

# Rothschild cousins in a global world

Hassan Malik shows how the letters exchanged between the London and Paris Rothschild bankers in the early years of the twentieth century are an invaluable chronicle of their times.

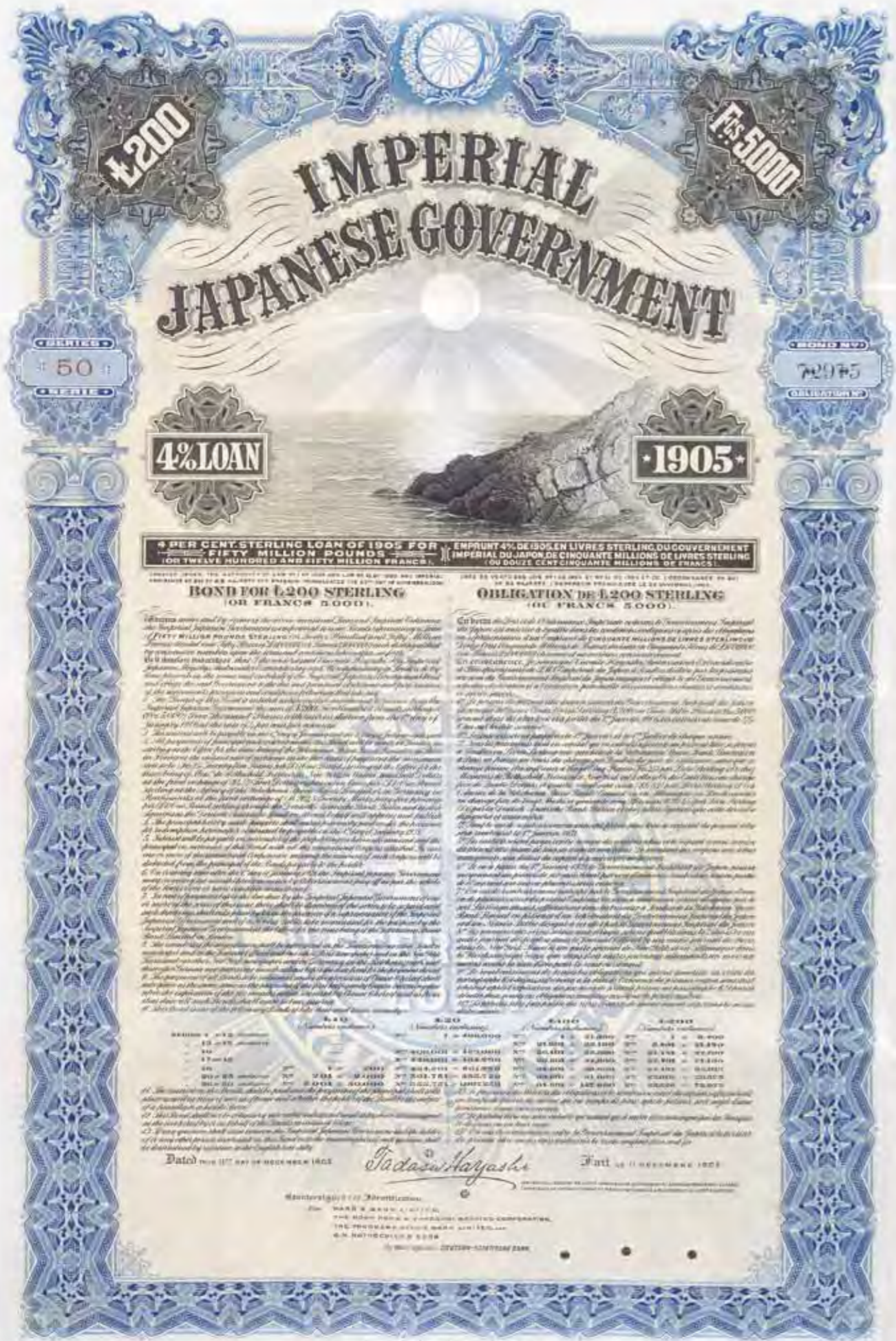
To speak of the present-day world as a globalised one has become a cliché in recent years. Every year appears to bring a greater degree of convergence in living standards, incomes, and even culture between a range of countries in the ‘emerging’ and ‘developed’ worlds. Yet it comes as a surprise to some contemporary participants in global capital markets to learn that the current era of globalisation in which we live is not only not without precedent but that the world was once arguably even more globalised than it is at present. Moreover, it was in particular within the sphere of international finance that the world showed a greater degree of integration than in the present day.

The bond markets of the late nineteenth and early twentieth centuries showed investors to be remarkably cosmopolitan in their tastes. Whereas contemporary Western investors have only begun to drift relatively recently out of their home markets into more exotic ‘emerging’ and ‘frontier’ markets – largely through investments in mutual funds that select portfolios of individual bonds on their behalf – their forebears were far more willing to directly purchase securities issued on behalf of distant lands. It would not, for example, be unusual to see the proverbial Scottish widow invest in bonds from Australia, Egypt, Argentina, Brazil, the Ottoman Empire, China, Persia and Russia. The global capital market was truly global in the late nineteenth and early twentieth centuries, with even distant tertiary towns and cities in so-called peripheral economies being tied to the global financial centres of the time – London, Paris, and New York – through the telegraph and the local agents of a range of powerful banks. The Rothschild houses were indisputably at the top of this extensive food chain of global finance. It was the Rothschilds who were the bank of choice for governments seeking to borrow in the principal financial centres of Europe, where their willingness to associate their name with a bond issue was a powerful signal to individual investors not only of the quality of the issuer, but of the support which the issuer enjoyed: having associated their name and brand with a deal, the Rothschilds were known to do everything in their considerable power to ensure the success of the deal in question.

In this sense, even as the global markets of the past were in some ways more democratic, and even as individual retail investors investing in individual securities were a more prominent feature of the previous era of globalisation than of the present one, global finance was in the past dominated by an elite group of financiers (dubbed the ‘gatekeepers’ of finance by one scholar) who held considerable power over the access of individual issuers to the global capital markets.<sup>1</sup> Studying the thinking of these gatekeepers provides considerable insight into how capital markets functioned in this earlier era of global finance.

In this respect, the collection of daily – often even more frequent – letters from the Rothschild cousins in London to those in Paris is one of the richest collections available for historians of global finance during the first modern age of globalisation. The letters, which survive from 1906 to 1914, provide a fly-on-the-wall perspective on the most intimate discussions between some of the most powerful men in finance, and indeed, the global economy of the late nineteenth and early twentieth centuries.

Bond issued for the 1905 four per cent £25,000,000 Imperial Japanese Government sterling loan (nominally £50,000,000). The London Rothschild bank was part of the syndicate issuing this loan.





*Overleaf*  
 Aftermath of the San Francisco earthquake: looking down Sacramento Street at the approaching fire.

Photograph by Arnold Genthe, Steinbrugge Collection, PEER-RISE, University of California, Berkeley

Nathaniel, 1st Lord Rothschild and his brother Leopold in hunting pink at Tring Park, Lord Rothschild's country house (*above*). Edouard de Rothschild, one of the partners in the Rothschild bank in Paris. Edouard was a nephew of the partners of the London house: his mother, Leonora, was their elder sister.



Many banks, of course, preserved their correspondence, and such collections remain an important source not only for banking and economic history but also for social, political, and even cultural historians. What makes the Rothschild letters particularly valuable, however, is their multifaceted nature. To a far greater extent than any other banking group in the world at the time, the Rothschilds presided over a truly global business empire, and their correspondence reflects an intimate involvement with events from Latin America to Europe to Asia. Each letter not only provides insights into individual business questions the cousins were grappling with at a given point in time, but also shows the relative importance the cousins attached to different deals and indeed parts of the world on a given day. It is not unusual, for example, for a letter to begin with reference to family matters, move on to a discussion of British domestic politics, touch on the family's investment in the Rio Tinto mines, and then move on to an extensive discussion of Russian affairs, ranging from the Tsarist Empire's public finances to its anti-Semitic policies, which were a source of particular concern for the Jewish financiers.

Indeed, the letters were a somewhat unexpectedly important source in my own doctoral dissertation on Russia's experience with foreign investment from 1892–1922. By the time Russia's famous reformist finance minister, Sergei Witte, took office in 1892, the Rothschilds had all but washed their hands of the public finances of the country in which they had been particularly active earlier in the nineteenth century. The Tsarist government's odious treatment of what the Rothschilds called their 'co-religionists' was the principal driver of the wedge between the Jewish house and the Tsarist regime. Indeed, during the Russo-Japanese War, which ended in a humiliating defeat for Russia, many Jewish financiers – notably Jacob Schiff of Kuhn, Loeb – not only abstained from lending to Russia, but actively sought to support Russia's Japanese enemies.

Even though the London Rothschilds' involvement in loans to the Russian government had cooled by the late nineteenth century, their letters nonetheless provide rich insights into how the most powerful financiers in the world viewed the largest net international debtor in the world, as well as how they explained major phenomena in the contemporary global financial markets.

The Rothschild correspondence proved particularly valuable in studying the story of the Russian Government Five Per Cent Loan of 1906. The loan was a landmark deal for the Russian government for two major reasons. First, certain smaller corporate loans notwithstanding, the loan marked the return of the Russian government to the London bond markets after decades of focusing its borrowing operations on the Paris market. Second, the Russians floated the loan in the aftermath of their humiliation in the Russo-Japanese War and after months of often violent political troubles that would become known as the Revolution of 1905. While the Russian government's efforts to secure the support of the Rothschilds were unsuccessful, the cousins' commentary on the loan is nonetheless valuable from the standpoint of understanding the loan and the broader significance of the deal in the global capital markets.

The correspondence leaves little doubt as to the sharply negative attitude the firm – and especially the London cousins – had on Russian matters. Much of the commentary from this period makes reference to the anti-Semitic policies of the Tsarist regime and explicitly links any major participation by the Rothschilds in Russian government loans to tangible improvements in the conditions of the Rothschilds' 'co-religionists.' In this sense, even if they focused more on the religious question than on geopolitics or finance, the London Rothschilds echoed a more general British Russophobia evident in the contemporary financial press – not least in the pages of *The Economist*.



'We are still without news from [*Rothschild's New York agent*] Belmont himself with regard to his interview with the President yesterday & in the meantime the Bank of California bombards us with telegrams asking for assistance. They virtually acknowledge that none of the Banks there are in a position to state their assets & liabilities & that for a curious chemical phenomenon their vaults & iron safes there have not been damaged so they believe, but are still so hot that they dare not open the doors: the scientific theory is that if they did so, the cold air would cause all the contents to crumble into dust, whilst if they allow these chambers to cool, the contents will be found intact.'

From a letter of 26 April 1906 sent by Lord Rothschild to his Paris cousins.

XI/130A/o



More importantly, the Rothschilds' correspondence on the question of Russian loans reveals the relative importance they attached to Russian affairs within the context of broader trends in the global capital markets. While the papers of the various French and British banks involved in the deal predictably preserve in minute detail the records of the negotiations leading to the April 1906 flotation of the loan, the Rothschild letters are almost unique in the degree to which they place these negotiations and the ultimate flotation of the deal in a broader context.

Unlike most of the French banks involved who were heavily focused on Russian operations, for example, the Rothschilds actively dealt in a very broad range of markets, and so their understanding of the relative importance of the Russian deal as a driver of events in the London bond market is particularly interesting from the standpoint of the history of international finance. Their letters provide a candid insider's perspective on how markets reacted to news of the Russian loan, and how the markets digested the issue, which, at 2.25bn francs, was one of the largest ever at the time.

More specifically, early 1906 was the start of a particularly turbulent time in global financial markets. Some scholars attribute the origins of the devastating Panic of 1907 in the United States – one of the greatest financial crises in the twentieth century, and one that historians frequently cite as the event that led to the creation of the Federal Reserve in 1913 – to the San Francisco earthquake of 18 April 1906.<sup>2</sup> In this view of events, it was the liquidity crunch tied to insurance claims originating in San Francisco that roiled global money markets, setting in motion a chain of events leading to the disastrous panic in 1907.

Yet, the Rothschild letters raise an intriguing alternate explanation that suggests far more global roots to the Panic of 1907. The contract for the Five Per Cent Russian Government Loan of 1906 was signed by the underwriters and government on 16 April 1906 – just two days before the San Francisco earthquake – and the loan floated to the public shortly thereafter. As 1906 progressed, the much-touted Russia loan, which appeared to have been a successful issue at first, began to weaken in the secondary market. Indeed, by June, the Russian finance minister had agreed to a scheme proposed by his principal bankers to create a fund to support the price of the bonds in London and Paris.<sup>3</sup> The letters of the London Rothschilds in the

The banking houses of N M Rothschild & Sons, New Court, St Swithin's Lane, and de Rothschild Frères, rue Laffitte as they were at the turn of the twentieth century.

summer of 1906 leave little doubt as to their thinking that the negative impact the poor performance of the Russian bond weighed on global markets. By July, the London cousins wrote to Paris saying, 'the depression in Russian securities hangs like a heavy cloud over the rest of our market.'<sup>4</sup> Acknowledging rumours that British insurers suffering losses from Californian claims were liquidating their portfolios, the Rothschilds still stressed the poor performance of the Russian loan as a key cause of market malaise.<sup>5</sup> That some of the most powerful financiers in the world attributed the troubles in the London market to a significant degree to the poor performance of the Russian loan is notable. Given the close temporal proximity of both events, evaluating the relative importance of the San Francisco earthquake and the Russian loan as triggers of market instability with any degree of precision is extremely difficult, if not impossible. Nevertheless, the Rothschild commentary is significant to the degree that it complicates previous scholarship like that of Bruner and Carr, which relies largely on the financial press.

More broadly, the Rothschild commentary on the market situation of early 1906 shows how papers in the Archive can shed light on countries and questions with which the Rothschilds had no direct role. Even though they were boycotting Russian loans, the Rothschilds' negative commentary on the country in justifying this position is itself a rich source of material for financial historians in that it shows the cultural and political dimension to their refusal to participate in Russian lending – something that scholarship in the social sciences on the first modern age of globalisation, which often stresses factors such as monetary architecture or macroeconomic fundamentals, frequently overlooks. Moving beyond financial, economic and business history, the letters are an important lens into political and even social history, given the significant attention the cousins devoted to politics and social issues in their correspondence.

The late nineteenth and early twentieth centuries witnessed an extraordinary time of global integration, and of financial globalisation in particular. The Rothschild houses lay at the centre of the growing global bond market, and their influence and connections extended by this time well beyond the realm of finance to politics and society more broadly. The cousins' letters from 1906–1914 are an important collection that allows the reader to sit in at intimate virtual dinner-table conversations between some of the most influential men in the world at the time. It is a perspective that is rarely found in traditional government archives, and is one from which historians not only of finance, but of politics, society, and culture in the early twentieth century have much to gain.

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## NOTES

1 Marc Flandreau et al., 'The End of Gatekeeping: Underwriters and the Quality of Sovereign Bond Markets, 1815–2007', *NBER International Seminar on Macroeconomics* 6, no.1 (2009) pp.53–92.  
2 Sean D. Carr and Robert F. Bruner, *The Panic of 1907: Lessons Learned from the Market's Perfect Storm* (Hoboken, NJ: John Wiley & Sons, 2007) pp.13–17.

3 ING Barings Archive, 200166, letters between Edouard Noetzlin and Lord Revelstoke, 18–21 June 1906.

4 The Rothschild Archive, XI/130A/0A, London to Paris, 20 July 1906.

5 Ibid.