

Private Inflation in Portugal

KENNETH SIMMANS

"When the government needed money it simply kept the presses going"

MOST CRIMINALS are unimaginative copycats. They do what other criminals have done before. The clever ones add technical refinements, plot more elaborately, time more carefully . . . Every banknote issued since the Chinese invented paper money has been counterfeited. And thousands of cheques are forged every week.

"Alves Reis's crime which had never been done before also had an inbuilt limitation: it could not be done again. It was—and is—the unique crime, the great once-in-a-civilisation rarity. He had conceived and put into operation the foolproof counterfeiting scheme.

"Artur Virgillio Alves Reis had a great project, to gain control of the Bank of Portugal so that he might grow rich by printing his own money with legal sanction. He was in the right circumstances: he was a business man, he knew how to prepare an official document, and he had useful friends."

This is the substance and central theme of the book *The Man Who Stole Portugal*, by Murray Teigh Bloom*, well documented, with many amusing digressions and asides. In the village cemetery of Moura in Northern Portugal is the tombstone of a resident "who died of laughing." Hundreds of thousands of other Portuguese did their laughing only after they left Portugal for opportunity elsewhere.

Alves Reis, 1896-1955, was the son of August Guilherme Alves Reis, partner in a Lisbon funeral parlour, money-lender, cousin of the great Admiral Reis. After the family savings were lost in an unfortunate investment the young Alves Reis received training for a year as a practical engineer, which he abandoned in order to marry Maria Luiza Jocabetti d'Azevedo in August, 1916. When Portugal entered the War, Alves Reis was able to wangle permission to go to Angola instead of to the European front.

"Before leaving . . . he prepared a document that would gain him great respect in the colony: a diploma, No. 2148, from the 'Polytechnic School of Engineering,' of Oxford University. The grade of Bachelor, the diploma read, was awarded to Alves Reis for his application in the disciplines of Engineering Science, Geology, Geometry, Physics, Metallurgy, Pure Mathematics, Applied Physics, General Civil Engineering, Mechanical and Civil Design. In short, he had studied everything and could do anything . . ."

This "diploma" enabled Reis to get a job in the

Department of Public Works upon his arrival in Luanda, capital city of Angola. Later he also obtained a part-time job as Supervising Engineer in the local railway repair shops. He showed some genuine aptitude for engineering and became known as 'the man who made the trains run.' At his suggestion American locomotives were bought instead of Belgian locomotives. His fellow engineers calculated that they would be too heavy for their bridges, but Reis arranged a demonstration which proved to be successful and a great triumph. He was eventually promoted to Acting Chief Engineer of the Angola Railways in 1918.

In May, 1919, Reis resigned "to make his fortune." With two partners he went into business. The firm did moderately well, but Reis had over-invested. Angola was in a great financial mess. The Angola escudo, inflated endlessly by the Ultramarino Bank of Portugal, had almost no buying power. Reis badly needed capital and saw that if he gained control of Ambaca, the Royal Trans-African Railway Company of Angola, he could tap the £20,000 in the company treasury.

"Alves Reis had discovered the secret of fast cheques and slow boats . . . he loved to issue cheques on the New York Bank because it took at least eight days for a cheque to reach it by sea. With eight days free use of large sums a smart fellow could do much . . ." In this way Reis bought control of Ambaca, then he made good the cheques out of the company treasury; with the remainder he bought control of the South Angola Mining Company. This brought him into contact with José Bandiera, who was supposed to represent certain Dutch financial interests in Angola Oilfields. "I decided to use him, just as we might use lemons; we squeeze them and discard them. Bandiera was for me an agent, a blind collaborator in my plan . . ."

Two months later Reis was arrested on a charge of embezzlement. Waiting for his case to come up, Reis spent fifty-four days in Oporto jail, and there he did some thinking. "What was money, anyway? Mere paper! Portugal had long abandoned the gold standard . . . When the government needed the money it simply kept the presses going . . . everywhere the money presses were running overtime . . . Such an enormous privilege can make the state into the slave of the holders of this great power.

Reis found clues suggesting that by 1924 the Bank of Portugal, in order to accommodate a hard-pressed government, had issued notes to the extent of more

**The Man Who Stole Portugal*, by Murray Teigh Bloom. Secker & Warburg Ltd., 36s.

than a hundred times the bank's capital.

"Everytime the government was hard-up—all too often—it merely turned to the Bank of Portugal and ordered it to issue more banknotes. Since the banknotes were not convertible to gold or silver after 1891 the only expense involved was the cost of printing. Fortunately, Portugal's inflation wasn't anywhere near the insane level of Germany's in the early twenties.

"Between 1918 and 1923 there had been a sixfold increase in the number of escudos issued by the Bank of Portugal. Naturally, the more paper issued the greater the fall in value of the escudo in terms of un-inflated foreign currency. For example, in 1918 a British pound was worth under eight escudos, but by 1923 you could get over 105 escudos to the pound."

At the trial for embezzlement, the judge acquitted Reis but ordered him to be held on a charge of fraud, from which he obtained his release on bail.

Then begins the build-up to the main plot. By means of forged letters, Reis managed to get Waterlows, the British printers, to print a quantity of 500 escudos banknotes with which he would buy control of the Bank of Portugal, for only the Bank itself could initiate action against counterfeiters of its banknotes. This was the solution to that old roadblock that ignominiously halted all counterfeiters—the inevitability of detection and vigorous prosecution by the state. But once Reis and his associates were in control, the danger of prosecution would be over.

However, before this could be done, De Sousa, a teller who worked for a money changer, noticed an irregularity, jumped to some wrong conclusions, informed the authorities, and set in motion the enquiry that eventually led to the trial and conviction of Alves Reis and his collaborators, implicating also Sir William Waterlow in a later court case.

Mr. Bloom writes at length about the fortunes of the Waterlow family, and in particular about Sir William Waterlow, his thoughts, his ambitions, his misfortunes. "The relationship between a government and its bank-note supplier was too intimate to endure the stresses of opposed ideologies. It was, he mused, as he thought of the great banknote inflation Europe was enduring then, rather like the relationship of sinner and confessor."

There are some interesting disclosures relating to inflation in the court case—the Bank of Portugal versus Waterlow and Sons Limited.

"Would it be right to say that the Bank of Portugal was merely a gigantic printing machine in order to meet the needs of the state?"

"Q. The expenditure of the State until 1926 was greater than its income?

A. Yes.

Q. Well, in private life that leads to bankruptcy, does it not?

A. In private life yes, but in state life it is different.

Q. I expect they have translated Mr. Micawber into Portuguese, have they not?"

Reis and his companions in crime were immeshed in a long and involved trial and imprisonment—for Reis twenty years. "Yet," says the author, "with a little luck they could have all become wealthy, respected businessmen and financiers . . . whole financial dynasties begun because a magnificent Portuguese liar dreamed up such an impossible scheme . . ."

The Man who Stole Portugal is a fascinating and highly entertaining book. The story it tells is truly stranger than fiction, and it contains a lesson on the subject of paper money the world has yet to learn.

* * * * *

INFLATION—THE CULPRITS

INFLATION is indeed the work of governments; its causes are in politics, not economics.

Modern governments do not directly debase their currencies, but by continually spending far more than they can hope to collect in taxes, and concealing their deficits by perennial bank borrowing on the security of state bonds that can never be fully redeemed from the fruits of taxation, they create money as surely as if they ordered their treasuries to get it printed by the cartload.

The money they so create is dishonest money: having been called into existence by the state, *ad hoc*, it does not represent goods and services; it does not represent production by the state's citizens, and it ought not to exist. But since its buying power is the same as that of honest money it diminishes fractionally the value of every coin and note in existence. This and no other is the reason why the cost of everything continually edges up.

Governments resort to inflation as an escape from temporary difficulties, but the dangers of long-continued inflation cannot be too widely realised. Civilisation cannot pay too high a price for honest money; the price of dishonest money is in the long run civilisation itself. That is the lesson of all the inflations of history, and more's the pity that modern governments have learned so little from the past!

—From a letter by Hubert Collier in *The Financial Times*, December 31.