

*The House of
Rothschild*

THE WORLD'S BANKER

1849-1998

Niall Ferguson



PENGUIN BOOKS

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HOUSE OF ROTHSCHILD

Born in Glasgow in 1964, Niall Ferguson is Fellow and Tutor of Modern History at Jesus College, Oxford, as well as a political commentator and author. His previous publications include *The House of Rothschild: Money's Prophets, 1798-1848*, now a Penguin paperback, *The Pity of War*, and the bestselling book *Virtual History: Alternatives and Counterfactuals*.

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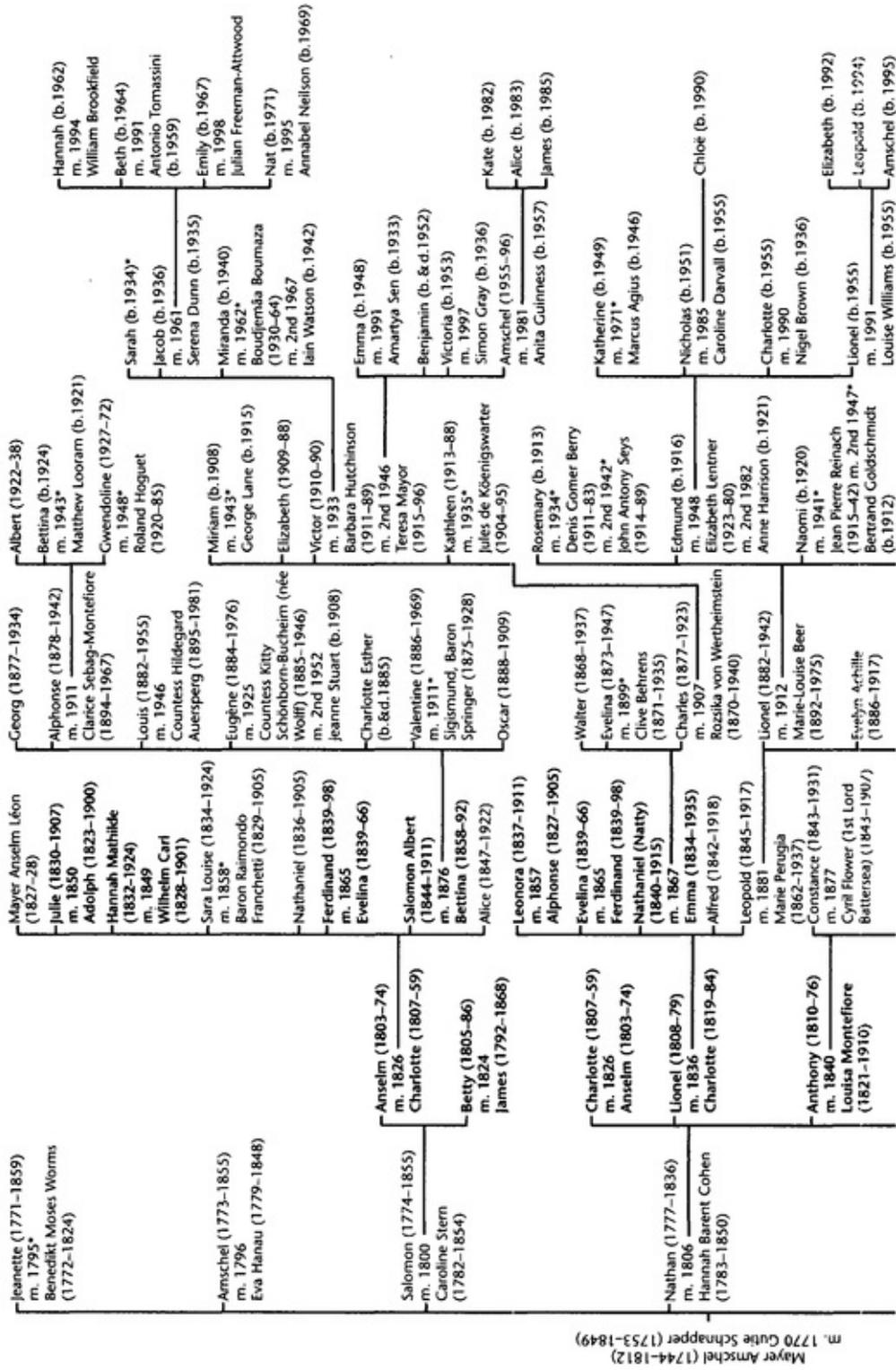
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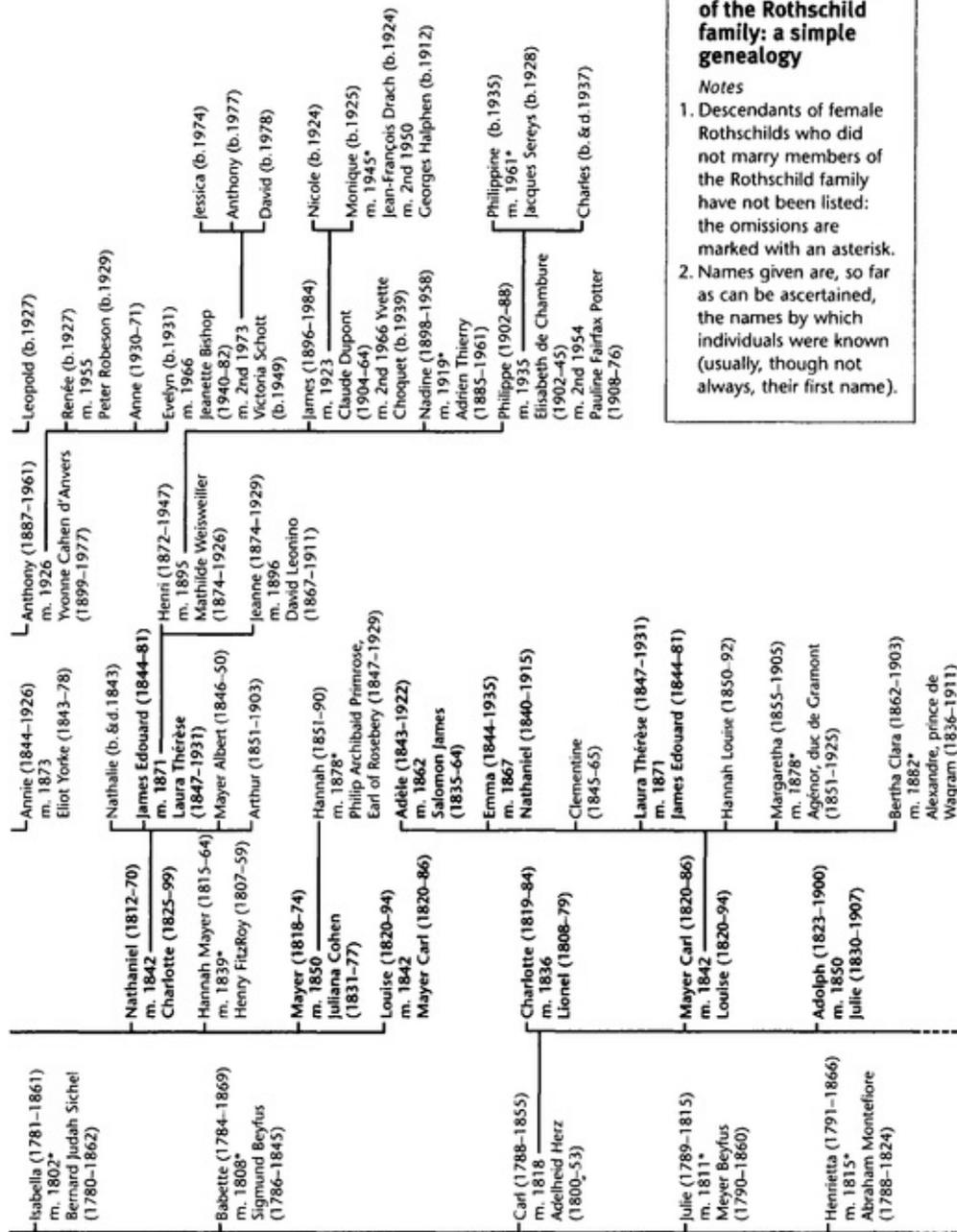
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Eight generations of the Rothschild family: a simple genealogy

Notes

1. Descendants of female Rothschilds who did not marry members of the Rothschild family have not been listed: the omissions are marked with an asterisk.
2. Names given are, so far as can be ascertained, the names by which individuals were known (usually, though not always, their first name).

PREFACE

If we consider the period between 1789 and 1848 as the “age of revolution,” then the Rothschilds were surely its supreme beneficiaries. To be sure, the political upheavals of 1848-49 had cost them dear. A revolution in 1830, though on a far larger scale, revolutions caused the bonds of the governments, affected the Rothschilds to plummet in value. For the Rothschilds, who held a large proportion of their immense wealth in the form of bonds, that meant heavy losses of capital. Worse, it brought their “houses” in Vienna and Paris to the brink of insolvency, obliging the others—in London, Frankfurt and Naples—to bail them out. Yet the Rothschilds survived even this, the greatest of all the financial crises between 1815 and 1914, as well as the greatest revolution. Indeed, it would have been a strange irony if they had not survived without revolution, they would have had little to lose in the first place.

For it had been the original French Revolution that, in 1796, had literally demolished the walls of the Frankfurt ghetto and enabled the Rothschilds to begin their phenomenal, unprecedented and singular economic ascent. Before 1789, Mayer Amschel Rothschild and his family’s lives had been circumscribed by discriminatory legislation. Jews were prohibited from farming, or from dealing in weapons, spices, wine and grain. They were forbidden to live outside the ghetto and were confined there at night, on Sundays and during Christian festivals. They were subject to discriminatory taxation. No matter how hard Mayer Amschel worked, first as a rare coin dealer then as a bill broker and merchant banker, there were strict and low limits to what he could achieve. All that changed when the French exported their revolution to south Germany. Not only was the Judengasse opened; the legal restrictions on the Frankfurt Jews were also largely removed—thanks not least to Mayer Amschel’s financial influence over Napoleon’s henchman in the Rhineland, Karl von Dalberg. Despite the best efforts of the Frankfurt Gentiles after the French and their collaborators had been ousted, the apartheidlike system of residential and social restriction could never wholly be restored.

Moreover, the Rothschilds were presented with undreamed-of business opportunities by the revolutionary wars. As the scale and cost of the conflict between France and the rest of Europe rose, so too did the borrowing needs of the combatant states. At the same time, the disruption of established patterns of trade and banking created room for ambitious risk takers. Thus it was Napoleon’s decision to drive the Elector of Hesse-Kassel into exile, which allowed Mayer Amschel (one of the Elector’s “court agents” since 1769) to become his principal fund manager, collecting the interest on those assets that eluded the French and reinvesting the money. This was dangerous business: the French police were suspicious enough about Mayer Amschel’s activities to interrogate him and his family, though no prosecution resulted. But the profits were in proportion to the hazard; and the Rothschilds quickly mastered the art of secrecy.

Likewise, revolution and war made possible the ascent of Mayer Amschel’s domineering son Nathan from exporting British textiles in Manchester to financing the British war effort in the City of London. In normal times, Nathan would doubtless have prospered as a cloth merchant: his strategy of cutting prices and increasing volumes was right; his energy, ambition and capacity for work were also prodigious. (“I do not read books,” he told his brothers in 1816. “I do not play cards, I do not go to the theatre, my only pleasure is my business.”) But Britain’s wars with France created conditions especially favorable to the bold and innovative newcomer. By prohibiting British exports to the Continent in 1806, Napoleon inflated the risks but also the potential returns for those, like Nathan,

willing to beat the blockade. The naive will ingess of the French authorities to allow British bullion cross the Channel gave Nathan a still more lucrative line of business. In 1808 he was able to leave Manchester for London, now unrivaled as the world's biggest financial center since the Napoleon occupation of Amsterdam.

The “masterstroke” which enabled Nathan to leap into the first league of merchant bankers was his use of the Elector of Hesse-Kassel's English investments to bolster his own resources. In 1809 Nathan secured authorization to make new purchases of British bonds with the interest the Elector's existing portfolio was earning; over the next four years he bought securities worth more than £600,000. In peacetime this would have made him a major fund manager; in the turmoil of war, however, Nathan was able to treat the Elector's bonds like his own capital. Unwittingly, the exiled Elector became a sleeping partner in a new banking house: N. M. Rothschild. (His minister Buderus was a more willing investor in the Frankfurt house.) In 1813 Nathan was therefore able credibly to offer his services to the British government as it struggled to finance Wellington's penultimate campaign against Napoleon. This was what Carl meant when he said later that “the Old Man”—meaning William—had “made our fortune.”

In truth, they probably owed more to the industry and acumen of their own “old man.” It was Mayer Amschel who in 1810 designed the partnership structure that was to endure, modified but essentially the same, for very nearly a century, binding together the male line over four generations, rigorously excluding female Rothschilds and their spouses. And it was Mayer Amschel who taught his sons such hard-nosed business rules as: “It is better to deal with a government in difficulties than with one that has luck on its side”; “If you can't make yourself loved, make yourself feared”; and “If a high-placed person enters into a [financial] partnership with a Jew, he belongs to the Jew” (“*gehört er dem Juden*”). This last piece of advice lay behind the brothers' practice of plying politically powerful individuals with gifts, loans, investment tips and outright bribes. Above all, Mayer Amschel taught his sons to value unity: “Amschel,” he told his eldest son on his deathbed in 1812, “keep your brothers together and you will become the richest people in Germany.” His sons were still repeating these precepts to the next generation thirty years later, by which time they were the richest people in the world; indeed, the richest family in all history.

The operations of 1814 and 1815, in which Nathan and his brothers raised immense quantities of bullion not only for Wellington but also for Britain's continental allies, ushered in a new era in financial as well as political history. The Rothschilds stretched their credit to breaking points, sometimes losing sight altogether of their assets and liabilities, gambling everything they owned for the sake of governmental commissions, interest payments and speculative gains from exchange rates and bond yield fluctuations. In 1815 alone, Nathan's account with the British government totalled close to £10 million, a huge sum at that time. Lord Liverpool employed heroic English understatement when he called Nathan “a very useful friend.” It was, as other contemporaries acknowledged, Napoleonic finance, without which Napoleonic generalship could not have been defeated. Ludwig Borne justly called the brothers “*Finanzbonaparten*”; Nathan, as Salomon acknowledged, was the “commanding general.” Though they came perilously close to ruin when the French were defeated at Waterloo—a much quicker end to the war than Nathan had foreseen—the Rothschilds emerged in 1815 as sterling millionaires. Almost at once, Nathan embarked on perhaps the most successful transaction of his career: a huge investment in British government bonds (consols) whereby he rode the upswing caused by the government's postwar financial stabilization, taking his profits just before the market peaked. This was Nathan's supreme *Meistergeschäft*, realizing profits of more than £250,000 at a stroke.

The 1820s were a time of political as well as fiscal restoration. Throughout the Continent, the deposed were (mostly) put back on their thrones. Under the leadership of Prince Metternich, the great continental powers combined to resist new revolutionary impulses wherever they might occur. The Rothschilds bankrolled this restoration, no doubt. They enabled Austria, Prussia and Russia—the members of the Holy Alliance—as well as the restored Bourbons in France, to issue bonds at rates of interest only Britain and Holland had previously been able to enjoy. In that this made it easier for Prince Metternich to “police” Europe—notably when Austria and France intervened to restore the Bourbon regimes in Naples and Spain—there was truth in the jibe that the Rothschilds were the “chancellor of the Holy Alliance.” Rothschild loans also bolstered the private finances of many of the “high placed persons” of the period, including Metternich himself, King George IV and his son-in-law Leopold of Saxe-Coburg, later King of the Belgians. As Ludwig Borne complained, “Rothschild” was “someone who gives nobles the power to spite freedom and deprives peoples of the courage to resist violence ... the high priest of fear ... on whose altar liberty, patriotism, honour and all civil virtues are sacrificed.”

Yet there was always an ambivalence about the Rothschilds’ view of the restoration. They could hardly relish the return to power of conservative elites which—most obviously in Germany—sought to reimpose second-class citizenship on the Jews. Nor was Nathan the kind of man to turn down good business on ideological grounds. Interventions by the Holy Alliance against revolutionary movements in Spain or Italy were not necessarily good for business: war unsettled the bond markets, not least because of its deleterious effect on state budgets. The new regimes that emerged in countries like Spain, Brazil and Greece were also potential new customers ; and experience seemed to suggest that parliamentary monarchies were better creditors than absolutist regimes. Significantly, the Rothschilds were tempted to lend to the Spanish liberals, but refused to bankroll Ferdinand VII after he had been restored to absolute power. As Byron put it in *Don Juan*, the Rothschilds held sway over “royalist and liberal” alike. Heinrich Heine went further in calling Rothschild a revolutionary on a par with Robespierre, because

Rothschild ... destroyed the predominance of land, by raising the system of state bonds to supreme power, thereby mobilising property and income and at the same time endowing money with the previous privileges of the land.

It was also Heine who memorably declared: “[M]oney is the god of our time and Rothschild is his prophet.” Without doubt, the Rothschilds’ most important contribution to economic history was the creation of a truly international bond market. There had, of course, been cross-border capital flows before: the Dutch had invested in British government bonds in the eighteenth century while the Rothschilds’ rivals in Frankfurt, the Bethmanns, had marketed large issues of Austrian bonds in the same period. But never before had a country’s bonds been simultaneously issued in multiple markets with (as in the case of Prussia in 1818) such alluring conditions as denomination in sterling, payment of interest at the place of issue and a sinking fund.

Bond issuance was not the Rothschilds’ sole business. They also discounted commercial bills, acted as bullion brokers, dealt in foreign exchange, engaged directly in commodity trade, dabbled in insurance and even offered private banking services to an elite of individual clients. Their role in the gold and silver markets was important: it was the Rothschilds’ role as “lender of last resort to the lender of last resort” that prevented a suspension of convertibility by the Bank of England in 1825. But it was the bond market which came first. Moreover, buying and selling in the various secondary markets for bonds was almost as important a source of profit as issuance: this was the principal for

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