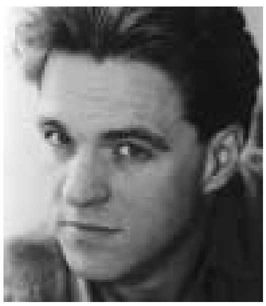
The Cash Nexus: Banking and Politics in History

A lecture delivered by Professor Niall Ferguson of Oxford University, 30 April 2001



Although this lecture is linked by both its title and timing to the publication of my new book, *The Cash Nexus* – which purports to be a general history of ‘money and power in the modern world’ – I would like to begin by saying a few words about the more circumscribed work from which it grew, namely *The World's Banker: The History of the House of Rothschild.*[1] That book would have been impossible to write without the cooperation, the help and – perhaps crucially – the trust of the Rothschild family, in particular Sir Evelyn de Rothschild, the late Amschel Rothschild, Lionel de Rothschild and Emma Rothschild, as well as others too numerous to mention who patiently endured my questions. It would have been impossible to research without the exemplary help of Victor Gray, Melanie Aspey and their staff at the now gloriously re-housed Rothschild Archive. And it would have been a far worse book without the wise counsel of David Landes, who became a kind of Doktorvater- cum-editor to the project; to say nothing of the more practical done by Tony Chapman, now a Director at N M Rothschild, and Ion Trewin at Weidenfeld & Nicolson. It was Lord Weidenfeld himself who phoned me up nearly ten years ago to try to persuade me to take the project on, and to him I owe an especially large debt. As a keen student of ‘virtual’ or ‘counterfactual’ history, I am notoriously fond of ‘what if?’ questions. But the one I really cannot answer is what would have happened if he had not phoned me up one rainy afternoon all those years ago to suggest that I might write a history of the Rothschilds.

Yet my interest in the history of banking and politics predated that phone call by some years. It can probably be dated back to Eric Warburg's invitation – to a rather gauche postgraduate over tea at the British consulate in 1986 – to come and look at his father's papers in the M. M. Warburg offices in the Ferdinandstrasse. That was the moment my interest in the history of the German inflation caught fire, because Max Warburg's papers revealed to me a world I had hitherto scarcely glimpsed: the world of the *haute banque*, in which merchant bankers played a crucial yet discreet role in the interconnected worlds of finance and politics. I had, of course, already learned much about this world from the classic works of David Landes and Fritz Stern[2]. But the part played by Max Warburg and other bankers in the history of the Weimar Republic remained relatively obscure. Apart from the work of Harold James, my predecessor at Peterhouse, and a few allusions in Charles Maier's book on the post-war period, there was nothing[3]. I had found my D. Phil. subject.

The decision to take on the Rothschild history led me to other shelves in the library, where I found an alarmingly large number of excellent books about bankers and politics in the 19th century by – to name but a few – Youssef Cassis, Stanley Chapman, Phil Cottrell, Martin Daunton, David Kynaston and Dick Sylla. There was enough in their work to make me realise that in taking on the history of Rothschilds I was taking on a huge task. Reading other bank histories – Richard Roberts's book on Schroders, Edwin Green's on the Midland and Philip Ziegler's on Barings – helped me work out how to go about doing it. Reading the older books on the Rothschilds – with the honourable exceptions of Egon Corti's and Bertrand Gille's[4] – showed me how not to go about doing it.

Yet after five years half living in the old Rothschild Archive in Hatton Garden and writing what became, in effect, two books if not three, my thirst for financial history had not been wholly slaked. In particular, I wanted to see if the specific relationships between finance and politics, which I

had discovered in the Rothschild correspondence, held good at the general level. Thanks to the generosity of the Houblon-Norman Trustees and particularly the Deputy Governor of the Bank of England, Mervyn King, I was able to go, as Ranke always said historians should, from the specific to the general. For better or for worse, what began as a history of the bond market rapidly grew into something more ambitious – perhaps excessively so.

For all its faults, however, I think *The Cash Nexus* has done at least one of the things I set out to do. It has, I think, demonstrated exactly why financial history is relevant to political historians, while at the same time showing the importance, and often the primacy, of political events like wars and revolutions in economic history. To those who say they knew this already, I can only offer my congratulations, and my apologies for boring them. But they are, I think, in a minority. I have spent more than a decade teaching history undergraduates in Cambridge and Oxford, and I have yet to meet one who did not need to have the links between finance and politics explained. Sometimes they simply knew nothing. More often it was worse: they knew something quite wrong.

II

It is not entirely accidental that this lecture is taking place today rather than tomorrow. For tomorrow is 1 May – May Day – and we are told to expect yet more 'anti-capitalist' demonstrations in London. It will be, I read on the Internet, 'a day of celebration for all those struggling against capitalism and globalisation'. We are promised 'lots of autonomous actions, separate yet interconnected, which express our opposition to the monopoly that capitalism has over our lives'. As I prepared myself for the impending world revolution which this doubtless heralds, I could not help being struck by the fact that six out of the thirteen firms singled out on the website of the demonstration's organisers – www.maydaymonopoly.net – are banks. One bank in particular is singled out for the damning comment: 'loan sharks with unethical investments – all banks steal'.

The Internet offers a good deal of this sort of thing. Go to www.destroyimf.org for example and you will encounter the rousing slogan: 'Defund the Fund! Break the Bank! Dump the Debt!' Nor are such sentiments confined to anarchist and communist sects. Some Christian fundamentalist sites offer a surprisingly similar critique of the financial sector. At www.biblebelievers.org.au/slavery.htm, for example, you can read that 'the Rothschilds and their friends sent in their financial termites to destroy America because it was becoming *"prosperous beyond precedent"*'.

There is something strangely familiar about the tone of all this, though it took me a little while to recognise the authentic antecedent of that last expostulation. There are in fact at least six references to the Rothschilds in the complete works of Karl Marx. Here he is on their role in the aftermath of the 1848 revolutions:

The smallest financial reform was wrecked through the influence of the bankers. For example, the postal reform. Rothschild protested. Was it permissible for the state to curtail sources of revenue out of which interest was to be paid on its ever increasing debt? The July Monarchy was nothing other than a joint stock company for the exploitation of France's national wealth[5].

The curious thing about Marx was that in many ways he was as much a product of the emancipation of the Jews of south-western Germany as the Rothschilds themselves. He admits as much, indeed, in a little-read footnote to volume III of *Capital*, appended to a rather good section on the nature of financial panics:

Immediately after the February Revolution, when commodities and securities were extremely depreciated and utterly unsaleable, a Swiss merchant in Liverpool, Mr B. Zwilchenbart – who told this to my father – cashed all his belongings, travelled with cash in hand to Paris and sought out Rothschild, offering to participate in a joint enterprise with him. Rothschild looked at him fixedly, rushed towards him, grabbed him by his shoulders and asked: "Avez-vous de l'argent sur vous?" – "Oui, M. Le baron." – "Alors vous êtes mon homme!"[6]

Much as he wanted to hate capitalism, Marx could never quite conceal his enthusiasm for the bourse – to the extent that he himself briefly became a 'day-trader' in 1864. Unfortunately, this side of his thought has seldom attracted the attention of those who call themselves Marxists. They have always preferred the ranting Marx, with his ferocious denunciations of the 'brood of bankocrats, financiers, *rentiers*, brokers, stock-jobbers, etc.'[7] And few beliefs have proved more enduring – on both the left and the right of the political spectrum – than the belief in the sinister power of financiers: from the golden international that haunted the American Populists a century ago to the gnomes of Zürich Harold Wilson blamed for the 1967 devaluation.

III

But how much power do bankers really have? Before attempting to answer this question, it is helpful to begin by constructing a typology.

The majority of bankers have of course nothing whatever to do with politics. At the other extreme are bankers who are political figures *ex officio* because they are central bankers with statutory responsibilities. It is the categories in between those two poles that are of most interest here.

We need to distinguish as far as possible between:
1. Bankers who become politicians
2. Bankers who have politicians as clients
3. Bankers who merely socialise with politicians
4. Bankers who advise politicians
5. Bankers who oppose politicians

In the first category clearly belongs someone like Jon Corzine, the former co-Chairman and Chief Executive of Goldman Sachs Inc., who last year spent some £36.5 million in pursuit of a seat in the US Senate. There is a rough analogy which could be drawn between Mr Corzine and Nathan Rothschild's son Lionel, who undoubtedly made use of his huge personal wealth when campaigning for election to the House of Commons in 1847. The difference is that Lionel de Rothschild's object in seeking election was a great deal more precise than Mr Corzine's. In many ways, the election of the former was a gambit in the protracted campaign to secure full political rights for Jews in Britain. His brother called it 'one of the greatest triumphs for the Family as well as of the greatest advantage to the poor Jews in Germany and all over the world'.[8] For his wife it was 'the beginning of a new era for the Jewish nation'.[9] Mr Corzine, by contrast, was reported last year as saying: 'I have been able to access things that most people wouldn't think possible for a small kid from out in the middle of nowhere. It worked out really well for me. Why shouldn't I want to help others?'[10] It may be that Mr Corzine sincerely sees himself as acting to further the interests of all 'small kids from out in the middle of nowhere'. But it is hard not to suspect that this was not his prime motivation in seeking election.

All politicians need bank accounts, so there are naturally a great many bankers who have politicians as their clients. Bleichröder's now famous relationship with Bismarck was initially of this nature. The same was true of Salomon Rothschild's earlier relationship with Prince Metternich.[11] In the 19th century the correspondence between bankers and their politician clients could easily extend from the discussion of cash flow problems or investment advice to exchanges of political news and even advice. Today, however, the far more impersonal nature of financial relationships makes it hard to imagine comparable relationships. Who looks after Tony Blair's current account? I have no idea. I doubt very much that it matters.

In the nineteenth century too social links between politicians and bankers were of more importance than they are in our own day. One prime minister, the Earl of Rosebery, married a Rothschild. Those two great rivals, Benjamin Disraeli and William Ewart Gladstone, were both regular visitors and correspondents of the family. Indeed, there is a delightful letter from Lionel from March 1876 which describes how the two men almost bumped into one another at his house: 'Dizzy was here … [O]ur friend [is] in very good spirits … What do you say to the visitor who is now with dear Ma whilst I am writing – this I have just heard, that the famous Mr Gladstone is with her drinking tea and eating bread and butter, I doubt whether he will come to see me'.[12] No doubt Gordon Brown has had occasion to drink tea with Gavyn Davies of Goldman Sachs in much the same way. Yet no amount of socialising can be regarded as politically significant unless there is evidence that, over tea, the banker (or his wife) actually influenced the politician. Certainly, it is unlikely that Charlotte de Rothschild exercised any significant influence over Gladstone, who was far

more interested to discuss comparative religion with her.

The point at which socialising becomes advising is not always easy to document. I have recently had occasion to consider the extent to which Siegmund Warburg was able to influence Harold Wilson at the time of the sterling crisis of 1967. Warburg had known Wilson since the late 1940s and had impressed him with his usual combination of flattery, international expertise and social networking. As early as December 1963, Warburg offered specific advice to Wilson as to how to avert a run on the pound in the event of a Labour election victory, recommending a balanced budget, export incentives, some kind of wage restraint and 'a severe profits distribution tax and possibly also … a capital levy' on business.[13] Once in power, Wilson saw Warburg on a number of occasions to talk policy: for example, on 30 November 1964, 7 January 1966, 5 September 1966. He also sent Wilson memoranda on economic subjects, like the one 'about the establishment of a closer link between British and foreign industrial companies' in March 1967,[14] and a draft speech a year later.[15] The difficulty is to be sure whether Wilson heeded the advice he was being offered. Even when there is evidence that the government acted in approximately the way Warburg suggested (for example, introducing corporation tax in 1965), it is by no means clear that it was *post hoc, ergo propter hoc*. In recommending higher taxation of business, was Warburg simply telling them to do what they were going to anyway?

Very similar problems arise when one tries to assess the influence James de Rothschild was able to exercise over the French king Louis Philippe. Many contemporaries – like Ludwig Börne and Heinrich Heine – thought this was enormous. Certainly, James saw a great deal of the King throughout his reign – much more than Siegmund Warburg saw of Harold Wilson. And he never tired of proffering advice to him – to discard this minister, to appoint that minister and, above all, not to risk a war in Europe. In February 1831, for example, James became convinced that the French prime minister Laffitte was bent on war over the future of the newly independent Belgium, then threatened by military invasion from Holland with possible Austrian and Russian support. According to James's own account, he told Louis-Philippe:

You are being pushed into a state of war, even though you have no interest in any Belgian [territory] and is it wise for the French to take on such a proud stance? And now do you want us to go ahead and declare war on the foreigners? Your Majesty, you are being deceived. Your ministers have lost the confidence of the public. You should appoint Périer and then these people, all the rich people, will support him, and [that will] show your strength.[16]

Laffitte, he told his brother, was bent on a course of 'complete anarchy':

This morning I was at Laffitte's and berated him, and he said to me in a friendly way, 'Rothschild, if France does not declare war on Austria, then, in a matter of three weeks, the king will no longer be king and will lose his head.' I told him, how could he possibly give such bad advice to the king. He replied to me, 'The king no longer asks my opinion'. In short, Laffitte thinks all is lost already. Tomorrow, I will ask the king and perhaps I might even go to see him today.[17]

It is tempting to conclude from the fact that Laffitte resigned just over a week later that James's 'talking to the king had the desired effect'.[18] Yet on re-reading his letter of 27 February I am struck by Laffitte's admission: *'Der König fragt mich nicht mehr'*. In asking for Laffitte to be replaced, James was pushing at the proverbial half-open door.

In fact, the only way to demonstrate for certain that a banker has political power is to look at instances of clear *dis*agreement with a monarch or prime minister. Only if the banker can be shown to have overruled the politician – and particularly if it can be shown that he used financial leverage to do so – can it really be claimed that the former wields meaningful power. I can think at once of three examples from my own research of such clear confrontations between a banker and a political figure. In 1832 Salomon von Rothschild overtly threatened not to support a new bond issue by the Austrian government if the proceeds were to be used for military purposes.[19] In 1866 his brother James sought to use his power in the

European bond markets to deter Bismarck from going to war with Austria over the future of the duchies of Schleswig and Holstein.[20] And in 1909 the first Lord Rothschild launched an all-out campaign against David Lloyd George's so-called People's Budget.[21] In all three cases, the bankers lost the argument. This was because not even the Rothschilds at the very height of their power could turn off the tap of the bond market to a government that was fundamentally creditworthy. In the last case, Natty Rothschild repeatedly warned that Lloyd George's increase in progressive taxation would be financially ruinous; but the verdict of the markets, when one actually looks at the effect of the People's Budget on the price of consols, was quite clearly the opposite.[22]

Higher taxes would eliminate the government's deficit, whether they fell on the rich or the poor; so it made sense to buy consols, not (as Rothschild predicted) to sell. Here, as so often, individual bankers might think and say one thing; but the collective voice of the market – the sum of the decisions of all the investors and their agents – said another. The Marxists and their progeny tend to blur this crucial distinction between the individual banker as the supposed 'man of influence' and the market as the institution in which the less obviously 'influential' investors have a say in proportion to the size of their portfolios, credit-rating and trades. At the height of the conflict over the People's Budget, Lloyd George famously exclaimed: 'Really, in all of these things we are having too much Lord Rothschild.' But in reality there was not enough Lord Rothschild seriously to threaten the Chancellor's position.

Yet even the markets have limits on their political leverage. In 1898 the Polish financier Ivan Stanislavovich Bloch had published a six-volume *magnum opus* which appeared in English with the snappier title *Is War Now Impossible?* Bloch argued that, in any major continental war, finance would be 'the dominant and decisive element in the matter', bringing the hostilities to a swift conclusion. 'The future of war', Bloch argued, was 'not the slaying of men, but the bankruptcy of nations'.[23] He was not alone in thinking this. In *The Great Illusion*, published in 1910, Norman Angell claimed that 'the profound change effected by credit and 'the delicate interdependence of international finance' had made war irrational and perhaps even impossible, since 'no physical force can set at nought the force of credit'.[24] Within less than five years, the European powers would demonstrate how wrong such cheerful notions were. In July 1914 the desperate pleas of the Rothschilds and the Warburgs that a European war would destroy 'the delicate interdependence of international finance' were simply ignored. Far from preventing war, the 'force of credit' made it possible to fight war on a far larger scale than ever before and for far longer than most pre-war financial experts – including John Maynard Keynes – thought possible.

IV

On 21 June 1914, following a banquet in Hamburg, the German Emperor Wilhelm II had outlined what he saw as Germany's 'general situation' to his neighbour at dinner, Max Warburg:

> He was worried about the Russian armaments [programme and] about the planned railway construction; and detected [in these] the preparations for a war against us in 1916. He complained about the inadequacy of the railway-links that we had at the Western Front against France; and hinted ... [at] whether it would not be better to strike now, rather than wait.

Warburg had 'advised decidedly against' this:

> [I] sketched the domestic political situation in England for him (Home Rule), the difficulties for France of maintaining the three year service period, the financial crisis in which France already found itself, and the probable unreliability of the Russian army. I strongly advised [him] to wait patiently, keeping our heads down for a few more years. 'We are growing stronger every year; our enemies are getting weaker internally'.[25]

Why did the Kaiser ignore Warburg's advice, which to us seems eminently sensible? The answer is that his military experts – from the Chief of the General Staff downwards – were telling him just the opposite. In a few more years, the Younger Moltke insisted, Russia would have completed her armaments programme and Germany's chances of winning a two-front war would have dwindled to zero. It was the enemy that was growing stronger, Germany that was getting weaker. From the Kaiser's point of view, Warburg did not know what he was talking about. A hundred years ago, there was a fairly clear distinction between what a banker could be expected to have expertise about and what were only matters of general knowledge. A banker knew about budgets and bonds. His views on the reliability of the Russian army – no matter how well informed – were about as valuable as Moltke's views on bimetallism. That distinction still exists today, of course. Still, the extent to which economics has extended its domain in the course of the century makes the gulf between financial and political expertise a good deal smaller than it was then. When Lionel de Rothschild first stood for parliament, his brother urged him to take a radical position on free trade. The implication was that up until that point Lionel had not given free trade a great deal of thought. Nowadays, by contrast, it would be surprising to find a senior director in a major City firm who did not already have a view on whether Britain should join the single European currency – the issue which most resembles (not least in its political divisiveness) that of free trade in the 1840s.

There is another way of considering the difference between the past and the present. In 1901 banking and politics were two essentially separate activities, though they were socially linked.[26] Today the two professions seem to me to be rather socially distinct. The extent of traffic to and fro between the Commons and the City boardrooms has declined markedly in the past decade. Yet their functions have converged in ways that the Edwardians would have found extraordinary. Most modern bankers are accountable to a far wider range of shareholder interests than was the case a hundred years ago; while at the same time they are providing an ever wider range of financial services. Politicians too are more widely accountable than they were in 1901; but what is perhaps more surprising is that they are also engaged in providing a range of financial services. To be sure, the Chancellor of the Exchequer did a very wise thing when he restored partial ('operational') independence to the Bank of England in 1997. But he remains firmly convinced that the state has a role to play in the financial sector. For example, he shows no sign of ending the fiction that our National Insurance payments are contributions to a fund from which we will therefore be entitled, if need be, to draw future benefits. Indeed, when he announced plans earlier this year for a new 'baby bond' he sounded remarkably like the Chief Executive of a High Street bank trying to drum up business with a new product.

V

A key question addressed in *The Cash Nexus* relates directly to this convergence of finance and politics: 'Is politics becoming just a special kind of business?' That implies a further question, with which I would like to conclude this lecture. Can political history be studied separately from financial history? The answer should, I feel sure, be no. Yet even as politics and economics have converged in the past century, so the disciplines of political and financial history have diverged. This is, no doubt, an inevitable consequence of the academic penchant for specialisation. But specialisation can be a vice as well as a virtue if it excessively narrows the scope of scholarly inquiry. I am firmly convinced that, like Humpty Dumpty, modern history needs to be put back together again. Those who study elections must think also about bond markets; those who specialise in warfare need also to understand exchange rates. The battle of Stalingrad is a thrilling subject, no doubt; but in order fully to appreciate its significance for the outcome of the Second World War, it may be necessary to look at the quotations of German bonds in Switzerland before and after it.[27] Certainly, it can only be by studying such connections between the financial and the political that we will be able to arrive at a true understanding of the power – so often exaggerated – of bankers. There is indeed a 'cash nexus' linking the realms of money and power but it is a much more tangled knot than Marx and his followers liked to think. If my work can do anything to convince people of that, and thereby to promote the reintegration of history as a discipline, then it will have achieved its chief goal.

Notes

1 *The World's Banker: A History of the House of Rothschild* (London, 1998)

2 David S. Landes, *Bankers and pashas: International finance and economic imperialism in Egypt* (London, 1958); Fritz Stern, *Gold and iron: Bismarck, Bleichröder and the building of the German Empire* (Harmondsworth, 1987)

3 Harold James, *The Reichsbank and Public Finance in Germany 1924-1933: A Study of the Politics of Economics during the Great Depression* (Frankfurt, 1985); Charles S. Maier, *Recasting Bourgeois Europe: Stabilisation in France, Germany and Italy in the Decade after World War I* (Princeton, 1975)

4 Count Corti, *The Rise of the House of Rothschild* (London, 1928); *The Reign of the House of Rothschild* (London, 1928); Bertrand Gille, *Histoire de la Maison Rothschild,* vol. I: Des origines à 1848 (Geneva, 1965); vol. II: 1848–70 (Geneva, 1967)

5 Karl Marx, *The Class Struggles in France, 1848-1850*

6 Karl Marx, *Capital*, vol. III, part 5, chapter 29

7 Karl Marx, *Capital*, vol. I, chapter 31

8 RAL, XI/109/62/1/2, Nat, Paris, to Lionel, London, undated, c. July 1847

9 RAL, T7/129, Charlotte, Paris, to Lionel, London, undated, c. Aug. 1847

10 *Daily Telegraph*, 25 October 2000

11 See my 'Metternich and the Rothschilds: "A Dance with Torches on Powder Kegs"?' in *Leo Baeck Yearbook* (forthcoming)

12 RAL, T12/57, Lionel, London, to Leo and Leonora, 25 March 1876

13 Siegmund Warburg papers, box 10, SGW note, 'Dinner with Harold Wilson on 5th December', 9 Dec. 1963

14 Siegmund Warburg papers, box 18, SGW to Michael Halls for Harold Wilson, 'Thinking aloud about the establishment of a closer link between British and foreign industrial companies', 14 March 1967

15 Siegmund Warburg papers, box 21, draft speech for Harold Wilson, 5 March 1968

16 RAL, XI/109J/J/31, James, Paris, to Nathan, London, Feb. 21, 1831. Cf. Feb. 22; Feb. 24; Feb. 25

17 RAL, XI/109J/J/31, James, Paris, to Nathan, London, Feb. 27, 1831. Cf. RAL, XI/10919/1/40, Lionel to his parents, Feb. 25; RAL, XI/109/20/1/3, same to same, March 1

18 RAL, XI/109J/J/31, James, Paris, to Nathan, London, March 9, 1831

19 The incident is discussed in *The World's Banker*, chapter 9

20 See chapter 20

21 See chapter 29

22 I owe this insight to my former student Edward Lipman

23 I.S. Bloch, *Is War Now Impossible?* being an abridgment of '*The War of the Future in its Technical, Economic and Political Relations*' (London, 1899), p. lx

24 Norman Angell, *The great illusion: A study of the relation of military power to national advantage* (London, 1913 edn.), p. 209

24 M. M. Warburg & Co., Hamburg, Max Warburg Papers, 'Jahresbericht 1914'; cf. Max M. Warburg, *Aus meinen Aufzeichnungen*, (printed privately), p. 29

25 See Youssef Cassis, *English City bankers, 1890–1914* (Cambridge/New York, 1994)

26 See Bruno S. Frey and Marcel Kucher, 'History as Reflected in Capital Markets: The Case of World War II', *Journal of Economic History*, (2000), 468-96

27 See Bruno S. Frey and Marcel Kucher, 'History as Reflected in Capital Markets: The Case of World War II', *Journal of Economic History*, (2000), 468-96