

**Institutions and business**

**Henry Burnay: A case study**

*XXII ENCONTRO ANNUAL DA ASSOCIAÇÃO PORTUGUESA DE  
HISTÓRIA ECONÓMICA E SOCIAL – AVEIRO Nov 2002*

**Maria Eugénia Mata<sup>1</sup>**

*Faculdade de Economia*

*Universidade Nova de Lisboa*

Abstract

Institutions are the framework of all human life. They shape society and its incentives, be they social, political or economic. Business opportunities depend on the rules of the game in society and nobody can escape them.

On studying a successful businessman such as Henry Burnay, Portuguese nineteenth-century institutions are the rules of the game. Government, public finance, and family are main factors in this paper because they set the historical background for an exceptional individual's performance in business networks, dealing with European financial organisations. Credibility and honesty are important values for earning confidence and trust in business. Accusations of deviant behaviour can damage a business profile and personal capital.

---

<sup>1</sup> 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<sup>a</sup>. Luísa Braga* and *Dr<sup>a</sup> Susana Serrano*. I thank the *Arquivo da Assembleia da República's* director, *Dr<sup>a</sup>. Gabriela Ferreira Lima*. I thank Professors *Miguel Pina e Cunha, Pedro Tavares de Almeida, Álvaro Ferreira da Silva, Nuno Valério*, *Dr. Gilberto Gomes* and *Dr<sup>a</sup>. Margarida Rodrigues* for bibliographical support and discussion on this issue. I thank *Dr. John Huffstot* for helping with the English. Any prevailing errors or faulty interpretation are my own.

On studying *Henry Burnay*, Portuguese nineteenth-century institutions emerge as the main players in the game. Government, public finance, and family prevail because they framed the historical background for an exceptional business 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 für Handel & Industrie*, *Dresdner Bank*, *M. Jacob H. S. Stern* and the *Deutsche Effecten & Wechsel Bank* from Frankfurt.

Business networks with European financial organisations supported Portuguese participation in nineteenth-century globalisation 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. Institutions affect the shape of human action and the set of constraints for business, as they establish the true rules of the game and they structure the economic incentives to individuals and firms.

### **1. Two main institutions: Family and origin**

Henry Burnay belonged to a business family. Although his father was a doctor of medicine, his mother, *Lambertina Fourgeurs Burnay*, belonged to a wealthy Belgian family. He even began his training in his grandfather's business, *João Baptista Burnay*.<sup>2</sup> Although no genetic explanations may be quoted as factors for individual careers, lower information costs on business tasks and commercial profile may be pointed out as relevant factors in facing uncertain outcomes, identifying business opportunities and seizing them. Born in Oporto in 1837, he knew very well the features of the Portuguese economy and society. He could benefit from low information costs.

He began his first business in Oporto.<sup>3</sup> Although no extant primary sources are available to document this first business, his coming to Lisbon may illustrate the fact that success relies heavily on the skill of moving away whenever strategic

---

<sup>2</sup> *Enciclopédia Luso-Brasileira*, vol. B, pp. 210, 211.

<sup>3</sup> Managing the recently built *Palácio de Cristal*.

factors become compelling for new opportunities.<sup>4</sup> He got them in the Portuguese capital city. Working for the banker Carlos Krus, he married his daughter, Amélia Krus. The knowledge of conventions and codes of behaviour are decisive aspects. Marriage, a social institution, is a social contract, at the same time. It provided him a new business family network and provided Krus trust and confidence in his personal abilities, coordination and strategic skills. He became mainly a banker, but he was also a real entrepreneur emerging in the Portuguese society, diversifying assets to minimise risk.

The capacity to forge international relationships was a decisive factor in the globalisation process of the second half of the nineteenth century. London, Paris and Frankfurt were the main financial markets of the world. French was a crucial international language and Henry Burnay was a native French speaker. With the exception of letters to the Portuguese political authorities, all the available documents in the Burnay archive are written in French. (They are not translated in this paper). Letters to his private bank business situated in Lisbon, Henry Burnay & C<sup>o</sup>, 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.

Henry Burnay & C<sup>o</sup> was a successful organisation.<sup>5</sup> Banking was a crucial activity in nineteenth-century Portugal. His organisations were created according to the institutional background prevailing in the country and abroad. They were instrumental for his individual performance as an actor confronting the special and non-repetitive historical conditions of a peripheral underdeveloped country. He perfectly understood the Portuguese economic and financial scene and made rational choices.

---

<sup>4</sup> His family also had business in Lisbon. The law 3-4-1861 authorised steam ships in the Tagus for towing trade ships, as the decree 26-1-1860 ceded this concession to Luiz Burnay. The aim was to avoid shipwrecks in the mouth of the Tagus, thereby improving a permanent succour in the harbour of Lisbon.

<sup>5</sup> It survived him. It gave origin to the *Banco Burnay*, which would be merged with *Banco Fonsecas Santos & Viana* and transformed into *Banco Fonsecas & Burnay*. It was nationalised in 1975, privatised and merged with Banco Borges & Irmão into the Portuguese *BPI*.

## 2. Minimising risks and diversifying assets in a concrete institutional environment

Burnay based his strategy on minimising risks, diversifying assets, and learning by doing. Main areas were banking, railways, loans to the government, and tobacco manipulation. He also had undertakings in many other fields, particularly ports, press, a spa/bath complex, colonial business and urban transportation. Looking at the quick expansion of Lisbon, Burnay also participated in the urbanisation opportunities, buying and lotting the large Marquis of *Borba's* farm, at *Santa Marta*, in Lisbon, in 1880, where the middle-class quarter of *Camões* would be built.<sup>6</sup>

He managed the *Grand Etablissement Thermal et Station Climatérique - Hotel Vernet Les Bains, Pyrennés Orientales*. On travelling frequently from Paris to Lisbon, he visited and stayed there for short periods of time, breaking the trip into two steps.<sup>7</sup>

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 Lusitano*<sup>8</sup>, fr. 50 000 through the *Banco Nacional Ultramarino*<sup>9</sup> and fr. 100 000 through the *Banco Alliança* from Oporto, in 1887.<sup>10</sup> The *Companhia Comercial de Angola* was a privileged company.<sup>11</sup>

This paper presents some of the most conspicuous elements of Burnay's business to illustrate the role of Portuguese nineteenth-century institutions, and their accomplishments and success, focusing particularly on public works, government lending and tobacco manipulation.

The main feature of the second half of the nineteenth-century in Portugal was the permanent budget deficit. Portuguese politicians from the 1850s to the 1890s equated progress with material infrastructures and the provision of

---

<sup>6</sup> For this aim he organised the *Sindicato dos Terrenos de Santa Marta*: Silva, 1997, pp. 193-194.

<sup>7</sup> A telegram sent to Paris in 24-06-1904 says: « *Telegraphiez immédiatement si il est nécessaire que je parts samedi prochain, sans terminer affaire Vernet. Burnay, Lisbonne.* »

<sup>8</sup> Letter 28-4-1887 from *Banco Lusitano's* Board to Henry Burnay, confirming this commitment. ANTT, C<sup>a</sup> dos Tabacos 1891-1904, caixa 4.

<sup>9</sup> Letter 28-4-1887 from the BNU governor, ANTT, C<sup>a</sup> dos Tabacos 1891-1904, caixa 4.

<sup>10</sup> Letter 28-4-1887 from the *Banco Alliança* Board, ANTT, C<sup>a</sup> dos Tabacos 1891-1904, caixa 4.

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

transportation as a decisive investment to foster economic growth.<sup>12</sup> Such a framework for economic development and social welfare meant subsidising private companies, or even supporting a public transportation provision if private supply was non available. Burnay had a full perception of the opportunities created for building transportation facilities such as railways and ports under government protection. This new social function for the central state required more revenue. Tax collection was not enough and a structural government deficit meant a permanent government need for domestic and foreign loans to finance the deficit.

This new institutional framework made lending money to the government a prominent business.<sup>13</sup> It provided good opportunities for available capital and it had comfortable rewards (high effective interest rates), particularly because considerations of safety were reflected in the market price of the bonds. This means that the effective interest rate was significantly above the nominal interest rate. As borrowed revenues were used not only for public investment but also for current expenditure, investment did not increase the GDP enough to collect taxes to support the entire public debt service. Exports grew at a slower rate than foreign public debt service, the gold standard was abandoned in 1891 and the government found its foreign credit exhausted in 1892. Bankruptcy was unavoidable, incensing global financial circles.<sup>14</sup> The Portuguese partial bankruptcy consisted of a suspension of amortisation 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. It 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 payment of interest and amortisation could not be met.

Henry Burnay participated in all these events. Deciphering the environment, he modelled his activities on the founding of organisations very well fitted to the real Portuguese economic conditions. As Douglass North would

---

<sup>12</sup> Mata, Maria Eugénia – “As três fases do Fontismo: Projectos e realizações” – in Estudos e ensaios em homenagem a Vitorino Magalhães Godinho – Sá da Costa Editora, Lisboa, 1988.

<sup>13</sup> Portuguese public debt had roots in the sixteenth century loans to government.

<sup>14</sup> Mata, 1998.

put it, the structure of exchange had been institutionalised in such a way as to reduce his uncertainty.<sup>15</sup>

### 3. Deciphering the environment and founding organisations

A good example is the Henry Burnay & C<sup>o</sup>'s participation in the railways company created in Madrid on 8-1-1885 to build the lines from Salamanca to the Portuguese border.<sup>16</sup> According to the contract established on 12-10-1882 with the Portuguese government, under the law of 22-7-1882 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 explore the same Spanish railways from Salamanca to the Portuguese border the *Companhia das Docas do Porto e Caminhos de ferro Peninsulares* was founded at Oporto in 1889 as a mixed company. The Portuguese government had 13,582 shares, Henry Burnay & C<sup>o</sup> 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).<sup>17</sup> 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.<sup>18</sup> Claiming a help from the government, the decree of 5-4-1892 transferred the operation of the railway to the government 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, from the division of profits established in the law. Of course the name of the company included the reference to the harbour and the law of 29-8-1889 foresaw this

---

<sup>15</sup> North, 1996, p. 22.

<sup>16</sup> His name is also associated with the *Beira Baixa* railway, to the *Ramal de Viseu* and the *Foz-Tua-Mirandela* line (authorisation in the law of 26-5-1884).

<sup>17</sup> 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.

<sup>18</sup> ANTT, *Fundo Burnay, caixa 5*.

concession, but this political decision really meant a compensatory payment in a failure and a new business opportunity for this group of private bankers.<sup>19</sup>

Burnay was conscious of the interdependence between political, economic and financial affairs in nineteenth-century Portugal. He clearly understood that the government, political parties and Parliament were decisive institutions for his business activity. He would make good acquaintance with government.

As a successful banker he was invited to sponsor cultural activities and national celebrations. He always understood how important it was to preserve excellent relationships with domestic institutions. Funding centenaries should provide personal rewards from government, social approval in Portuguese society and even political power.<sup>20</sup> Burnay proved to be a modern strategist. His urbanisation enterprise of the *Camões* quarter, the *Sindicato dos Terrenos de Santa Marta*, is a good example. It consisted of lending capital to the 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.<sup>21</sup> He clearly identified sponsoring as a marketing instrument.

As a capitalist he was sometimes required to participate in the initiatives of others. Taking the pro-active attitude is the most usual way to begin a business. However, it may also happen that entrepreneurs may be required to participate in any business whenever funding is necessary. 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. The initiative proceeded from an institution, the *Associação Comercial de Lisboa*, which represented the "domestic and foreign traders of this place".<sup>22</sup> *Eduardo Pinto Basto* chaired this association

---

<sup>19</sup> 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.

<sup>20</sup> He provided funding to *Camões*, *Pombal*, and *Santo António* centenaries.

<sup>21</sup> Silva, 1997, p. 455.

<sup>22</sup> According to the statutes. The Association was at her apogee. It was closed in January 1894. See Santos, 1997, p. 24-27.

in 1885 and met a group of merchants and entrepreneurs, the so-called *Grupo Nacional* to propose the organisation of the projects to the Minister of Public Works, Emygdio Julio Navarro.<sup>23</sup>

This group invited Henry Burnay to participate in this business by joining his name with “the largest number of shipping entrepreneurs of Lisbon”.<sup>24</sup> Several domestic and foreign companies supported this initiative.<sup>25</sup> In a global world they all recognised 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. This domestic and foreign cooperation in a business can show the flexibility of organisations in globalising nineteenth-century Portugal. The second-rank city of Oporto already had a new seaport at *Leixões* (since 1883) and was giving Lisbon a good deal of competition.<sup>26</sup> International cooperation rewards success and punishes inadequacy, and this was precisely the situation.

A general committee gathered all the available statistics and information on the port of Lisbon.<sup>27</sup> Technical reports suggested the Havre, *Callais*, *Anvers*, *Rotterdam*, *Hambourg* or *Southampton* as good examples. The most influent Portuguese engineers designed the project in cooperation with Mr. Guérard, General Director of Public Works at the Rhone Department. Guérard belonged to the *Batignolles* Society and had built the harbour of Marseille.<sup>28</sup> Having studied Glasgow, Newcastle, Liverpool and London, their project wanted to transform Lisbon into the largest seaport of Western Europe.<sup>29</sup>

Very soon Henry Burnay became president of the *National Group*.<sup>30</sup> The project was classified *exequo* with two other projects (by M. Hersent and Reeves). After some protests the Portuguese project was improved in cooperation

---

<sup>23</sup> *Diário do Governo*, 25-8-1885.

<sup>24</sup> They also invited the private banking house *Fonseca Santos & Vianna*.

<sup>25</sup> Such as *Anjos & C<sup>a</sup>*, *Bensaúde & C<sup>a</sup>*, *Ernesto George & C<sup>a</sup>*, *E. Pinto Bastos & C<sup>a</sup>*, *J. Wimmer & C<sup>a</sup>*, *Knowles, Rawes & C<sup>a</sup>*, *Merck, Marx & C<sup>a</sup>*, *O. Herold & C<sup>o</sup>*, *Torlades & C<sup>a</sup>*, *Garland Laidly & C<sup>a</sup>* e *Mascarenhas & C<sup>a</sup>*, as well as individual merchants. Letter of 31-8-1885, Fundo Burnay, *caixa* 5, ANTT.

<sup>26</sup> Aguiar Santos, 1997, p. 77.

<sup>27</sup> The general committee was made of James Rawes, *Pedro Gomes da Silva*, *E. George* and *Pinto Bastos*. Report 3-10-1885, Fundo Burnay, *caixa* 5, ANTT.

<sup>28</sup> 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.

<sup>29</sup> *Diário da Câmara dos Deputados*, night session 2-7-1885, p. 2816.

<sup>30</sup> He replaced Francisco Augusto Mendes Monteiro.

with the *Société Anonyme Internationale de Construction et d'Entreprise de Travaux Publics de Bruxelles*<sup>31</sup> and the Parisian engineer C. Chiesa.<sup>32</sup> Henry Burnay preserved all the engineering plans and details among his personal papers and records. Burnay 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: “*sendo a casa que V. Ex<sup>a</sup> dirige uma das mais consideraveis como consignatarios de navios n’este porto espero dever-lhe a fineza de vir*”.<sup>33</sup>

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

Year (May to May)	Profits (positive) or Losses (negative)
1898-99	-13 642 mil réis
1899-1900	115 225
1900-01	128 132
1901-02	144 171 plus 7 261
1902-03	129 393
Total	679 196

Source – *Caixa 4, ANTT*.

#### 4. Integrity as a personal image and tobacco

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 business, reducing the uncertainty about outcomes.

<sup>31</sup> Letter to the Minister of Public Works, 26-3-1887, Fundo Burnay, *caixa 5*, ANTT.

<sup>32</sup> Letter 15-2-1889, Fundo Burnay, *caixa 5*, ANTT.

<sup>33</sup> “*sendo a casa que V. Ex<sup>a</sup> dirige uma das mais consideraveis como consignatarios de navios n’este porto espero dever-lhe a fineza de vir*”. Letter 20-8-1886, Fundo Burnay, *caixa 5*, ANTT.

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.

The government could trust in his efficient intervention to help in domestic or international financial schemes, to petition for foreign loans and to finance the Portuguese Exchequer. A letter from the ex-Minister of Finance Castelo Branco (in power from 14-1-1890 to 13-10-1890) can demonstrate the personal trust of the ex-Minister in him:

“Lisboa 28-2-91

Illm° e Exm° Snr

Não pelo motivo ou para o fim de esclarecer e tranquilisar a opinião, segundo a expressão do final da carta de V. Ex<sup>a</sup>, mas por méro dever pessoal desde que d’isso me é manifestado desejo, nenhuma duvida tenho em declarar-lhe que nas relações que como banqueiro V. Ex<sup>a</sup> manteve por vezes com o Thesouro, durante a minha gerencia da fazenda publica, nada observei que destoasse de uma natural correcção.

Com a devida consideração

Sou de V. Ex<sup>a</sup>

Muito atte V.

João Franco Castelo Branco”<sup>34</sup>

He looked after the expression of confidence from the Portuguese political authorities. After a mission abroad to look after the foreign redeemable loan authorised by the law of 23-3-1891, he wrote to the Prime Minister José Dias Ferreira to ask his support:

Illm° e Exm° Senhor

A instancias do Governo sob a digna presidencia de V. Ex<sup>a</sup>, fui ao Estrangeiro encarregado oficialmente de varias missões.

Uma d’ellas era negociar, ouvindo s. Ex<sup>a</sup> o Conselheiro Antonio Serpa, (...), o emprestimo de 100 000 milhões de francos effectivos garantidos pelas receitas das alfandegas, amortisavel em 15 annos, emprestimo de que o governo pretendia ter assegurada a collocação simultaneamente com a realisação do convenio com os portadores de titulos da divida fundada externa.

Outra era prestar ao Sr. Conselheiro Antonio de Serpa, delegado official do Governo, (...) o meu auxilio e coadjuvação no sentido de encommendar e facilitar a acceitação das condições que por elle fossem formuladas.

Como commissionedo fui do Governo rogo a V. Ex<sup>a</sup> que para minha satisfação se digne testemunhar:

1° Se cumpri à risca como me cumpria as instrucções do Governo?

2° Se as condições com que negocieie o emprestimo sob reserva da conclusão do Convenio tinham merecido a approvação do Governo?

3° Se alguma circumstancia concorreu a tornar suspeito ao Governo a lialdade do meu procedimento na missão de que me encarregou.

Agradecendo desde já a resposta de V. Ex<sup>a</sup> subscrevome com a maior consideração.

De V. Ex<sup>a</sup>

Mto respeit te<sup>35</sup>

---

<sup>34</sup> ANTT, Companhia dos Tabacos, 1891-1904, *caixa* 4.

<sup>35</sup> Copy of the letter, no expressed date, ANTT, C<sup>a</sup> dos Tabacos 1891-1904, *caixa* 4.

When Portugal declared bankruptcy in 1892 Henry Burnay was the largest short-term foreign creditor of the Portuguese Government:

Short-term credits on 24-11-1890	33,860:424\$861
Domestic:	
Several creditors	10.904:000\$000
<i>Caixa Geral de Depósitos</i>	1.600:000\$000
<i>Banco de Portugal</i>	1.000:000\$000
<i>C<sup>a</sup> Real C<sup>o</sup> Ferro</i>	17:179\$540
<i>C<sup>a</sup> Nacional C<sup>o</sup> Ferro</i>	<u>3:856\$453</u>
	13,525:035\$993
Foreign:	
<i>Banco de Portugal</i>	900:000\$000
Henry Burnay	7.240.500\$000
Anglo Foreign Bank	450:000\$000
<i>B. Lisboa e Açores</i>	450:000\$000
<i>Banco Aliança</i>	765:000\$000
<i>C<sup>a</sup> Ambaca</i>	2.025:000\$000
Baring Brothers	3.105:000\$000
<i>Credit Lyonnais</i>	4.464:000\$000
<i>Comptoir d'Escompte</i>	<u>935:888\$868</u>
	20,335:388\$868

To pay these short-term credits the Government ceded the monopoly of tobacco manipulation (for 35 years) to a joint stock company, that was founded in 26-2-1891 (contract of 13-4-1891) under Henry Burnay & C<sup>o</sup>'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 Neuflyze & C<sup>a</sup>*) to lend 36.000:000\$000 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 45.000:000\$000, paying the 4.5% interest rate of the loan with the tobacco's revenue. Burnay used his tacit knowledge to create an organisation fitted to take advantage of the opportunities created by the existing institutions. From then on, Burnay fashioned very sophisticated financial negotiations.

As entrepreneur he could now manage a mixed bag of opportunities. The monopoly favoured 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.<sup>36</sup>

Burnay also knew how to behave regarding the encoded rules of international financial markets. Deviant behaviour was not tolerated. 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.<sup>37</sup>

After the birth of the *Compagnie des Tabacs Portugal*, headquartered at *Rue Lafayette*, 11, Paris, Burnay had plenty information on domestic and foreign markets, and his archives contain much reference to frequent periods of permanence abroad, mainly in Paris.<sup>38</sup>

Low information costs are 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 & C<sup>o</sup> the introduction of an experimental vehicle in the Lisbon transportation company *Carris*.<sup>39</sup> (Letter 1 in the appendix explains the details. It would not be adopted, but it is a good example).

The ongoing globalisation also provided him lower information costs as he used the telegraph very frequently. It made it possible to be permanently informed and also allowed secrecy. Most of the telegrams were ciphered (and he usually deciphered the message by hand on the received page). By telegraph it was also possible to seize new business opportunities immediately.

---

<sup>36</sup> Capital 50 million francs « *Dossier remis à M. Le Comte de Burnay* », ANTT, *C<sup>a</sup> dos Tabacos* 1891-1904, *caixa* 4.

<sup>37</sup> For the role of these elements in corporate governing see Clarke; Clegg, 1998, p. 295-368.

<sup>38</sup> 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, *C<sup>a</sup> dos Tabacos* 1891-1904, *caixa* 4.

<sup>39</sup> At this moment Burnay belonged to the management committee of this company. I thank Dr. Gilberto Gomes for information on his participation in the Lisbon urban transportation company, *Carris*.

In several telegrams he announced: “Arriving Monday morning”. Saving time was always a preoccupation for him. Such an intensive business activity required an organised spirit and awareness of saving time. The available transportation facilities by railway allowed him to manage his business 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).

## **5. Tobacco and European financial networks**

In consequence of the Portuguese default, in 1893 German pressures banned the new Portuguese securities from the London Stock Exchange, while the French government protested asking for a representation of French investors in the Royal Portuguese Railway C<sup>o</sup>, *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.<sup>40</sup>

Burnay was elected Deputy exactly then, in 1893, to defend his image just in the Parliament.<sup>41</sup> The relationship between Burnay and the Portuguese government was incestuous.<sup>42</sup> There was an exchange contract between these two partners that tells a coherent story. The government needed services that he could provide, and he needed business opportunity 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. 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 Neuflyze & C<sup>a</sup>*, Burnay enlarged his financial network when the Portuguese

---

<sup>40</sup> Burnay, 1908, pp. 1-12.

<sup>41</sup> Representing the *Tomar* district. He was deputy again in 1900, representing the *Setúbal* district. Santos, 1974, p. 219-220.

<sup>42</sup> Mattoso, vol. 6, p. 205.

government and the *Banco de Portugal* decided to sell their tobacco loan bonds in 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 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*. They bought 24,000 immediately, on 4-8-1894 and the remaining 23,371 one year later :<sup>43</sup>

Buyers of the tobacco loan shares (Contract 4-8-1894)

	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 <sup>o</sup>	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 Neuflyze et Compagnie	2 400	2 337
Fonseca Santos & Viana e Henry Burnay & C <sup>a</sup>	6 500	6 186
	24 000	23 371

The second issue of the 1891 redeemable 4.5 % loan in 1896,<sup>44</sup> amounting to 9000 *contos* was also a new business opportunity for *Henry Burnay & C<sup>o</sup>* 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 435,06 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

<sup>43</sup> *Direcção Geral da Thesouraria do ministério da Fazenda*, Fundo Burnay, ANTT.

<sup>44</sup> The law of 21-5-1896 authorised this new issue.

to the payment of the monthly rent established in the 1891 contract an additional 325 *contos*, annually. In compensation, this new contract would admit a new division of profits between the company and the government from 1-4-1897 onwards. This meant that the enforcement of contracts was not assured.

Enforcement of contracts is a decisive element in business. A permanent negotiation with government for a new contract means higher risks, and of course harder conditions. A bankrupted central state has few alternatives, accepting the partner's proposals in frequent or almost permanent negotiations, meaning higher transaction costs. The government's positions depended on the urgent short-term financial needs of the Exchequer. As the 1891 contract could be cancelled 16 years later (that is to say, on 31-3-1907) 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:

“(...) a Companhia, hoje como sempre, deseja, mesmo com sacrificio proprio dentro de limites rasoaveis, auxiliar os intuitos do Governo e contribuir tanto quanto possivel para a realizacão das operacões que o Governo julgar uteis e necessarias para a reorganisação das finanças do paiz. D’este sentimento tem a Companhia já dado provas pelo que foi louvada em documento official publico”.<sup>45</sup>

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

”A modificação do contracto da companhia já foi objecto de um projecto de lei da iniciativa do governo transacto, votado pela Camara dos Senhores Deputados em 1896. Esse projecto não teve seguimento porque a companhia que não havia sido ouvida sobre algumas das suas condições declarou que o não poderia acceitar em alguns dos seus pontos!”<sup>46</sup>

Burnay got his wish. The new contract was signed on the 1st 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 510 *contos* from 1907 onwards (or 250 *contos* from 1896 on) to secure the

---

<sup>45</sup> Letter from Henry Burnay to the minister of Finance on the contract of 26-2-1891, *caixa* 4, Fundo Burnay, ANTT.

<sup>46</sup> *Idem*.

continuation of the contract until 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). 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 show that he became the usual collector of domestic and foreign private capital for short-term lending to government. In 1897 he proposed a new collection of capital to several Portuguese banks and bankers of Lisbon and Oporto:

“Vencendo-se a 20 de Setembro proximo um supprimento de divida fluctuante externa na importancia total de libras 400 000 e de frs 9 000 000 – concede-me Sua Ex<sup>a</sup> o Ministro da Fazenda a honra de saber de V. Ex<sup>a</sup> (ou desse Estabelecimento) se lhe convem tractar no todo ou em parte do referido supprimento, contra penhor de divida fundada interna de 3% e no caso affirmativo, dizer-me as condições da sua offerta até 31 do corrente mez.  
Deus guarde a V. Ex<sup>a</sup> .  
Lisboa 27 de Agosto de 1897.”

## 6. Learning by doing and institutional change

Rational behaviour requires motivation. 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.

Businessmen are usually very careful about preserving good political relation 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”.<sup>47</sup>

A good example is the conversion of the old 1852 foreign loan issues, the foreign 4% 1890 redeemable loan and the foreign 4.5% 1888-1889 loan into the new foreign consolidated 3% 1902 loan with the participation of Baring Brothers. In 1901, Burnay offered the cooperation of the *Compagnie des Tabacs Portugal*

---

<sup>47</sup> Alborn, 1998, p. 1-2.

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:

“A Companhia dos Tabacos de Portugal teve conhecimento de que o Governo deseja realizar a conversão das obrigações dos tabacos de 1891 e de 1896, /das quaes as primeiras teem a garantia da Companhia/, sendo o fim da operação diminuir desde já os encargos do serviço d’esses dois empréstimos”

(...)

“pôr todo o seu prestimo ao dispôr do Governo para o dito effeito. Se pois, para a realização do que o Governo possa ter em vista, elle entender que o credito e relações d’esta Companhia, ou qualquer outra forma de intervenção sua, lhe podem ser de qualquer utilidade, estou pelo referido Conselho de Administração auctorizado a declarar a V. Ex<sup>a</sup> que este está inteiramente à sua disposição, e pela mesma fórma com que interveio na negociação do contracto de 29 de maio de 1900, para o supprimento de Frs. 23.000.000 (...), contracto realizado com manifesta vantagem para o Paiz e inteira satisfação publica.

Fico pessoalmente, e nos termos de toda a confidencia, ao dispôr de V. Ex<sup>a</sup> e reitero os protestos da particular estima e consideração com que sou

De V. Ex<sup>a</sup>

Muito attento respeitador”<sup>48</sup>

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 mis-interpretation or unkindly institutional (or personal) relationships:

“Para que V. Ex<sup>a</sup> não veja em tal facto a menor quebra de consideração, quer official quer pessoal, apresso-me (...)a remetter-lhe cópia da referida comunicação”<sup>49</sup>

The Prime-Minister enjoyed Burnay’s solidarity and answered him in the affirmative:

(...) “D’esse officio dei conhecimento ao Conselho de ministros, e me cumpre agradecer a V. Ex<sup>a</sup> (...) Esse offerecimento, tão desinteressado, nos termos em que V. Ex<sup>a</sup> o expressa, terá o Governo em vista, quando opportunamente se occuppe d’aquella operação”<sup>50</sup>

---

<sup>48</sup> Copy of the letter of 19-01-1901 from Henry Burnay to the Prime Minister Hintze Ribeiro, *caixa 4*, Fundo Burnay, ANTT. The letter refers the loan for the payment of the indemnification to the Delagoa Bay Railway.

<sup>49</sup> Copy of the letter of 20-01-1901 from Henry Burnay to minister of Finance, Fernando Mattoso dos Santos, *caixa 4*, Fundo Burnay, ANTT

<sup>50</sup> Letter from the Prime -Minister Hintze Ribeiro, 26-1-1901.

These 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 Neuflyze & C<sup>a</sup>*, was a much closer friend of Burnay because of his partnership at the *Compagnie de Tabacs Portugal*. This letter shows Neuflyze recommending Burnay to be very cautious with the Baring Brothers striving to preserve them in the coalition:

“Paris, le 14 Septembre 1901

Mon cher ami (**Burnay?**)

Durangel m’a soumis, pour les Baring, un projet de lettre conçu dans le sens de votre proposition du 8 Septembre et j’hésite, je vous l’avoue, à y donner ma signature.

Nous avons recherché la signature de nos amis de Londres et nous l’avons obtenue: c’est beaucoup. Craignons de la compromettre et évitons avec soin tout ce qui pourrait les refroidir, ou les froiser... de notre communication, quelle que soit l’abilité du rédacteur, il se dégagera toujours une certaine critique, ou au moins un conseil, deux choses que peuvent bien ne pas leur convenir. Facilement et à travers les artifices de la plume, ils démêleront notre pensée qui est, au fond, de les laisser moins agir sous leur inspiration propre que sous notre direction à nous. S’accommoderont-ils de cette quasi mise en tutelle? Je ne le pense pas. Nous aurons ému leur susceptibilité légitime, et cela en pure perte.

Croyez bien, en effet, que le Gouvernement ne consentira pas à leur faire connaître, à l’avance, ses projets, pas même réduits à des bases générales. S’il a prié les Baring d’envoyer un représentant à Lisbonne, c’est précisément dans le but de pouvoir s’expliquer verbalement, sou heure venue, sans livrer à la correspondance

Le secret de ses conceptions financières. – Ou le Gouvernement a un plan et, jusqu’à nouvel ordre, il le gardera pour lui, ou il n’en a pas, supposition qui peut être admise, et la demande de nos amis resterait sans résultat. – Que risquons-nous alors d’attendre?

Voilà, mon cher ami, les considérations que je voudrai vous soumettre. Je les crois dignes de votre examen. Réfléchissez-y et dites moi si vous maintenez votre idée première. Dans ce cas vous pourriez écrire personnellement à Londres, comme si l’observation venait de vous. Ce serait plus familier et, au fond, le résultat serait le même.

Amitiés

Neuflyze”<sup>51</sup>

A ciphered telegram to Burnay-*Belém-Junqueira* tells about the visit of the Baring’s representative to Lisbon, recommending that Burnay remain always close to him in order to avoid personal contacts with others:

2227 9732 5801 7275 7968 0219 7390 5968 1427 1731 1501 3162 6816 5801 7008 4227 8911  
8994 1501 4430 2702 4845 9319 5858 9319 4394 9465 6162 5963 0465 2564 8951 4868.

Durange

Burnay handwrote the deciphered message on the telegram:

“Baron Neuflyze me charge vous dire qu’il désire que le pourparlé Baring consigné à rester entre vous seul et lui sans communication à nul autre personne. Weil ni Froudiville partant demain por Lisbonne n’en savent rien. Durange.”<sup>52</sup>

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

”Nous comprenons, d’après Monsieur Reade qu’une base, pour telle mesure que Votre Excellence

---

<sup>51</sup> Idem

<sup>52</sup> 6-10-1901. Idem.

a en vue, pourrait être trouvée dans une conversion des obligations des Tabacs. (...) et il nous semble qu'une telle conversion serait certainement le moyen le plus favorable pour mener à bonne fin l'opération projectée.”<sup>53</sup>

This was the preferred solution, but the conversion of the law 14-05-1902 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<sup>a</sup>*, on 11-2-1903, where Henry Burnay (*C<sup>a</sup> des Tabacs Portuga*) met with H. E. Hullman (*Comptoir National d'Escompte*), M. J. Thors and M. E. Moret (*Banque de Paris et des Pays Bas*). The idea was to increase the permanent revenue of the government corresponding to the annual monopoly rents, joining the *Cie des Tabacs Portugal* with the *C<sup>a</sup> dos Fósforos* another monopolistic business, in order to 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 = M.405=rs.90 000) and their real value would be established at the precise amount that was necessary to allow 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:

“La conversion des obligations qui fut l'objet des présents accords pourra être liée à la prorogation du Monopole de la Compagnie des Tabacs Portugais, ainsi qu'à la fusion de ce monopole avec celui des alouettes”.<sup>54</sup>

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) Burnay 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 *Companhia Real dos Caminhos*

---

<sup>53</sup> Idem.

<sup>54</sup> *Plano Geral de Conversão das Obrigações dos Tabacos, 31 de Julho de 1903, Caixa 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.*

*de Ferro Portuguezes* as a guarantee for his short-run lending to the government, he proposed that the government sell those shares at their market price (Frs. 365) to reduce the government debt to the tobacco company:

“Illm° e Exm° Senhor

O estado dos suprimentos feitos ao thesouro por esta Companhia , é o seguinte:

Em Lisboa	Rs	1.272.000\$000 para 31 do corr. mez
		150.000\$000 para 30 de Abril p.f.
Em Paris	Frs.	5.000.000 para 26 de Maio p.f
		23.700.000 para 7 de junho p.f.

Desejava esta Companhia, não havendo inconveniente, saber com a possível antecedencia se o Governo pensa reembolsar esses suprimentos nos respectivos vencimentos, ou se prefere reformal-os no todo ou em parte.

(...)

Para o caso de S. Ex<sup>a</sup> o Snr. Ministro da Fazenda, pensar no pagamento dos referidos frs. 23.700.000 – ou de parte, tomo a liberdade de lembrar a V. Ex<sup>a</sup> que as obrigações da Companhia Real dos Caminhos de Ferro Portuguezes que constituem a caução d’este suprimento, offerecem margem, pela elevada cotação a que subiram, a uma operação vantajosa para o Governo: sendo a cotação d’esses titulos de Frs. 365, e sendo o seu rendimento livre d’imposto de 3.80%, e o encargo do suprimento a que refiro de 6%, a venda d’esses titulos por aquelle preço, deixaria, satisfeito o suprimento, um saldo de cerca de 2.5milhões de francos, e offereciam uma redução no encargo annual d’esta operação de mais de 150 contos de reis – reduzindo por esta forma a divida fluctuante a esta Companhia.

Deus guarde V. Ex<sup>a</sup>

Lisboa 20 de março de 1903

Illm° e Exm° Senhor Conselheiro Director Geral

Da Thezouraria do Ministerio da Fazenda

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. Henry Burnay complained about this decision, deplored that new loans had been secured from other lenders to pay the tobacco company and retaliated, requiring the payment of other short-run credits from the government. His argument was especially ironical. 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:

“Illm° e Exm° Senhor

Constantes demonstrações desde a sua fundação, tem esta Companhia dado das suas melhores disposições para cooperar, quanto em si cabe, na satisfação dos desejos do Governo para obtenção de recursos financeiros, fazendo-o sempre com todo o possível desinteresse e largueza, e até, em determinada occasião sem o menor juro, pelo quê, em Portaria Régia, official e publicamente lhe foi signficada a satisfação dos Poderes Publicos.(...)

No entretanto mais de um signal tem appracido já de que o Governo, aliás com menos justificada desconfiança, entende conveniente liberar-se das responsabilidades de debito, que tenha perante a Companhia (...)

Com justo sentimento tem o Conselho de Administração observado a alteração das disposições que se lhe manifesta, pois a não julga por motivo algum merecer. Mas, verificadas taes disposições, um imprescritivel dever de dignidade manda não só acatal-as sem maior queixume, mas antecipar a sua applicaçãotomando-se por outra parte as necessarias providencias para dar, em tempo conveniente, emprego a disponnibilidades, que não conviria continuar a ver produzirem-se subita e inesperadamente. É por este motivo que, de conformidade com o parecer do Conselho de Administração, tanto em paris como em Lisboa, venho, para os devidos efeitos, communicar a V. Ex<sup>a</sup> com toda a antecipação, que sta Companhia espera – como succedeu já no vencimento de 28 do passado mez, que o Thezouro espontaneamentemandou saldar – ser reembolsada nos futuros vencimentos de bilhetes do Thezouro em sua posse.

Esperamos que o Exmo Ministro da Fazenda não verà n’ isto acto de mà vontade ou offensa aos interesses do Estado / o que sob nenhum pretexto se justificaria/ não sò porque assim obedecemos aos propositos que parecem resultar do modo de proceder de V. Ex<sup>a</sup> ., mas porque este procedimento, à sua parte, nos dà a segurança de que este retrahimento, que à Companhia se impões, nenhum embaraço causa ao Thesouro, pela facilidade que elle tem de obter rrecursos de outras fontes.

Haverá até a vantagem de se não poder continuar a dizer, sequer com apparencia de fundamento, que esta Companhia se esforça em ter o Governo preso pela divida fluctuante, para sobre elle exercer quaesquer imaginarias pressões.

Deus guarde a V. Ex<sup>a</sup>

Lisboa, 11 de Dezembro de 1903

Illm<sup>o</sup> e Exm<sup>o</sup> Senhor Conselheiro Secretario Geral do Ministerio da Fazenda e Director Geral da hezouraria

O Presidente do Conselho de Administração da Co mpanhia dos Tabacos de Portugal  
Conde de Burnay”<sup>55</sup>

The government could not make the payments Burnay required. However, in fact, he really intended to go on lending to the government and operating the tobacco monopoly. In this game the conflict was not useful for either of the two partners. Cooperation was desired because it was mutually necessary. On the 24<sup>th</sup> of December Burnay offered to postpone calling in his loans. Christmas time was prone to a cessation of hostilities and peace:

“Lisboa, 24 de Dezembro de 1903

Referindo-me à communicação de V. Ex<sup>a</sup> em que lembrou a conveniencia da Companhia dos Tabacos ser reembolsada dos escriptos do Thesouro de 1.000 contos de reis, vencíveis em 31 d’este mez, tomando cambiaes do thesouro, venho devidamente auctorizado, dizer a V. Ex<sup>a</sup> que a Companhia, sem pôr em duvida que o Thezouro dispõe dos precisos recursos para a pagar pontualmente em moeda portugueza, promptifica-se não só a receber cambiaes em pagamento, mas ainda, em vista do conhecimento que lhe chegou do actual estado melindroso da praça, offerecer addiar para epoca mais conveniente a cobrança do seu credito e isso mesmo sem encontrar ou deixar de entrar com a prestação de 270 contos de réis que a Companhia tem a satisfazer ao Governo, no mesmo dia, por conta do emprestimo de 1.500 contos de reis que contractou.

Aguardando resposta a estes offerecimentos para tomar as disposições necessarias, sou com a maior consideração

De V. Ex<sup>a</sup>

Mt<sup>o</sup> Att. Venr. E Obrg.

Conde de Burnay”<sup>56</sup>

On the 26<sup>th</sup> of December, Burnay offered his services to the Finance Minister for further lending:

---

<sup>55</sup> Cópia da carta original enviada, caixa 4, Fundo Burnay, ANTT.

<sup>56</sup> Idem.

“Illm° e Exm° Senr /Director Geral

Venho rogar a V. Ex<sup>a</sup> o favor de infformar o Exm° Ministro da Fazenda de que esta Companhia desejaria ser ouvida em qualquer emprestimo representado por novas obrigações internas ou externas, que o Governo deseje proximamente contractar.

V. Ex<sup>a</sup> se dignará expôr, que esta pretensão a justifica esta Companhia no facto de ter esta ultimamente tomado o emprestimo para os Caminhos de ferro, emprestimo que está por emittir e de que irão ainda receber os titulos e de, por outra parte não ser esta por qualquer forma inconveniente para os interesses do Estado, visto que da concorrencia só para elle podem resultar vantagens

Deus guarde V. Ex<sup>a</sup> <sup>57</sup>

Negotiations for the conversion of the 1891-1896 loan went on in 1904 with the government (contract of 16-7-1904) adding more financial partners: *Société Générale*, *Bank für Handel und Industrie* (Berlin), *Deutsche Bank* (Berlim) and the Baring Brothers (London).

In compensation, the proposal was to continue the tobacco monopoly for 60 years (from 1-4-1905 to 31-3-1965) paying the following annual rents:

- 5.600:000\$000 in each of the six first years (1905-1911)
- 5.750:000\$000 every year in the period (1911-16)
- 5.900:000\$000 every year in the period (1916-21)
- 6.100:000\$000 every year in the period (1921-26), or until the end of the monopoly (1965); 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 1-4-1905 to 31-3-1911, 75% from then to 31-3-1916 and 80% from then to the end of the monopoly concession (1965).

The opposition, the *Progressista* Party, considered that these conditions were too hard for the government. 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 Jorge O’Neill, manager of the *C<sup>a</sup> dos Fósforos*, organised a new international financial network to convert the 1891-1896 debentures. This network included the *Banco Lisboa & Açores*, the *National Bank für Deutchland* from Berlin, Lippman Rosenthal & C<sup>a</sup> from Amsterdam and Seligman Brothers from N. York-London-Paris. The Government also got some proposals from Hambro & Sons (London) and J. W. Selligman (N. York).<sup>58</sup> The

---

<sup>57</sup> Idem.

<sup>58</sup> 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

Government even tendered bids<sup>59</sup> for the concession of the tobacco monopoly (*portaria* de 6-4-1905). The *C<sup>a</sup> dos Fósforos* were candidates to the tobacco concession.<sup>60</sup> The government also solicited a proposal from the Spanish tobacco company *Companhia Arrendatária de Tabacos de Hespanha*, but failed.<sup>61</sup>

Having made this large competition possible, the government renegotiated the tobacco monopoly with the *C<sup>a</sup> dos Tabacos de Portugal* and obtained the best proposal of all the set of available proposals.<sup>62</sup> However, the revision of the contract on 4-4-1905 still led to divisions within the government.<sup>63</sup> According to this new version, the monopoly concession was for only 19 years, the annual rent was increased to 6.000:000\$000, the division of profits became variable and proportional to the amount of the manipulated tobacco (1\$800/kg on the mainland, \$180/kg sold out of the mainland, 3\$200/ imported kg) and with a floor of 50:000\$000 per year in the period 1907-10.<sup>64</sup>

150:000\$000 per year in the period 1910-14

300:000\$000 per year in the period 1914-17

400:000\$000 per year in the period 1917-20

450:000\$000 per year in the period 1920-26.

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 (*saúde excelente*)",<sup>65</sup> these negotiations were harder because of competition. The Henry Burnay & C<sup>a</sup> 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*

---

the proposals made by J.W. Seligman & C<sup>o</sup>, Bankers, N. York, from 10-1-1905 to 28-3-1905. ANTT, livro *A Companhia dos Tabacos de Portugal* containing the contracts and these letters.

<sup>59</sup> Letters 22-10-1904, 14-10-1904, 17-11-1904, 5-1-1905, 19-1-1905 from Jorge O'Neill, Manoel de Castro Guinães and J. W. Bleck from the *C<sup>a</sup> dos Fósforos de Portugal SARL* to the Minister of Finance Manoel Affonso Espregueira – ANTT *Companhia dos Tabacos de Portugal, livro com a coleção impressa dos contratos e cartas.*

<sup>60</sup> *Diário do Governo* n<sup>o</sup> 78: 7-4-1905.

<sup>61</sup> Letters from F. Mantero, director of the *C<sup>a</sup> Arrendatária dos Tabacos de Espanha* in 6-2-1905, 8-2-1905 e 21-02-1905, escusando-se nesta última a apresentar uma proposta "por falta de tempo e de elementos suficientes para o estudo consciencioso do negocio Tabacos".

<sup>62</sup> Letters from Henry Burnay, de 20 e 21-2-1905 to the Minister of Finance Manoel Affonso Espregueira – ANTT *Companhia dos Tabacos de Portugal.*

<sup>63</sup> Santos, 1974, p. 208-209.

<sup>64</sup> *Suplemento ao Diário do Governo* n<sup>o</sup> 244

<sup>65</sup> Example: Carta de 13 de Abril de 1905, ANTT, C<sup>a</sup> dos Tabacos 1891-1904, *caixa* 4.

*Fonseca & Irmãos*. In a letter Burnay explained to the Minister of Finance the need of such a powerful group:

“Tratando-se essencialmente de uma operação avultada, não pode esta companhia proceder senão apoiada num poderoso e influente grupo financeiro”.<sup>66</sup>

The participation of the partners should be the following:

Henry Burnay & C <sup>a</sup> ,	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%
Bank fur Handel& Industrie de Berlin	6.533%, including the
Dresdner Bank, M. Jacob H. S. Stern and the Deutsche Effecten & Wechsel Bank from Frankfurt	
	—————
Total	100.0%

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 bear the service of 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.

This “tobacco revision” of the contract on 4-4-1905 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

---

<sup>66</sup> Quoted letter of 30-1-1905.

“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.

Only the Republican ideology was free from responsibilities, as an outsider of the constitutional regime. The Republican movement accused the king and the monarchy. Institutions were under fire. The society’s tolerance of them came to an end.

However, no other financial solution could be found for the needs of the budget. 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. This failure explains how the government was prevented from taxing the necessary amounts to support current public expenditure and the service of the public debt. The relationship with international financial organisations 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 substitute the political party in power: In March 1906 the previous Prime Minister, Hintze Ribeiro came into power again and re-opened tobacco negotiations for the 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 considered 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. Newspapers<sup>67</sup> attacked his business image. He answered them by using his own newspaper<sup>68</sup> and publishing several letters and writings in a book in 1908.<sup>69</sup> He had been subject to repeated exposure in government foreign lending. One’s reputation was necessary to survive socially and politically and in business, on the pain of being damaged. There were no

---

<sup>67</sup> *Correio da Tarde, Batalha, Seculo, Primeiro de Janeiro, Novidades* and *Folha do Povo*.

<sup>68</sup> *Jornal do Comércio*.

<sup>69</sup> Burnay even published several letters and documentos to defend his honour: [Em legitima defeza e a história dos tabacos 1894-1909](#)- Lisbon: Livraria Ferreira, 1908.

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.<sup>70</sup> Portuguese civil society 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 in 1909.

This case study illustrates Burnay's genial capacities for financial business but also the contribution of the Portuguese political and financial institutions in the historical context. 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"<sup>71</sup> underlying them. 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, abolishing the need for this kind of business.

## Appendix

### Letter 1

“Paris, 30 Mars 1897

Messieurs Henry Burnay & C<sup>a</sup>

(...)

J'ai évité de vendre ici du Londres parce qu'il ne vaut aujourd'hui que 26-16.

On croit que l'argent metal doit encore baisser.

Il y a ici une très belle découverte pour la traction des tramways. La Cie des Omnibus de Paris après toutes sortes d'essaies des systèmes électriques et autres a adopté (sic) le moteur Serpolet.

Elle a déjà commandé 60 voitures mais elle tient a conserver la chose secrète à cause des traités qu'elle cherche à passer à bas prix pour les huiles de petrole et de houille.

Le système serpolet marche à la vapeur avec un bruloir a residus de petrole au charbon du gaz.

---

<sup>70</sup> Santos, 1974, p. 224-225.

<sup>71</sup> North, 1990, p. 91.

C'est très petit, très léger, et gravit toutes les rampes.

Demain j'irai voir travailler une voiture à la Cie des Omnibus. Je pense qu'on en enverra une à Lisbonne à l'essai. Le bre vet pour l'Angleterre a été vendu très cher. Si nous adoptions ce système nous n'aurions pas besoin de l'autorisation pour l'électricité et la dépense d'installation serait très moindre. Le cout de traction par kilomètre est de 25 à 30 centimes pour voiture de 50 personnes. Si nous adoptions ce système il faudrait avant même de l'essayer passer des contracts avec les Compagnies du Gaz de Lisbonne et Porto pour leur acheter les huiles bruts qui resultent de la distillation du gaz telles qu'elles se produisent sans aucune purification.

Je crois qu'en Portugal on jette ces huiles. Couteux (?) pourra vous les faire bon marché.

Recevez, Messieurs, mes salutations amicales

Burnay

Je me propose de quitter paris Vendredi prochain 2 Avril pour le Vernet et être a Lis bonne le Vendredi suivant 9 Avril"

## **Bibliographical References**

- Alborn, Timothy L. – Conceiving Companies – Joint-stock politics in Victorian England – London: Routledge, 1998.
- Clarke, Thomas ; Clegg, Stewart – Changing paradigms – Hammersmith, London : Harper-Collins Business, 1998.
- Conde de Burnay, Em legitima defeza e Historia dos Tabacos, Lisboa: Livraria Ferreira, 1908.
- Mata, Maria Eugénia – As três fases do Fontismo: Projectos e realizações – *in* Estudos e ensaios em homenagem a Vitorino Magalhães Godinho – Sá da Costa Editora, Lisboa, 1988.
- Mattoso, José – História de Portugal, vol. 6, A segunda fundação, (1890-1926), A. Luís Ramos, Lisbon: Editorial Estampa, 1993-94.
- North, Douglass – Institutions, institutional change and economic performance – Cambridge, Cambridge University Press, 1996.
- Santos, Lima Aguiar “Associação Comercial de Lisboa e o reajustamento do regime proteccionista português, 1885-1894”, Masters thesis, FLUL, 1997.
- Santos, Raul Esteves dos – Os tabacos, sua influência na vida da Nação, Lisbon: Seara Nova, 1974.
- Silva, José Álvaro Ferreira da – Crescimento Urbano, Regulação e Oportunidades Empresariais: A construção residencial em Lisboa 1860-1930 (2 volumes) – Ph.D. dissertation – European University Institute, 1997.