

# Banking History – Part 7

## THE ROTHSCHILD FAMILY

Origins: This Jewish family began in 1567 but rose to international prominence in the 18<sup>th</sup> century. Mayer Aschmel Rothschild who was born in 1744 was a Court Factor to the German Landgraves of Hesse-Kassel in Frankfurt. He established a banking business in the city in 1760. Between 1773 & 1792 he had five sons who in turn established banking businesses throughout Europe.

Aschmel Mayer was in Frankfurt, Saloman Mayer in Vienna, Nathan Mayer in London, Carl(Calmaan)Mayer in Naples and James(Jacob)Mayer in Paris; so ensuring a network across Europe. The family motto was “Harmony, Integrity, Industry”. Their bond market made the family extremely rich. This wealth allowed them to build 41 stately homes all over Europe. The NT property Waddesdon Manor in Bucks is the one most familiar to us. It was restored to its former glory by the 4<sup>th</sup> Lord(Baron) Rothschild,Nathan’s great, great, great grandson.

Activity during and after the Napoleonic War 1803-15: The Rothschild family possessed a significant fortune before the war began. They had gained prominence in the bullion trade. In London from 1813 through to 1815 Nathan single-handedly financed the British war effort, organising the shipment of bullion to the Duke of Wellington’s armies across Europe. He also arranged payment of subsidies to their continental Allies. Nathan used his brothers to coordinate activities across the continent, developing a network of agents, shippers and couriers to transport gold across war torn Europe. Nathan was therefore in a position to get political and financial information ahead of his peers, giving him an advantage in the market. He was also invaluable to the government eg. the family network enabled Nathan to get news of Wellington’s victory at Waterloo a day ahead of the official government messengers. The war finished sooner than Nathan(or anyone) expected and the family found they were sitting on ‘a pile of cash’ no longer needed for an operational war. Nathan knew that the price of gold would drop, so he took the chance of buying Government Bonds predicting that in time British bond prices would rise again. His gamble paid off and when bond prices rose by 40% in 1817 he sold, raising £600 million in today’s money. His audacious action had paid off and had been significantly profitable. His already established London Bank gained so much power by 1825,that it was able to supply enough coinage to the Bank of England so that it was able to avoid a market liquidity crisis.

Activities during the American Civil War 1861-65: Before the war began Saloman James, the third son of James(the Paris branch) was sent to the United States, to “focus his mind and become financially mature”. He travelled extensively in the US, Canada and Cuba and

watched events building up to the civil war. He concluded that Abraham Lincoln (the first elected Republican President) was an extremist and that his sympathies lay with the Confederate causes which were seated in slavery. Saloman had expressed pro-Southern sympathies in his letter home, so commentators thought the Rothschilds were backing the Southern States. As events evolved the Rothschilds decided not to back the South. One reason was that the family felt a genuine distaste for slavery. Secondly they did not consider the South a good credit risk. To raise funds the Confederacy tried selling cotton-backed bonds. The most appealing thing about these bonds was that they could be converted into cotton at the pre-war price. They were at first bought by some European investors. In 1860 most cotton was imported into Britain through Liverpool. 80% came from the Southern States. These states were desperate to get British financial backing for the war and thought that by embargoing cotton exports to Liverpool they would be putting pressure on Britain to come into the war. This slump in imports had a devastating effect on cotton mills here where the workforce was laid off having no raw materials to work with. It was called the Cotton Famine. The effect for the South was that a shortage of cotton drove up the value of the cotton-backed bonds. However, the financial success of the bonds depended on investors being able to take physical possession of the cotton which underpinned the bonds if the south failed to make its interest payments. In 1862 New Orleans fell to the Union who in blockading the port, prevented access to the cotton. Had the city not been taken until after the cotton harvest, the South might have managed to sell cotton bonds to London. The Confederacy had turned off "the cotton tap" to raise funds but were no longer in a position to "turn it back on". By 1863 Britain was getting its cotton from China, India & Egypt. The Rothschilds had declared the bonds of "so speculative a nature that they were likely to only attract wild speculators and that no respectable person would have anything to do with them". They were proved right. Those who had invested in Confederacy Bonds lost everything as the victorious north pledged not to honour the debts of the south.