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Portuguese public debt and financial business before WWI

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Government, public finance, and public debt framed the historical background for exceptional financial business opportunities for Henry Burnay as a private banker and a network with Baring Brothers, Comptoir National d'Escompte, Banque de Paris et des Pays Bas, Neuflize et Cie., Crédit Lyonnais, Société Générale, Deutsche Bank, Bank fur Handel & Industrie, Dresdner Bank, M. Jacob H. S. Stern and the Deutsche Effecten & Wechsel Bank from Frankfurt. Nineteenth-century financial markets and public debt emerge as the main players in the game. Credibility and honesty were important values for earning confidence and trust in international financial business, while bilateral-monopoly market situations required a lot of bargaining for joint profit maximization.

JEL Classifications: M16, N23, N43, N83

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Introduction

This paper claims that the historical experience made of difficult times for a small country leaving the gold-standard before the First World War put in motion old schemes for supporting the Exchequer. The traditional framework of a private banker for lending to a prince that was so frequent in the previous centuries seems to apply, as well as mutual compensation schemes (Cipolla, 1993). Financial markets, Government, and public finance are main actors in this paper because they set the historical background for an exceptional banker's performance in dealing with the Portuguese foreign public debt and European financial organizations. This paper presents some of the most conspicuous elements of Henry Burnay's business connections to illustrate the role of nineteenth-century gold-standard combined with permanent deficits of public accounts, focusing particularly on lending to government for public works and public debt service against compensations that included the tobacco manipulation monopoly concession. Business networks with European financial organizations supported the Portuguese participation in nineteenth-century globalization and Henry Burnay's business was an exceptionally successful activity in this historical context.

For an underdeveloped country such as Portugal, Burnay's performance can illustrate how an intelligent businessman could exploit excellent opportunities from the national economic and social environment and particularly from Portuguese institutions existing at the time in the country.

The gold standard was abandoned in 1891 because of a sudden termination of emigrants' remittances and a current account reversal, and the government found its foreign credit exhausted in 1892, incensing global financial circles (Esteves and Khoudour-Casteras,

¹ I thank the Arquivos Nacionais da Torre do Tombo for making the Burnay archive records available to me, and particularly Professor Miriam Halpern Pereira, Dr^a. Luísa Braga and Dr^a Susana Serrano. I thank Les Archives Historiques Société Générale, Paris and Mme Catherine Dardagnac. I thank John Huffstot for helping with the English. Any prevailing errors or faulty interpretation are my own.

2008). The Portuguese partial bankruptcy was declared by a government decree on the 13th of June 1892 in the wake of the Baring crisis. This bank was a traditional lender to the Portuguese government. Short-run loans that were usually received as floating debt were no longer feasible because of the South American crisis. The bankruptcy consisted of a suspension of amortization and a 1/3 forced decrease of interest, for foreign debt, and the creation of a 30% tax on the loans' revenue of the domestic debt. Deciphering the environment, Henry Burnay participated in all these events and modelled his activities and fortune on the financial needs of the governments and the Exchequer. As default crises are not very frequent, the Portuguese borrowing experience is an interesting historical background for a case study on banking entrepreneurship opportunities.

Deciphering the environment and building public works

Banking was a crucial activity in nineteenth-century Portugal. Henry Burnay & Cº was a successful organization that survived him.¹ Working for the banker Carlos Krus, he married his step-daughter, Amelia. The marriage as a social institution and a social contract at the same time provided him a new business family network and provided Krus's trust and confidence in his personal abilities, coordination and strategic skills (Monica, 2003). Founding his banking house, the Henry Burnay & Cº emerged in several economic activities in the Portuguese society. Diversifying assets to minimize risk, it was instrumental for his individual performance as an actor confronting the special and non-repetitive historical conditions of a peripheral underdeveloped country.

Burnay was conscious of the interdependence between political, economic and financial affairs. He clearly understood that the government, political parties and Parliament were decisive institutions for his business activity and proved to be a modern strategist in nineteenth-century Portugal. Looking at the quick expansion of Lisbon, his banking house connections with political authorities in 1880s led to the lotting of the large Marquis of Borba's farm, at Santa Marta in Lisbon, where the middle-class quarter of Camões would be built in the context of the urbanization opportunities of the time.² His urbanization enterprise, the Sindicato dos Terrenos de Santa Marta, provided lending capital to municipality of Lisbon at a 5% interest rate for 10 years to lay out the streets and lots for the future building space, under a contract signed in 1880, the year of the poet's third centenary. A huge popular party celebrated the poet, linked his name to this new residential area of Lisbon and congratulated the Sindicato for the beginning of a new financial business with the municipality that would last for many years (Silva, 1997). He clearly identified sponsoring of political events as a marketing instrument.

As a successful banker Henry Burnay was invited to sponsor cultural activities and national celebrations and understood how important it was to preserve excellent relationships with domestic institutions. Funding centenaries provided personal rewards from government, social approval in Portuguese society, political power and good businesses such as railways.³ Henry Burnay & Cº participated in the railways company created in Madrid on 8 January 1885 to build the lines from Salamanca (Spain) to the Portuguese border.⁴ According to the contract established on 12 October 1882 with the Portuguese government, under the law of 22 July 1882 the government completed the annual net revenue of 5% on the capital established in the Spanish international contest (considered as the necessary building capital). To develop these Spanish railways from Salamanca to the Portuguese border the Companhia das Docas do Porto e Caminhos de

¹ It gave origin to the Banco Burnay in 1939, which would be merged with Banco Fonsecas Santos & Viana in 1967 and transformed into Banco Fonsecas & Burnay. It was nationalised in 1975, privatised and merged with Banco Borges & Irmão into the Portuguese BPI.

² For this aim he organised the Sindicato dos Terrenos de Santa Marta (Silva, 1997, pp.193-94).

³ He provided funding to Camões, Pombal, and Santo António centenaries.

⁴ His name is also associated with the Beira Baixa railway, to the Ramal de Viseu and the Foz-Tua-Mirandela lines (authorisation in the law of 26-5-1884).

Ferro Peninsulares was founded at Oporto in 1889 as a mixed company. The Portuguese government had 13 582 shares, Henry Burnay & Cº 823 shares and four banks from Oporto (Banco Comercial do Porto, Banco União, Banco Aliança, Nova Companhia de Utilidade Pública) underwrote the remaining capital (10,288 shares).¹ Poor grain harvests in the region and a cholera outbreak translated into lower transportation of passengers and goods in 1891 and 1892. Coupled with the global financial crisis and the depreciation of the Portuguese currency following the abandonment of the gold standard, the losses of the company amounted to 109 991.98 pesetas in 1891 and 103 957.59 pesetas in 1892. Claiming a help from the government, the decree of 5 April 1892 transferred the operation of the railway to the state-owned railway company Caminho de Ferro do Minho e Douro, paid part of the interest guarantee and in compensation, not only preserved to the Company the concession to build the new port of Leixões, but also gave up, for 10 years, the division of profits established in the law. It was important that the name of the company included the reference to the harbour and the law of 29 August 1889 foresaw this concession, but this political decision to preserve to the Cº the concession to build the new port of Leixões really meant a compensatory payment in a failure and a new business opportunity for this group of private bankers.²

Although taking the pro-active attitude is the most usual way to begin a business, it may also happen that bankers may be required to participate in any business whenever funding is necessary. As the size of the market is the most important single determinant for the growth of innovation and business, in a small market any particular initiative needs the support of crucial adaptive efficiency to make it successful. This seems to be the case for Burnay's participation in the Lisbon harbour works. As a capitalist he was also required to participate in the initiatives of others. The initiative proceeded from an institution, the Associação Comercial de Lisboa, which represented the "domestic and foreign traders of this place".³ Eduardo Pinto Basto chaired this association in 1885 and met a group of merchants and entrepreneurs, the so-called Grupo Nacional (National Group) to propose the organization of the projects to the Minister of Public Works, Emygdio Julio Navarro.⁴

This group invited Henry Burnay to participate in this business by joining his name with "the largest number of shipping entrepreneurs of Lisbon".⁵ Several domestic and foreign companies supported this initiative.⁶ In a global world they all recognized the great difficulties of mooring at the port of Lisbon, because of the short length of the harbour. It was necessary to improve it in order to attract shipping and international trade to the Portuguese capital, as the second-rank city of Oporto already had a new seaport at Leixões (since 1883) and was giving Lisbon a good deal of competition (Santos, A., 1997).

A general committee gathered all the available statistics and information on the port of Lisbon.⁷ Technical reports suggested the Havre, Callais, Anvers, Rotterdam, Hambourg or Southampton as good examples. The most influential Portuguese engineers designed the project in cooperation with Mr. Guerard, General Director of Public Works at the Rhone Department. Guerard belonged to the Batignolles Society and had built the harbour of

¹ The law of 29-8-1889 approved the statutes of the company, whose capital was made up of 24 693 shares. The law of 22-7-1882 authorised the government interest guarantee.

² In the discussion of this government decision in the Parliament, the Progressista Party, in the opposition, protested against this government payment. Diário da Câmara dos Deputados, session 8-2-1892, speech by José Maria Alpoim, p. 6.

³ According to the statutes. The Association was at her apogee. It was closed in January 1894. See Santos (1997, pp.24-27).

⁴ Diário do Governo, 25-8-1885.

⁵ They also invited the private banking house Fonseca Santos & Vianna.

⁶ Such as Anjos & Cº, Bensaúde & Cº, Ernesto George & Cº, E. Pinto Bastos & Cº, J. Wimmer & Cº, Knowles, Rawes & Cº, Merck, Marx & Cº, O. Herold & Cº, Torlades & Cº, Garland Laidly & Cº e Mascarenhas & Cº, as well as individual merchants. Letter of 31-8-1885, Fundo Burnay, box 5, ANTT.

⁷ The general committee was made of James Rawes, Pedro Gomes da Silva, E. George and Pinto Bastos. Report 3-10-1885, Fundo Burnay, box 5, ANTT.

Marseille.¹ Having studied the ports of Glasgow, Newcastle, Liverpool and London, their project wanted to transform Lisbon into the largest seaport of Western Europe.² This domestic and foreign cooperation in a business can show the flexibility of organizations in globalizing nineteenth-century Portugal.

Very soon Henry Burnay became president of the National Group.³ The project was classified exequo with two other projects (by M. Hersent and Reeves). After some protests the Portuguese project was improved in cooperation with the Société Anonyme Internationale de Construction et d'Entreprise de Travaux Publics de Bruxelles⁴ and the Parisian engineer C. Chiesa.⁵ He was invited to examine all the projects tendered in the contest under the invitation of the Minister of Public Works because his firm was one of the most important shipping consignees in Lisbon (Monica, 2003, p.26): (“as the firm that Your Excellency directs is one of the most important shipping-consignee enterprises of our seaport, I hope that you will kindly come”⁶).

The business to manage the new port of Lisbon was established in 1894, while the construction still going on. It was not profitable at the beginning, but it would become so from 1900 on.⁷

Integrity as a personal image for diversifying assets

Although he always aimed at maximizing profits, he understood how important the payoffs were that resulted from a personal image of honest efficiency. An image of integrity was necessary. Burnay always cared about his reputation. The participation in public works and the provision of loans to the government demanded this social profile. Privacy and trust were rewarding for a business that illustrates an opportunity to move away from non-repetitive exchanges to safer businesses, reducing the uncertainty about outcomes. On preserving this image, Burnay massed a formidable personal capital that placed him into an exceptional national role and allowed him to pursue a personal wealth-maximizing strategy, while Portuguese trade deficits and high accumulated public debt service towards foreign markets would oblige the government to abandon the gold-standard in 1891.

Portuguese politicians from the 1850s to the 1890s equated progress with material infrastructures and the provision of transportation as a decisive investment to foster economic growth (Mata, 1988). Such a framework for economic development and social welfare meant subsidizing private companies, or even supporting a public transportation provision if private supply was not available. This framework made lending money to the government a prominent business because gold-standard convertibility constrained monetary emission.⁸ Lending provided good opportunities and comfortable rewards because the effective interest rate was significantly above the nominal interest rate, as considerations of safety were reflected in the market price of public bonds. Borrowed revenues were used not only for public investment but also for current expenditure while

¹ The Portuguese engineers were João Joaquim de Mattos, (president), Frederico Ressano Garcia, Augusto Fuschini (deputy), Bento Fortunato de Moura Coutinho d’Almeida d’Eça, José Joaquim de Paiva Cabral Couceiro, Adolpho Ferreira Loureiro, Cândido Xavier Cordeiro and Affonso Espregueira. They presented their proposal on 1-2-1886.

² Diário da Câmara dos Deputados, night session 2-7-1885, p. 2816.

³ He replaced Francisco Augusto Mendes Monteiro.

⁴ Letter to the Minister of Public Works, 26-3-1887, Fundo Burnay, box 5, ANTT.

⁵ Henry Burnay preserved all the engineering plans and details among his personal papers and records. Letter 15-2-1889, Fundo Burnay, box 5, ANTT.

⁶ Letter 20-8-1886, Fundo Burnay, box 5, ANTT.

⁷ Source - Box 4, ANTT.

⁸ Portuguese public debt had roots in the sixteenth century loans to government.

the Portuguese GDP did not increase enough to collect taxes to support the entire public debt service.

To face the increasing social criticism against his close connection in raising foreign public loans in the European financial markets, Burnay asked from the government declarations of confidence in order to go on offering his efficient intervention to help in domestic or international financial schemes to finance the Portuguese Exchequer. A letter from the ex-Minister of Finance Castelo Branco (in power from 14 January 1890 to 13 October 1890) confirms the personal trust of the ex-Minister in him:

“Lisbon, 28-2-1891.

Illustrious Excellency,

Not from a desire to reassure the (public) opinion, according to the expression used at the end of Your Excellency’s letter, but because of my personal duty, since you asked me, I have no doubts to declare that in Your Excellency’s relations as a banker with the Exchequer during my position as Minister of Finance, I never observed anything of a questionable nature.

With my highest consideration,

João Franco Castelo Branco”¹

Burnay purposely looked after the expression of confidence from the Portuguese political authorities, who had no way to refuse his services. He made good acquaintance with the governments, and the king had made him Count in 1886 as a compensation for his services, minimizing rewards of financial nature to him. After a mission abroad to negotiate the foreign redeemable loan authorized by the law of 23 March 1891, he wrote to the Prime Minister Jose Dias Ferreira to ask his support:

“Illustrious Excellency,

At the request of the Government under the presidency of your Excellency, I went abroad officially charged with several missions:

One of them was to negotiate, upon hearing from His Excellency the Counsellor António Serpa, (...) the loan of 100 billion (net) francs secured on the customs’ receipts, redeemable in 15 years, which the government would have liked to obtain simultaneously with the establishment of an agreement with the foreign public debt bondholders.

Another one was to support Counsellor António Serpa, the official Government representative, with my help and assistance in order to ask and facilitate the acceptance of the conditions he would formulate.

As the Government commissioned me, I ask your Excellency that, for my sake, you may kindly say:

1st - If I have perfectly accomplished, as was my duty, the Government’s instructions?

2nd - If the Government approved the conditions under which I negotiated the loan with the reserve of the conclusion of the agreement with the foreign public debt bondholders?

3rd - If some circumstance brought to the Government a suspicion of the loyalty of my procedure for the mission with which I was charged.

Thanking very much your Excellency’s response, I sign with the highest consideration.

With the highest regards,

Henry Burnay”²

The payment of interest and amortization of public debt could not be met. Poor institutions, backward technology and low educational levels may explain the failure of the public investment in transportation facilities to foster the desired economic growth and

¹ ANTT, Companhia dos Tabacos, 1891-1904, box 4.

² Copy of the letter, no expressed date, ANTT, C^a dos Tabacos 1891-1904, box 4.

the necessary tax collection in order to support both the current public expenditure and the service of the public debt. Henry Burnay was the largest short-term foreign creditor of the Portuguese Government.

Short-term foreign credits on 24 November 1890:

Banco de Portugal	£2 million
Henry Burnay	£1.609 million
Anglo Foreign Bank	£100 000
B. Lisboa e Açores	£100 000
Banco Aliança	£170 000
C ^a Ambaca	£450 000
Baring Brothers	£690 000
Credit Lyonnais	£992 000
Comptoir d'Escompte	£207 975

To pay these short-term credits the Government ceded the monopoly of tobacco manipulation (for 35 years) to a joint stock company, The Compagnie des Tabacs Portugal, Société Anonyme, that was founded in 26 February 1891 (contract of 13 April 1891) under Henry Burnay & C^o's initiative. A financial network was framed for this purpose, including the Banco Aliança (from Oporto), the Sociedade Fonseca Santos & Vianna, as well as French capital (Comptoir National d'Escompte from Paris and André Neuflize & C^a) to lend £ 8 million to the government, pay a monthly increasing rent and share 60% of the profits with government. Under these conditions, the government could consolidate the short-term credits and secure abroad a redeemable foreign loan amounting to £10 million, paying the 4.5% interest rate of the loan with the tobacco's revenue. From then on, Burnay fashioned very sophisticated financial negotiations and used his tacit knowledge to create an organization fitted to take advantage of the opportunities created by the existing conditions.

As entrepreneur he could now manage a mixed bag of opportunities. The monopoly favored not only his industrial activity, by reducing competition, but also his exceptional financial role as the true brain of governments' financial operations, since negotiations for public loans could only be carried out with the support of the tobacco company's annual payment to the government. The Compagnie des Tabacs Portugal, Société Anonyme was truly powerful.¹ In consequence of the Portuguese 1892 default, German pressures banned the new Portuguese securities from the London Stock Exchange in 1893, while the French government protested, asking for a representation of French investors in the Royal Portuguese Railway C^o, Companhia Real dos Caminhos de Ferro Portugueses. Newspapers suggested that Burnay promoted the French claims in order to get more advantages from the Portuguese government for future credit negotiation. He denied any influence on the events (Burnay, 1908).

Government compensations for his financial services included a lot of diversified opportunities. Burnay was elected Deputy exactly then, in 1893, and defended his image in the Parliament.² The government needed financial services that he could provide, and he needed business opportunities in an underdeveloped economy. The government could not issue public debt bonds because financial markets did not forgive the Portuguese 1892 default. This meant a government dependence on short-term loans and safe revenue from tobacco. The relationship between Burnay and the Portuguese government was incestuous

¹ Capital 50 million francs "Dossier remis à M. Le Comte de Burnay," ANTT, C^a dos Tabacos 1891-1904, box 4.

² Representing the Tomar district. He was deputy again in 1900, representing the Setúbal district (Santos, 1974, p.219-20).

(Mattoso, 1994). There was an exchange contract between these two partners that tells a coherent story. Burnay could reap handsome financial opportunities for himself. Douglass North does not consider such a complex institutional framework, but it is possible to say that the game was a simultaneous marriage of negotiation and cooperation. Moreover, at the same time the state was an increasing source of insecurity and higher transaction costs, because it was at once a partner and the enforcer of contracts.

From the French alliance with Comptoir National d'Escompte de Paris, and André Neuflize & C°, Burnay enlarged his financial network when the Portuguese government and the Banco de Portugal decided to sell their tobacco loan bonds on the market to increase the bank's metallic reserves and improve the exchange rate of the Portuguese currency. As they were a large number (23 340 and 24 031, respectively) it was necessary to find interested buyers in the global financial market to avoid a poor price for them. This new network included the Compagnie des Tabacs Portugal, Portuguese banks and capitalists and also the Banque de Paris et des Pays Bas, the Société Générale, the Banque Parisienne and the Banque Transatlantique and bought 24,000 immediately, on 4 August 1894 and the remaining 23,371 one year later:

Buyers of the tobacco loan shares (Contract 4 August 1894):

	Immediately	One year later
B. Paris et Pays Bas	2,400	2,337
B. Lisboa & Açores	2,400	2,337
Comp. Tabacos	2,400	2,337
Comptoir National d'Escompte	2,400	2,337
D. Colaço Osório	2,000	2,000
Lima Mayer & Filhos	500	500
Gaon & C°	1,000	1,000
Société Gén. Bruxelles	500	500
Banque Parisienne	500	500
Banco Aliança	300	300
Banque Transatlantique	250	250
Banco Comercial de Lisboa	250	250
Banco Ultramarino	100	100
Leonce Bloch	100	100
André Neuflize et Compagnie	2,400	2,337
Fonseca Santos & Viana and Henry	6,500	6,186
Burnay & C°	24,000	23,371

Source: Direcção Geral da Thesouraria do ministério da Fazenda, Fundo Burnay, ANTT.

He knew that the relationships among international partners evolve in the context of the repeated interaction among players. As President of the Committee Chairs of his international financial network he managed the relationships with the Portuguese government, preserving personal ties among the Committees' members to improve loyalties, stability and insurance within the business group.¹

Family and origin as two main institutions

French was a crucial international language and Henry Burnay was a native French speaker, as he belonged to a Belgian business family. Although his father was a medical doctor, he began his training in his grandfather's business house, João Baptista Burnay.² No genetic explanations may be quoted as factors for individual careers, but lower information costs on business tasks and commercial profile may be pointed out as

¹ For the role of these elements in corporate governing see Clarke and Clegg (1998, pp.295-368).

² From his mother Lambertina Fourgeurs Burnay. Encyclopédia Luso-Brasileira, Vol. B, pp.210-11.

relevant factors in facing uncertain outcomes, identifying business opportunities and seizing them. Born in 1837, he knew very well the features of the Portuguese economy and society and could benefit from low information costs.

The capacity to forge international relationships was a decisive factor in the globalization process of the second half of the nineteenth century. London, Paris and Frankfurt were the main financial markets of the world. With the exception of letters to the Portuguese political authorities, all the available documents in the Burnay archive are written in French (and some are translated in this paper). Letters to his private bank business situated in Lisbon, Henry Burnay & Cº, projects for railways and ports, balance sheets and letters to his family are all written in French. He had not only the comparative advantages resulting from his business origin, but also the language ability for international negotiations and the necessary culture for encoding and interpreting the information that his personal experience provided him with in order to frame a conceptual understanding of business opportunities.

He perfectly understood the Portuguese economic and financial scene and made rational choices. Burnay also knew how to behave regarding the encoded rules of international financial markets. Deviant behaviour was not tolerated. After the birth of the Compagnie des Tabacs Portugal, headquartered near the Opera at Rue Lafayette, 11, Paris, Burnay had plenty of information on domestic and foreign markets, and his archives contain much reference to frequent periods of permanence abroad, mainly in Paris.¹ The ongoing globalisation also provided him lower information costs as he used the telegraph very frequently. It made him possible to be permanently informed and also allowed secrecy, as he usually deciphered the message by hand on the received page, what means high confidence on his nearest collaborators. By telegraph it was also possible to seize new business opportunities immediately. In several telegrams he announced: "Arriving Monday morning". Such an intensive business activity required an organized spirit and awareness of saving time. The available transportation facilities by railway allowed him to manage his businesses on the way from Lisbon to Paris, departing always at Saturday and spending his Sunday travelling - to be ready for business in Paris on Monday morning (and vice-versa). He managed the Grand Etablissement Thermal et Station Climatérique - Hotel Vernet Les Bains, Pyrénées Orientales on travelling frequently from Paris to Lisbon, breaking the trip into two steps to visit and stay there for short periods of time.²

Participating in the global enthusiasm for colonial business, the Henry Burnay & Cie underwrote fr. 100 000 of the Companhia Comercial de Angola's capital through the Banco Lusitano³, fr. 50 000 through the Banco Nacional Ultramarino⁴ and fr. 100 000 through the Banco Alliança from Oporto, in 1887.⁵ The Companhia Comercial de Angola was a privileged company.⁶ Low information costs were very important in financial affairs and business in general. For example, in 1897 he knew in Paris the new technology the Compagnie des Omnibus de Paris was planning to use, the Serpolet engine for urban transportation, and immediately suggested to the Burnay & Cº the introduction of an experimental vehicle in the Lisbon transportation company Carris, as at this moment he belonged to the management committee of this company.

¹ He stayed in the Hotel Mirabeau rue de la Paix 8, Hotel Palais d'Orsay, Palace Hotel Royal in 1905, and Hotel Edouard VII. Comité de Paris, 11, Rue Lafayette, Adresse Telegraphique TABACO-PARIS Correspondance Baring, "Dossier remis à M. Le Comte de Burnay," ANTT, Cº dos Tabacos 1891-1904, box 4.

² A telegram sent to Paris on 24-06-1904 says: "Telegraphiez immediatement si il est necessaire que je parts samedi prochain, sans terminer affaire Vernet. Burnay, Lisbonne."

³ Letter 28-4-1887 from Banco Lusitano's Board to Henry Burnay, confirming this commitment. ANTT, Cº dos Tabacos 1891-1904, box 4.

⁴ Letter 28-4-1887 from the BNU governor, ANTT, Cº dos Tabacos 1891-1904, box 4.

⁵ Letter 28-4-1887 from the Banco Alliança Board, ANTT, Cº dos Tabacos 1891-1904, box 4.

⁶ To benefit from the king's privilege to Salom Bensaúde, a Portuguese capitalist from the Azores (decrees 14-8-1885 and 4-11-1886).

Minimizing risks in a special financial environment

A bankrupted central state has few alternatives, accepting the partner's proposals in frequent or almost permanent negotiations because there is an incentive for cooperation between the partners.¹ The government's positions depended on the urgent short-term financial needs of the Exchequer, meaning higher transaction costs, although government was the only source of public debt opportunities for businesses.

The second issue of the 1891 redeemable 4.5% loan in 1896,² amounting to £2 million illustrates a mixed business opportunity for Henry Burnay & C^o and Fonseca Santos & Viana who, coupled with a similar foreign financial network, collected all the capital for the first emission of 40 000 debentures of 500 francs at the price of 435,060 francs per debenture. The tobacco revenue assured the payment of interest, as usual. For this purpose the Compagnie des Tabacs Portugal should accept a revised contract for the tobacco monopoly, which added to the payment of the monthly rent established in the 1891 contract an additional amount of £72 222.2 annually. In compensation, this new contract would admit a new division of profits between the company and the government from 1 April 1897 onwards. This illustrates a bilateral-bargaining situation meaning that the enforcement of contracts was not assured.³

Enforcement of contracts is a decisive element in business. Permanent negotiation with governments for new mixed contracts means higher risks, because of harder conditions for the previously established contracts.⁴ As the 1891 contract could be cancelled 16 years later (that is to say, on 31 March 1907) provided that the government gave a two-year warning, Burnay proposed that the company would pay the additional annual rent if the government would give up this clause, abolish the tax on tobacco sales and allow the plantation of tobacco in the Douro valley. The government should also free the licence for selling tobacco. As President of the Compagnie des Tabacs Portugal Henry Burnay was very keen but cautious on negotiating business contracts. He began by declaring his plain good will and past cooperation in 1891:

“Today, as always, the Company wishes to help to the Government's aims, even at its own sacrifice within the reasonable limits, and contribute to the fulfilment of the operations that the Government considers to be useful and necessary for the reorganisation of the country's finances. The Company has already provided proofs of this purpose, having been praised in an official public document.”⁵

But he was very firm in defending his aims, particularly the re-negotiation of the tobacco contract, getting the best possible agreement:

“The adjustment of the Company's contract was already considered in a project for a law initiated by the previous government, voted by the Chamber of Deputies in 1896. This project was not implemented because the Company, which had not been consulted on some of its conditions, declared that it could not accept it in some of its points.”⁶

Burnay got his wish. The new contract was signed on the 1st of November 1897 and represents a true equilibrium of mutual interest. As in the 1891 version, the government could break the contract 16 years later (1907) if it announced this decision one year before, but the company might pay an additional annual rent of £113 333.3 from 1907 onwards (or £55 555.6 from 1896 on) to secure the continuation of the contract until

¹ Blair, Kaserman, Romano (1989, p.834).

² Law of 21-5-1896.

³ Cheng and Shieh (1990).

⁴ Salanie (1998).

⁵ Letter from Henry Burnay to the minister of Finance on the contract of 26-2-1891, box 4, Fundo Burnay, ANTT.

⁶ Idem.

1926. This means that the company responded to the government's urgent need of money by paying the additional rent immediately, but preserving the monopoly right for the longest period (until 1926). In the bargain the government's preservation of the right to break the contract was a permanent pressure to get a higher rent from the company.

Burnay's personal archives and records also show that he became the usual collector of domestic and foreign private capital for short-term lending to the government. In 1897 he proposed a new collection of capital to several Portuguese banks and bankers of Lisbon and Oporto. Here is the letter to them:

“As a short-term credit of foreign public debt amounting to £400 000 and 9 million francs comes due on the 20th of September - would His Excellency the Minister of Finance give me the honour of knowing from yourself (or from your Bank) if it is convenient for you to lend the total or partial amount of this short-term credit receiving domestic 3% bonds as a pledge and, in the affirmative case, tell me, by the 31st of the current month, the conditions for your supply.

God save your Excellency,

Henry Burnay

Lisbon, 27 of August, 1897”

Learning by doing: Tobacco and European financial networks

Businessmen are usually very careful about preserving good political relations with all political parties and governments, whatever their leanings may be. This is a first rule. Another very important rule is to keep the political arena at an arm's length, but keep friendly and independent. As Timothy Alborn puts it: “Companies (...) have always existed to an important extent as political institutions themselves, with some degree of accountability (...), sharing the modern state's basic need of maintaining a semblance of legitimacy to survive”.¹

The most difficult task that faced Burnay was the conversion of Portuguese foreign public debt after the 1892 default. Negotiations with the creditors dragged on slowly and were only finished ten years later, in 1902. The conversion of the old foreign issues of the 3% 1852, the 4% redeemable 1890, and the 4.5% 1888-1889 loans into the new foreign consolidated 3% 1902 loan, was a novel made of power and arrogance. The participation of Baring Brothers, the main short-run creditor of the Portuguese floating debt, was welcome by the government. In 1901, Burnay offered the cooperation of the Compagnie des Tabacs Portugal to the Prime-Minister Hintze Ribeiro, on the behalf of the Management Committee of this company, proposing a new negotiation for the conversion of the 1891-1896 loan shares:

“The Compagnie des Tabacs Portugal has learnt that the Government wishes to convert the tobacco debentures of 1891 and 1896, /the first having the guarantee of the Company/, the aim of the operation being to decrease the service charges of those two loans”

(...) /The Company has decided/ “to place all of its resources at the disposal of the Government for that purpose. If the Government in fact judges that the credibility and the relationships of this Company or any other kind of intervention from the Company may have some utility for what the Government may have in mind, I am authorized by the Board of Directors to declare to your Excellency that the Company is entirely at your disposal for using the same model that was used for the negotiation of the contract of 29 May 1900 for the loan in the amount of 23 000 000 francs (...), a contract established with clear advantage for the country and complete public satisfaction.

¹ Alborn, 1998, pp.1-2.

I remain personally, and with all confidentiality, at your disposal, and reiterate my affirmations of the particular esteem and consideration with which I am
Yours,
Very attentive and respectful".¹

Proactively, Burnay used a balance of political and financial means to achieve his business aims and make money. He also sent a copy of this letter to the Minister of Finance, Fernando Mattoso dos Santos to avoid misinterpretation or unkindly institutional (or personal) relationships:

"In order that your Excellency may not see in that fact any break in my official or personal consideration I hasten (...) to send a copy of the referred communication."²

The Prime-Minister did not exclude his proposal:

"I provided notice of that letter to the Council of my Ministers and I must thank your Excellency (...)

Your fair-handed offer, in the terms you expressed it, will be assessed by the government at a suitable time for that operation to be considered."³

Letters show a perfect relationship with the government chaired by Hintze Ribeiro and the political party in power, the Regenerador Party. At the time André Neuflize & C^a, was a much closer friend of Burnay because of his partnership at the Compagnie de Tabacs Portugal. The following letter shows Neuflize recommending Burnay to be very cautious with the Baring Brothers striving to preserve them in the coalition:

"Paris, 14th September 1901

My Dear friend,

Through the Barings, Durangel submitted a project to me for a letter conceived in the spirit of your proposal of the 8th of September and I hesitate, I confess to you, to give it my signature.

We have wanted the signature of our London friends and we have obtained it: and it is a lot.

Let us fear to compromise it and carefully avoid anything that may cool or freeze them (...) from our communication, whatever may be the redactor's ability, a certain criticism always arises, or at least advice, two things that may be inconvenient for them. Easily and with some pen's artifices they will detach our thinking which is, at last, to allow them to act less under their own inspiration and more under our direction. Will they accommodate themselves to this tutoring? I don't think so. We will have hurt their own susceptibility and for pure loss.

Believe that, in fact, the Government will not allow that they may be acquainted with its projects in advance, even in a vague way. If it asked the Barings to send a representative to Lisbon, it is only with the aim of facilitating an oral explanation, at a time and place, without sending anything written.

¹ Copy of the letter of 19-01-1901 from Henry Burnay to the Prime Minister Hintze Ribeiro, box 4, Fundo Burnay, ANTT. The letter refers the loan for the payment of the indemnification to the Delagoa Bay Railway.

² Copy of the letter of 20-01-1901 from Henry Burnay to minister of Finance, Fernando Mattoso dos Santos, box 4, Fundo Burnay, ANTT.

³ Letter from the Prime-Minister Hintze Ribeiro, 26-1-1901.

The secret of these financial conceptions. - Either the Government has a plan and, until a new order, will keep it for itself, or it does not, a supposition that we may also suspect, and our friends' search will be for nought. - What do we risk in waiting?

Here you have, my dear friend, the considerations I would like to submit to you. I think they deserve your examination. Think of them and tell me if you support your first idea. If so, you should write personally to London, as if the observation were coming from yourself. This would be more familiar and the result would be the same, in the end.

With friendship,
Neuflize”¹

A telegram to Burnay-Belem-Junqueira, his main private residence,² tells about the visit of the Baring's representative to Lisbon, recommending that Burnay always remain close to him in order to prevent personal contacts with others. Burnay handwrote the deciphered message on the telegram:

“Baron Neuflize charged me to say to you that he wishes that Baring will be limited to stay only with you, and he without communicating with anyone else. Neither Weil nor Froudive, who depart tomorrow for Lisbon, know anything. Durange”.

On coming home, the Barings also proposed the conversion of the 1891-1896 debentures:

“We understand, from Mr. Reade, that a basis for the measure that your Excellency has in mind, could be found in a conversion of the tobacco debentures (...) and it seems to us that such a conversion would certainly be the most favourable way to lead the projected operation to a happy end.”³

This was the preferred solution, but the conversion of the law 14 May 1902 did not include the conversion of the 1891-1896 loan, but only the 1852 foreign consolidate, the foreign 4% 1890 and the foreign 4.5% 1888-1889 redeemable loans.

The conversion of the 1891-1896 loan would not be accomplished, but went on being planned at a meeting in André Neuflize & C^a, on 11 February 1903, where Henry Burnay (C^a des Tabacs Portugal) met with his partners, the Comptoir National d'Escompte (H. E. Hullman), and the Banque de Paris et des Pays Bas (M. J. Thors and M. E. Moret).⁴ His idea was to propose to government an increased permanent revenue if another monopolistic business, the C^a dos Fósforos (a company manufacturing matches), could be merged with the tobacco monopole Cie des Tabacs Portugal. The joint annual monopoly rents would guarantee the payment of the new loan's interest. The new redeemable loan would consist of 600 000 4% debentures (each one with a nominal value of Fr.500 = £19.18 = Rs.90 000) and their real value would be established at the precise amount that was necessary to make possible this financial operation involving an international financial network made of French, British and German banks. In this way the 1891-1896-loan conversion should be coupled with the continuation of the tobacco monopoly and the merger with the matches' monopoly:

¹ Idem.

² He lived in a true palace, luxuriously decorated, which belongs today to the Technical University of Lisbon, and had other houses (in Lisbon and Oporto). (Mónica, 2003; Vairo, 2003).

³ Idem.

⁴ BUP, Secrétariat Financier Etranger, dossier n^o 13: la conversion ou du remboursement dès emprunts 1891 et 1896 du gouvernement portugais, Adresse A-03-06-1 des Archives Historiques Société Générale, Paris.

“The conversion of the bonds that was made by these agreements may be linked to the prorogation of the monopoly for the Portuguese Compagnie des Tabacs, as well as the merger of this monopoly with that of match-making.”¹

Henry Burnay was the pivot for establishing all the financial links between the European financial networks and Portugal and for enlarging his monopolistic industrial business. At this moment (1903) he was also the main short-run lender to the Portuguese government and could use this role to press the government to take political decisions that were advantageous for his business. As the Compagnie des Tabacs Portugal had received shares of the Railway Company Companhia Real dos Caminhos de Ferro Portuguezes as a guarantee for his short-run lending to the government, he proposed the government to capture those shares at their market price (Frs. 365) in reducing the government debt to the tobacco company:

“Your Excellency,

The state of the short-term credits lent to the Government by this Company is the following:

In Lisbon	Rs	1.272:000\$000 for the 31st of this month ²
		150:000\$000 for the 30th of April ³
In Paris	Frs.	5 000 000 for the 26th of May ⁴
		23 700 000 for the 7th of June ⁵

This Company would like to know ahead of time, if there is no inconvenience, if the Government plans to reimburse those credits on the respective deadlines, or if it prefers to transform them totally or partially. (...)

In the event that your Excellency the Minister of Finance is thinking of paying the referred Frs.23.700.000 - or a part of them, I take the liberty of reminding your Excellency that the debentures of the Companhia Real dos Caminhos de Ferro Portuguezes that are guarantying this credit, are enough for an advantageous operation for the Government, because of the high quotation they have reached: being the price of those debentures Frs. 365 and being their revenue 3.8%, net of taxes, and the interest on the credits which I refer 6%, selling those titles for that price would liquidate more than 2.5 million francs after paying off the credit, and providing a reduction of the annual burden of this operation of more than 150 contos - reducing in this way the short-term debt to this Company.

God save your Excellency

Lisbon, 20th of March 1903

To His Excellency the Counselor General Director of the Exchequer of the Ministry of Finance

Francisco da Silva Vianna.”

The government elected not to take his suggestion and decided to repay the short-run loans received from the tobacco company. Probably, the idea was to limit the government's dependence on the tobacco company and diversify the government creditors and be out of a bilateral monopoly situation. Henry Burnay complained about this decision, deplored that new loans had been secured from other lenders to pay the

¹ Plano Geral de Conversão das Obrigações dos Tabacos, 31 de Julho de 1903, Box 4, Fundo Burnay, ANTT. At the moment the President of the Committee of the Companhia dos Tabacos de Portugal was the Baron of Neuflize, 11, Rue Lafayette, Paris.

² Which means £282 666.66 at the gold-exchange fixed rate of 4\$500=£1.

³ Which means £33 333.33 at the gold-exchange fixed rate of 4\$500=£1.

⁴ Which means £2 777.77 at the gold-exchange fixed rate of Fr.180=£1.

⁵ Which means £131 666.66 at the gold-exchange fixed rate of Fr.180=£1.

tobacco company, and retaliated requiring the payment of other short-run credits from the government, using a especially ironical argument: as the government was in good enough condition that it could decline his help, it would be well that no one could speak about any dependency of the government on the tobaccos, which is to say, the government should pay off all of its outstanding debts to his company:

“Your Excellency,

This Company made its best effort to cooperate since its foundation, as far as possible, to satisfy the Government's wills for obtaining financial resources, always as fairly as possible, and even, on certain occasions, without any interest, the reason being, in a Royal decree, the satisfaction of the Public Power was official and publicly expressed.

Meanwhile more than one signal has appeared that the Government, although with no justified suspicion, finds it convenient to rid itself of the debt responsibilities it has to this Company (...)

The Board of Directors has dispassionately observed the intentions revealed by the Government, although believing them to be unwarranted. But, in light of such intentions, an imprescriptible duty of dignity obliges me not only to obey them without complaining, but also to anticipate them, caring on the other hand to give employment to the funds in good time (...)

For this reason, according to the opinion of the Board of Directors, in Lisbon as in Paris, I write to your Excellency, for the convenient aims and with all the anticipation that this Company expects to be reimbursed of the future short-term T bills bilhetes do Thezouro that it owns, as already occurred with the deadline of the 28th of the last month, which the Exchequer volunteered to pay.

We hope that His Excellency the Minister of Finance will not see this as an act of ill-will or offense to the interests of the State /which could not be justified under any pretext/ not only because in this way we obey to the intent that is apparent in the actions of His Excellency, but also because this proceeding itself gives us the safety that this call, that is imposed to the Company, will not cause any embarrassment to the Exchequer, as it is so easy for it to obtain funding from other sources.

It will even be advantageous that nobody can continue to say, at least seeming to be true, that this company tries to hold the Government hostage because of the short-run debt, in order to exercise any imaginary pressures on it.

God save Your Excellency

Lisbon, 11th of December, 1903

To His Excellency, Mister Counsellor, General Secretary of the Ministry of Finance and General Director of the Treasury

The President of the Board of Directors of Companhia dos Tabacos de Portugal

Count Burnay”¹

The government could not make the payments Burnay required and was looking after other creditors. Burnay really intended to go on lending to the government and operating the tobacco monopoly and in this game he did not want competition, as the conflict was not useful for either of the two partners. On the 24th of December Burnay offered to postpone calling in his loans, benefiting from Christmas time to propose a cessation of hostilities and peace:

“With regard to your Excellency's communication in which you remember the convenience of reimbursing the Tobacco Company of the domestic short-run credits to the Exchequer, which will be due on the 31st of this month, giving bills of

¹ Cópia da carta original enviada, box 4, Fundo Burnay, ANTT.

exchange, I am duly authorised to say to your Excellency that the Company, not doubting that the Exchequer has the necessary amount of resources in Portuguese money to pay in due time, will be pleased to receive as payment not only bills of exchange, but also offers a postponement for the collection of its credits until a more convenient moment, given the knowledge of the sensitive current state of the market, all of this without matching or avoiding the lending of 270 contos, which the Company shall provide to the Government, on the same day, because of the contracted loan of 1500 contos.

Awaiting an answer to these offers to assume the necessary dealings, I am, with the highest consideration

Yours,

Very attentive, venerator and obliged,
Count Burnay”¹

On the 26th of December, Burnay even offered his services to the Finance Minister for further lending:

“Dear Excellency General Director,

I am requesting from your Excellency the favour of informing His Excellency, the Minister of Finance, that this Company would like to be heard on any loan represented by new domestic or foreign debentures, which the Government would like to contract in the near future.

Your Excellency will deign to explain that this Company justifies this with the fact that the Company assumed the Railways loan, which is not yet issued and whose bonds will be received, and with the fact that in any event this is never inconvenient to the interests of Government, as only advantages may result from competition.

God save your Excellency”²

Cooperation was desired because it was mutually necessary and negotiations for the conversion of the 1891-1896 loan went on in 1904 with the government (contract of 16 July 1904) adding more financial partners: Société Générale, Bank für Handel und Industrie (Berlin), Deutsche Bank (Berlim) and the Baring Brothers (London).³ In compensation, the proposal was to continue the tobacco monopoly for 60 years (from 1 April 1905 to 31 March 1965) and the government could announce the end of the contract at the end of each ten years.

The proposed division of profits was 70% for the government from 1 April 1905 to 31 March 1911, 75% from then to 31 March 1916 and 80% from then to the end of the monopoly concession (1965). Note that there is a Pareto optimality condition for gain in joint-profit maximisation of bilateral monopoly settings because “there are only two agents who can discuss a transaction with one another and who are quite able to make binding agreements that do give them Pareto optimal outcomes” (Friedman, 1983, p.243).

The opposition, the Progressista Party, considered that these conditions were too hard for the country. They went into power in October 1904 (in a government chaired by Luciano de Castro) and tried new financial solutions. In this new political context the manager of the monopoly of matches, Jorge O’Neill, organised another international financial network to convert the 1891-1896 debentures. This network included the Banco Lisboa & Açores, the National Bank fur Deutschland from Berlin, Lippman Rosenthal & C^a from Amsterdam and Seligman Brothers from N. York-London-Paris. The Government also

¹ Idem.

² Idem.

³ Tabacs Portugal, Opérations Financières: 619 Adresse B-03-17-04, Archives Historiques Société Générale, Paris.

got some proposals from Hambro & Sons (London) and J. W. Selligman (N. York).¹ The Government even tendered bids² for the concession of the tobacco monopoly under auction market rules (portaria of 6 April 1905). The monopoly of matches was candidate to the tobacco concession³ and the government also solicited a proposal from the Spanish tobacco company Companhia Arrendatária de Tabacos de Hespanha, but failed.⁴

Having made this large competition possible, the government renegotiated the tobacco monopoly with the C^a dos Tabacos de Portugal and obtained the best proposal of all the set of available proposals.⁵ However, the revision of the contract on 4 April 1905 still led to divisions within the government (Santos, 1974). According to this new version, the monopoly concession was for only 19 years, the annual rent was increased to 6 000:00\$000 (six thousand contos, which means £1 333 333.33 at the gold-exchange fixed rate of 4\$500=£1) and the division of profits became variable and proportional to the amount of the manipulated tobacco with a floor of 50:000\$000 (fifty thousand contos which means £11 111.1 at the gold-exchange fixed rate of 4\$500=£1) per year in the period 1907-10.⁶

Curiously Burnay's health began to fail. Letters to him, in Paris, in 1905 reveal worries about his health. Although he always answered "perfect health",⁷ these negotiations were harder because of competition.⁸ The Henry Burnay & C^a obtained the participation of the Banco de Portugal, Banco Comercial de Lisboa, Banco Nacional Ultramarino, casa Fonseca, Santos & Vianna, Banco Alliança (Oporto), Banco Comercial do Porto and Pinto de Fonseca & Irmãos for the loan conversion. In a letter, Burnay explained to the Minister of Finance the need of such a powerful group: "Being a large operation, this Company can only function if supported by a powerful and influential financial group".⁹

The participation of the partners should be the following:

Henry Burnay & C ^a	10%
Baring Brothers	33.3%
Comptoir National d'Escompte	16.7%
Banque de Paris et des Pays Bas	13.95%
Neuflize et Cie.	7.25%
Crédit Lyonnais	5.25%
Société Générale	4.083%
Deutsche Bank	2.916%

¹ Letters of 20-2-1905, 21-2-1905, 22-2-1905 and 1-3-1905 from Martin Weinstein, representative of Hambro & Sons from London to the Portuguese minister of Finance, Manoel Affonso Espregueira. Telegrams from the Visconde de Alte, Ministro Plenipotenciário de Portugal in Washington, containing the proposals made by J.W. Seligman & C^o, Bankers, N. York, from 10-1-1905 to 28-3-1905. ANIT, livro A Companhia dos Tabacos de Portugal containing the contracts and these letters.

² Letters 22-10-1904, 14-10-1904, 17-11-1904, 5-1-1905, 19-1-1905 from Jorge O'Neill, Manoel de Castro Guinaraes and J. W. Bleck from the C^a dos Fósforos de Portugal SARL to the Minister of Finance Manoel Affonso Espregueira – ANIT Companhia dos Tabacos de Portugal, Livro com a colecção impressa dos contratos e cartas.

³ Diário do Governo 78: 7-4-1905.

⁴ Letters from F. Mantero, director of the C^a Arrendatária dos Tabacos de Espanha, in 6-2-1905, 8-2-1905 e 21-02-1905, who did not present a proposal "because of lacking sufficient elements for a conscious study on the tobacco business".

⁵ Letters from Henry Burnay, de 20 e 21-2-1905 to the Minister of Finance Manoel Affonso Espregueira – ANIT Companhia dos Tabacos de Portugal.

⁶ Sh. 8/kg on the mainland, sh. 0.80/kg sold out of the mainland, sh. 14/ imported kg. Suplemento ao Diário do Governo 244.

⁷ Exemple: Carta de 13 de Abril de 1905, ANIT, C^a dos Tabacos 1891-1904, box 4.

⁸ Heart problems translated into a first attack in 1906 and took him into large periods of inactivity from 1908 on (Vairo, 2003).

⁹ Quoted letter of 30-1-1905.

Bank fur Handel& Industry de Berlin	6.533%,
Total	100.0%
Note: Including the Dresdner Bank, M. Jacob H. S. Stern and the Deutsche Effecten & Wechsel Bank from Frankfurt.	
Source: Letter of 30-1-1905. - ANTT Companhia dos Tabacos de Portugal.	

Part of the available capital for the conversion was to be used to pay off the old debt of the 1830s incurred by the defeated Portuguese king, Miguel. The winner, the Portuguese Constitutional Monarchy, did not service this debt and the stockholders' claims were now preventing the quotation of Portuguese debentures in the European financial markets. Count Reillac was the leader of these protests.

Epilogue: Institutional change

This “tobacco revision” of the contract on 4 April 1905 associated with the loan conversion was a true political nightmare. The government was not unanimous in approving the contract. Some ministers preferred to split the conversion of the debt from the Reillac question and the negotiations on the tobacco monopoly. The physically unable and old Prime-Minister Luciano de Castro could not rule his government and his party (Progressista). In the Parliament the discussion of the contract degenerated into a turmoil in which the furniture was destroyed. Political meetings against the “tobacco gang” led to social unrest by the end of 1905. The political regime was accused of corruption and financial inefficiency. As the opposition (the Regenerador Party) was also involved in past tobacco negotiations, the accusations were mutual between the two parties of the monarchy. Institutions were under fire. The Republican ideology alone was free from responsibilities, as an outsider of the constitutional regime. The Republican movement accused the king and the monarchy. The society's tolerance of them came to an end.

However, no other financial solution could be found for the needs of the budget. The relationship with international financial organizations through Henry Burnay was disruptive because of the negotiation of domestic monopolistic contracts. Only changes in the bargaining power could lead to restructuring contracts, and they were not feasible.

The political solution was to dissolve the Parliament and replace the political party in power: In March 1906 the previous Prime Minister, Hintze Ribeiro came into power again and re-opened tobacco negotiations for a new contract in 1907. As the Compagnie des Tabacs Portugal suffered losses in 1907 and the government participated in profits, the annual rent payment fell by the amount of the losses. This fact was overwhelmingly considered as a true corruption scandal. Republican propaganda did not tolerate Burnay, the tobacco business, the new Prime Minister, João Franco, the parties of the monarchy or the king. Burnay was seen as an impious financial gambler. Newspapers¹ attacked his business image. He answered them by using his own newspaper² and publishing several letters and writings.³ He had been subject to repeated exposure in government foreign lending. One's reputation was necessary to survive socially, politically, and in business, on the pain of being damaged. There were no social and political conditions cushioning his conspicuous relationships with government, as there had been in the past. According to some interpretations it was the tobacco scandal that brought down the Portuguese monarchy.⁴ Portuguese civil society then aimed at setting up a new political framework. The king and his eldest son, the natural heir to the throne, were murdered in February 1908 and the victorious Republican revolution brought an end to the monarchy in 1910. Henry Burnay died by heart disease in 1909.

¹ Such as Correio da Tarde, Batalha, Seculo, Primeiro de Janeiro, Novidades and Folha do Povo.

² Jornal do Comércio, the first Portuguese daily economic newspaper, founded in 1853, bought by Burnay in 1881. Vairo, 2003.

³ Burnay even published most of them in a book to defend his honour: *Em legitima defesa e a história dos tabacos 1894-1909*- Lisbon: Livraria Ferreira, 1908.

⁴ Santos, 1974, pp.224-25.

The Portuguese institutional change in the 1900s was politically sudden, because of the victorious Republican revolution, but financially incremental. Probably, the reason is that new formal rules were available with the Republic but informal constraints prevailed because of the “deep-seated cultural inheritance” underlying them (North, 1996, p.91). Tensions between the new formal rules and many of the inherited cultural and financial constraints meant that budgetary equilibrium would be achieved only on the eve of the First World War. Budget equilibrium abolished the need for this kind of financial business.

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