obtain cash. The periphery of the financial system’s formal sector thus became a space where the formal and the informal sphere could interact.

The flow of resources from the bank for the poor to the mercantile class during the industrial and financial crisis of 1847–48

In 1847–48 Barcelona, like many European cities, experienced an industrial and financial crisis. The end of the monarchy, in a context of poor harvests and a subsistence crisis in France, had knock-on effects on the rest of Europe (Berger &
Spoerer, 2001). Gabriel Tortella (1973, p. 43) has described the resulting crisis of 1847–48 as the ‘first great crisis of Spanish capitalism’. Catalonia was the worst-affected region within Spain given its greater degree of industrialisation. As in France, the crisis had its origins in the agricultural sector. A succession of bad harvests starting in 1846 resulted in an increase in imports and greater scarcity of staple foods (Pascual, 1990). The demand for manufactured goods shrank and the decrease in manufacturing activity was exacerbated by shortages of American cotton. A new civil war (the second Carlista war) added to increases in the prices of food and cotton in 1846. The economic outlook was dim and many businesses suffered. With the economy in retreat and little or no business confidence, the worst affected were credit institutions, trading houses, manufacturers and, of course, working-class households (Blasco & Sudrià, 2009; Pascual, 1990; Sudrià, 1982; Tedde, 1989).

The earliest signs of a financial panic in the city of Barcelona were evident by mid-1847. The coffers of the Banco de Barcelona remained empty; the public rushed to withdraw their deposits and change their notes into gold (Blasco & Sudrià, 2009). At the same time, in March 1847, the city’s savings bank (Caja de Ahorros de Barcelona) observed an increase in withdrawals and a reduction of both the amount of deposits and the number of depositors (see Figure 2).

Given the lack of liquidity and ongoing run on the Banco de Barcelona, traders and manufacturers solved their liquidity requirements by pawning their stocks of commodities and finished goods at the Montepío Barcelonés.9 As the Montepío could lend money against commodities and manufactured goods, it undoubtedly became a tremendously attractive source of funds for the city’s businessmen, who could acquire easy and fast credit at a good price. However, they had to pay for the storage of certain types of goods.10 This was probably to discourage possible abuses by traders and shopkeepers who had discovered in popular credit institutions a way of obtaining cash and a safe place to deposit and store goods cheaply. Trade and microfinance institutions became interrelated in the Barcelona of the mid-nineteenth century, as is shown by the high loans for pledges that the Montepío Barcelonés made on raw cotton, cacao, sugar, tobacco and paper (see Table 4).
Despite the limit imposed on individual credits that the Montepío Barcelonés could offer, in practice the clients and institution negotiated around this restriction. The easiest way was to fragment credits into smaller loans, and significant aggregate sums were advanced to certain individuals. In the financial crisis years of 1847 and 1848, the lack of liquidity obliged traders and industrialists to seek resources wherever these were available. Some of the Montepío’s borrowers obtained credit on a scale greater than that which the partners and clients of the Banco de Barcelona could normally aspire to (see Blasco & Sudrià, 2009; Carbonell, 1997; Informe, 1863; Sudrià, 1982). The resources of the institutions which offered secured loans to the working-class section of society were, at certain times, attractive to these traders, shopkeepers and manufacturers (see Table 4). It is apparent that in critical situations the flow of resources from the consumer credit institutions to the world of business would occur. The new working-class credit institutions located on the periphery of the developing financial system could provide it with greater flexibility, diverting their funds when required at times of crises from the working class to the mercantile class.

Table 4. Main borrowers of the Montepío Barcelonés, 1847–48.

| Family name       | First name | Trade                          | Value of credit (reales) | Number of loans | Value of credit (reales) | Number of loans |
|-------------------|------------|--------------------------------|--------------------------|-----------------|--------------------------|-----------------|
| Ramonacho y Cot   | José       | n/d                            | 20,000                   | 1               |                          |                 |
| Torrents          | José       | colonial trader                | 20,800                   | 3               |                          |                 |
| Tarruella         | Magín      | thread manufacturer            | 21,000                   | 2               |                          |                 |
| Trepat            | Juan       | lime business                  | 22,500                   | 4               | 22,500                   | 2               |
| Busquets          | José       | veil weaver                    | 23,800                   | 6               | 41,420                   | 9               |
| Martí             | José       | n/d                            | 24,000                   | 5               |                          |                 |
| Carbonell         | José       | silk agent, thread manufacturer| 24,000                   | 1               |                          |                 |
| Pujol             | Lorenzo    | Trader                         | 30,000                   | 2               |                          |                 |
| Rosell            | José       | n/d                            | 30,000                   | 2               | 56,160                   | 2               |
| Murtra            | Antonio    | Trader                         | 30,000                   | 2               |                          |                 |
| Felip             | Victoriano | Trader                         | 32,000                   | 1               |                          |                 |
| Clara             | Ramón      | money broker                   | 34,000                   | 1               |                          |                 |
| Solá              | Ramón      | fabrics manufacturer           | 36,530                   | 9               |                          |                 |
| Valdés            | Mucio      | n/d                            | 37,800                   | 6               | 64,100                   | 7               |
| Canudas           | Ramón      | thread manufacturer            | 38,000                   | 3               |                          |                 |
| Capdevila e hijos | Ramón      | yarn and fabrics manufacturer   | 56,000                   | 3               | 28,000                   | 1               |
| Larrosa           | Pedro      | Trader                         | 63,800                   | 7               | 175,200                  | 13              |
| Costa             | Gabriel    | n/d                            | 66,000                   | 3               |                          |                 |
| Pedralves         | Luis       | n/d                            | 110,540                  | 9               | 232,320                  | 6               |
| Plana             | Pedro      | fabrics manufacturer           | 192,000                  | 4               | 182,000                  | 4               |
| Llabayol          | José       | fabrics manufacturer           | 221,040                  | 17              |                          |                 |
| Mir               | Salvador   | fabrics trader                 | 20,000                   | 1               |                          |                 |
| Pujol             | José       | money broker                   | 30,000                   | 2               |                          |                 |
| Durán             | Ramón      | Trader                         | 60,000                   | 1               |                          |                 |
| Buxadós           | Antonio    | n/d                            | 68,810                   | 6               |                          |                 |

Note: n/d = not disclosed
Source: Montepío Barcelonés, Libro de empeños. Gèneros 1847–48 (AHC).
Conclusions

The evolution of the _montes de piedad_ in Spain has allowed us to explore the historical roots of the current debates surrounding the main problems faced by not-for-profit financial organisations which offered credit to the low-income sectors – people who are otherwise neglected by the joint stock banks. These problems include their financial viability, their long-term sustainability and the true measure of their social impact.

In Catholic Europe and in many countries within Latin America the _montes de piedad_ preceded savings banks. This study of microfinance institutions in Spain in the mid-nineteenth century has demonstrated that the persistence of old institutions created during the early modern period – _montes de piedad_ – acted as the basis for the establishment of the new working-class savings and credit organisations and institutions.

In mid-nineteenth-century Barcelona the contradictions of the old _monte de piedad_ became evident as a network of working-class credit institutions emerged. The appearance of a new _monte de piedad_, Montepío Barcelonés, linked to the new Caja de Ahorros de Barcelona, revealed the existence of alternative models: the old basis of charity with interest-free loans and deposits, and the new model with interest on loans and savings. The latter prevailed, and the old _monte_ adapted to the new business model, accepting loans and deposits with payment of interest. The two _montes de piedad_, one established in 1751 and one in 1844, coexisted, offering financial services to the poor, but they each specialised in different products and different clients.

The poorest individuals were expelled from the microfinance institutions as pledge conditions and valuation practices generated a dynamic of exclusion of the poorest, who could provide only guarantees of a lower value. The existence of two credit-for-pledge institutions allowed this dynamic of exclusion to be offset to a certain extent, as the borrowers rejected by the _montepío_ could be served by the _monte de piedad_, which offered micro-credits to the most economically disadvantaged sectors, mainly women. The Montepío Barcelonés, in contrast, covered a broader spectrum of clients, granting bigger loans to mainly male clients. The analysis of the loans granted by this new institution in the years of the financial and industrial crisis of 1847 and 1848 shows how part of the savings of working families deposited in the city’s savings bank was diverted to traders, shopkeepers and manufacturers. The new working-class credit institutions, located on the periphery of the nascent financial system, showed their ability to contribute to alleviating situations of crisis, providing the overall financial system with greater flexibility and resilience.

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Notes

1. Hollis and Sweetman (1998b, 2001) were the first to label the activities of the Irish Loan Funds as ‘microcredit’ and ‘microfinance’. These institutions have philanthropic origins and were dedicated to lending money in small amounts.

2. Henceforward donations are defined as a one-off gift of a large sum of money or a building. Charities and alms refer to regular donations of small amounts of money or in kind. Bequests and legacies encompass a portion of an estate left through will or inheritance.

3. Von Pische (1991) raised, for developing countries, the idea that there is a ‘frontier’ between the official banks and the financial institutions specialising in the low-income sectors. Floro and Ray (1997) and Ray (1998) understood the complexity of the financial system of some developing countries and reached the conclusion that it is composed of a formal sector and an informal sector, which complement each other and which transfer clients and resources between each other.

4. Granada (1839), Santander (1839), Sagunto (1841), Valladolid (1841), Sevilla (1842), Barcelona (1844), Burgos (1865), Valencia (1851), Vitoria (1876), Málaga (1863), Sabadell (1859), Mataró (1863), Córdoba (1878), Manresa (1865), Alcoy (1875), Zaragoza (1876), La Coruña (1876), Tarrasa (1877), Alicante (1877), Segovia (1877), Ávila (1878), Linares (1879), Orihuela (1879), San Sebastián (1879), Pontevedra (1879), Santiago (1880). (See Antón Ramírez, 1876, pp. 187–198.)

5. The Royal Order of 3 April 1835 indicated in this respect: ‘unfortunately it is not possible of course to consider among us the Savings Banks in the same way as they are established in other countries . . . the day will arrive when the credit of the State is fully recovered and the public funds will be a safe and advantageous refuge for the savings of the poor; but until confidence is felt again . . . we have to rely entirely on the spirit of philanthropy which inspires the rich’ (Real Orden 3 de abril de 1835).

6. The confluence of the two institutions was a generalised but not absolute phenomenon. There are some exceptions, such as the Caja de Ahorros de Sabadell, which was created without any precedent of monte de piedad in the city (Benaul, Garrido, & Sudriá, 2008).

7. The MPB maintained its independence until 1923, when it merged with a new savings bank created in 1904, the Caja de Pensiones para la Vejez y el Ahorro. In 1990 this institution took over the Caja de Ahorros y Monte de Piedad de Barcelona. The Caja de Pensiones para la Vejez y de Ahorros de Cataluña y Baleares, ‘la Caixa’, is one of the most important financial institutions in Spain.

8. The history of the Monte de Piedad de Barcelona was marked by constant disputes between the Congregación de Nuestra Señora de la Esperanza and the administration of the MPB. The representatives of the two institutions made up the General Council of the Monte de Piedad, whose profits were destined to support the Congregation.

9. The Bank of Barcelona, in its initial years of existence, also exceptionally offered credit guaranteed by goods (Blasco & Sudriá, 2009, p. 62).

10. The rules of the monte established that goods in pawn could remain in storage for up to 12 months. The value of the fee to be paid for storage was set for the monte and was the same for similar kinds of goods. After a year had passed, the owner had two options, namely renegotiate the loan or sell the goods through public auction (Reglamento, 1853, p. 24).

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