Family banking in an era of crisis: N.M. Rothschild & Sons and business in central and eastern Europe between the World Wars

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'Family banking in an era of crisis: N M Rothschild & Sons and business in central and eastern Europe between the World Wars'.

In focussing on the business conducted by N M Rothschild & Sons in central and eastern Europe, this article analyses how the same family-specific characteristics that had facilitated competitive advantages before 1914, exposed the house to dangerous pressures after 1918. The interwar years were critical as the family struggled to endure economic and financial turmoil and, especially, the ideological challenges of the 1930s. Nevertheless, the bank continued to support succession states such as Hungary - though the government became authoritarian and the economy subservient to the interests of Nazi Germany. The article examines how familial connections that spanned generations, humanitarian concerns and path dependency combined to influence business decisions and structure assessments of political risk.

I

Arguably, through history, the role of the family in the business of banking has been of signal importance.[1] Throughout the nineteenth century, private banks exploited the competitive advantages to be gained from kinship ties and family friendships: transactions were underpinned by trust and shared values built up as a result of long-established relationships.[2] Historians have begun to understand how significant such informal structures are in analysing the external relations of family businesses and their internal strategies.[3] However, given the dominant position of family-run private banks in the development of international finance, further research is needed on the nature of their strengths and the timing and causes of their decline.[4] In analysing the importance of the family in relation to these strengths and weaknesses, this article focuses on one firm that has survived - N M Rothschild & Sons.

When surveying the historical significance of banking families, no dynasty comes more readily to mind than that of the house of Rothschild: the London bank – N M Rothschild & Sons - continues to be successful in the marketplace. However, by

1918, several pressures seemed to foreshadow the demise of the business. In terms of the long-run survival of the bank, the interwar years were critical as the family struggled to endure economic and financial turmoil and, especially, the ideological challenges of the 1930s. Yet, apart from the historiography around the Credit-Anstalt crisis of 1931, little is known about the strategies adopted by the Rothschild family during these years. Niall Ferguson points out that the bond issues of the 1920s were among the most disastrous of modern times because of the years of crisis which followed. Certainly, the house of Rothschild was involved in lending to some of the most unstable regimes in the interwar years. According to Ferguson, 'This was the unintended consequence of a rather uncritical resumption of pre-war patterns of business activity'.[5]

However, in focussing on the underlying reasons and motivations for the business conducted by N M Rothschild & Sons in central and eastern Europe, the intention in this article is to argue that the patterns of pre-war lending were not resumed uncritically. It is the case that the same family-specific characteristics that had facilitated competitive advantages before 1914, exposed the London house to dangerous pressures after 1918. The bank enjoyed especially close relations with the Hungarian government and helped to secure League of Nations co-operation. But, with the onset of the financial crisis, optimism gave way to fears of economic collapse and political disorder. Nevertheless, the bank continued to support Hungary throughout the 1930s - even as the government became more authoritarian and the economy subservient to the interests of Nazi Germany. The article examines how path dependency, and familial connections that spanned generations, combined with strong humanitarian concerns to influence business decisions and structure assessments of political risk.

A recent study has theorised that a development, after 1918, of clusters of interlocking directorships among Britain's multinational business elite might have been a manifestation of an attempt to recapture commercial primacy in the face of the American challenge and global uncertainties. At the same time, it is acknowledged that among the social linkages that remain to be explored are marital and family ties or services performed by company directors on behalf of government.[6] Yet, family firms have frequently been held responsible for impeding modernization or even facilitating disasters. According to the 'Anglo-Saxon' model of capitalism, family control inhibits growth and innovation that comes with professional management and injections of external capital, whilst feuding may lead families to become periodically dysfunctional. Of particular relevance to a study of the Rothschilds in the interwar years is the theory that younger generations of a family need to discredit their forebears in order to see things differently and make necessary changes. In this respect, successful family firms are careful not to define their business as the business of origin.[7]

However, some historians have challenged such interpretations: James, for example, has shown how the family firm is uniquely placed to mobilise social as well as financial capital and how family dynasties may represent a depth of tradition that fosters resilience, commitment and ultimately powerful 'brands'.[8] Social group affiliations and relationships, involving cultural factors related to race, religion, ethnicity and family, have all been important sources of entrepreneurial information and resources. Family-firm strategies may well be determined, therefore, by the environment in which the business operates.[9] As a recent study points out, in the world of private banking, religion has formed an integral part – possibly more so than in any other economic activity. In the case of Jewish private bankers, financial success was partly attributable to the nature of their networks – rather than a question of religiosity, loyalty to Judaism was more a 'clannish attitude'.[10] For the Rothschilds, Judaism certainly formed an important part of an extended family identity and the business environment. At the same time, it is also claimed that research on ethnically-based influences on the business behaviour of a family dynasty is still in its infancy; as applying existing models of behaviour is problematic, the impact of such cultural differences may be overlooked.[11]

There is little doubt that the succession states of the Austro-Hungarian Empire faced formidable challenges after the First World War. These included the break-up of internal markets and established communication channels, over-dependency on inefficient agricultural sectors, and multiple tensions over the question of national minorities. With little in the way of domestic capital accumulation or foreign-exchange resources, the economies of the states concerned looked to import capital. But the war also ruptured established financial relationships; ineluctably, the importance of London, Paris and New York as financial centres grew as that of Vienna declined.[12]

While little was done at the inter-governmental level to support stabilisation, a number of 'elite' sub-state actors were involved in attempts to promote financial and economic reconstruction in Europe. Among these could be counted, for example, the financial experts acting under the auspices of the League of Nations.[13] Likewise, historians have focussed on the role of Montagu Norman, Governor of the Bank of England.[14] By way of contrast with the rather controversial figure he became in the 1930s, Norman's financial diplomacy in the years after the First World War has recently been portrayed as a dynamic, resourceful and passionate.[15] Norman first became involved in east European affairs in April 1920; thereafter, with inflationary pressures mounting and economic collapse in prospect, he was active in attempts from 1921 to put together stabilisation loans for Austria, Czechoslovakia and Hungary. Philip Cottrell has convincingly argued that Norman's cosmopolitan and internationalist background allowed him to develop a vision of central banking, even if the realisation of such ambitions was to be partially frustrated by domestic political constraints and nationalist rivalries in Europe. Yet, Cottrell also points out that the goals of Norman, and the cadre of experts surrounding him, included re-establishing the City as the paramount centre for the world's financial and economic systems.[16]

This vision depended, therefore, on a network of financial interests that was wider than just those related to central banking. Until the First World War, private banks – especially Jewish ones - had been the pre-eminent influence on financial markets. In the interwar years, although joint-stock banks assumed a dominant position in the national markets of Europe's industrialised countries, private banks retained a privileged position in penetrating the markets of less-developed countries. [17] Indeed, given some of the difficulties involved in participating in share issues at home, London's merchant banks looked to retain their international orientation as far as they possibly could.[18]

In this context, N M Rothschild & Sons was to play a key role in attempting to promote financial and economic reconstruction in central and eastern Europe. The managing partners in the bank were Anthony de Rothschild and his brother Lionel de Rothschild; of the two, Anthony was more heavily involved in the business. Conducting international business during the interwar years involved the well-established methods of informal intelligence-gathering based on a network of houses connected to the London Rothschilds (such as Warburgs, Schroders, Barings and the Rothschild banks in Vienna and Paris), and behind-the-scenes diplomacy as attempts were made to construct international syndicates. The London banks usually all participated, to a greater or lesser extent, in the various issues and in other business ventures. As for the Rothschild houses, while the cousins based in London, Paris and Vienna were linked by commonly-held financial interests, they appear to have involved themselves in each other's new business only to a very limited extent.

It is curious, therefore, that relatively little is known about how City houses responded to the challenges that arose in the chaotic aftermath of the war. One study, by Ann Orde, looked at the involvement of Baring Brothers in the issue of the Czechoslovakian State Loan of 1922. On this basis, Orde concluded that, while the British authorities gave some consideration to British interests in the region in general, the vision of bankers was limited simply to looking for stability when making investment decisions.[19] Furthermore, Derek Aldcroft has questioned just how responsible creditors were in their lending, when conditions began to improve from the mid 1920s, given that persistent structural problems made the servicing of external debt an ever-increasing burden.[20] Altogether, it can hardly be said that bankers are portrayed in a flattering light in the relevant historiography.

II

It is evident that from the first months of peace the representatives of the succession states looked as much to the City, and the renewal of pre-war business and financial relations, as they did to the British government for political support. In early December 1919, Edouard Benes, the Czechoslovakian prime minister, visited London; his purpose was to try to raise a loan. He made two visits to New Court – the premises of N M Rothschild & Sons in the City. Benes claimed that the British Government had told him that they were unable to help; but, apparently, they regarded his proposal very favourably and were prepared to say as much to any private bank that asked about it. The Czech politician astutely played on sensitivities over the impact of the war on the City's pre-eminence in international finance: he informed the Rothschilds that the British government was anxious that the business should be done in London. Société Générale in Paris had already formed a syndicate of French banks and had made an agreement with a Czech bank syndicate and the Czech government.[21]

When he visited Barings the following day, Anthony de Rothschild lost no time in bringing the potential business to the attention Lord Revelstoke. However, the desire to capture new business was tempered by the uncertainties surrounding the emergence of new political and economic structures in central and eastern Europe. Revelstoke agreed with Anthony that whilst the time was not opportune for an advance, they would have to make a start at some point. In the bewildering circumstances of the post-war world, bankers relied more than ever on trusted personal contacts – particularly those in official or semi-official positions - for guidance in assessing country-based risk. Lord Revelstoke pointed out that he was soon going to visit his friend, Sir George Clark, the British minister in Prague. This provided a good opportunity to find out what Clark's opinion was of the stability and integrity of the Czechoslovakian government. It also allowed New Court, in the meantime, to find out whether the British government was really favourably disposed towards the Czechoslovakian proposals. The security for the loan depended on sugar exports. If the arrival of the sugar could have been guaranteed, Barings would have happily joined with New Court on a small scale. The same undoubtedly applied to Schroders. But, as Frank Tiarks, the leading partner, reminded the

Rothschilds, in the absence of other collateral the three houses were not able to do anything until the sugar was actually out of the ground.[22]

Assessments of how well endowed the succession states were with natural and other resources helped to determine, in general, the attitude taken by the City towards loans to the whole region. Anthony visited the Foreign Office in order to affirm that the bank would act entirely in conformity with the policy of the government. The problem was that there was no clear and settled policy. Attitudes to the defeated powers were, understandably, hostile. Led by the so-called New Europe group around Seton-Watson, there was a special loathing of the Magyars. To set against this, more objective minds in the Foreign Office realised that without an economically stable Austro-Hungary, Bolshevism was likely to spread. British policy was also predicated on the assumption that the Danubian states would, of necessity, have to develop some form of economic reintegration and that this would override fissiparous nationalist tendencies. Equally, it was highly undesirable that the door should be left wide open for the French or even the Italians to become the dominant commercial power. But beyond this, the British government seemed uncertain over whether any vital British interests were involved in the region at all and, from the mid-1920s, Britain began step by step to disengage diplomatically from the affairs of central and eastern Europe. Against the advice of Sir George Clark, the harsh conditions of the Treaty of Trianon were imposed on Hungary. The consequences included irredentism, economic weakness, and national humiliation. Worse still, in the aftermath of the Financial Crisis in 1931, authoritarian traditions were to give rise to a new form of nationalist dictatorship.[23]

After the First World War, the British Treasury, rather than Foreign Office, exercised the greatest influence in determining policy over matters of international finance and, in eyes of the former, Benes had clearly overstated his case. The Treasury was anything but ebullient over the condition of the Czechoslovakian economy. Shortly before Christmas 1919, a Treasury official called at New Court and informed Anthony de Rothschild that the government was not prepared to give any guarantees. Czechoslovakia already owed Britain a considerable amount of money; repayment based on coal exports to Austria had been promised, but a shortage of trucks had prevented deliveries. The Treasury held the depressing view that if Czechoslovakia had any assets to offer, it would have already offered them to Britain in settlement of debts. As the Foreign Office noted in correspondence with New Court at the beginning of 1920, for as long as the Treasury maintained an unfavourable attitude towards such proposals, no official encouragement could be given.[24]

Nevertheless, there was a nexus of interests that bound together the City and the British authorities. Perhaps for that reason, the bankers were undeterred from exploring other schemes. In the spring of 1920, it was the turn of a delegation of Viennese businessmen to visit the City. At 12, Tokenhouse Yard, the offices of Frederick Huth & Co., they met Sir Thomas Cuninghame, the British military representative in Vienna, and Sir William Beveridge, the prominent civil servant, both of whom had recently returned from Austria. There was general agreement that the conditions in Austria, though bad, were not hopeless. The sense of the meeting at Huths was that the key to improvement lay in re-establishing relations between Austria and the succession states. A large-scale trading organisation, to be set up simultaneously in Vienna and Prague, was proposed.[25]

The London Rothschilds, along with Frederick Goodenough, chairman of Barclays Bank, were involved in drawing up this scheme. Humanitarian concerns over the general level of economic distress and the impoverished condition of much of the population weighed heavily. Writing to Baron Louis Rothschild, his cousin in Vienna, Anthony expressed the hope that trade with Britain would be facilitated and, thereby, the first step would be taken towards alleviating the unfortunate condition of Vienna and Austria. Although the initiative would have to come from central Europe, Anthony was,

> 'quite sure that there is much goodwill here and that there are many Bankers and Merchants in England who would gladly render assistance if they were satisfied that it would ultimately be for the general benefit of all concerned'.[26]

In pursuit of these objectives, Huths advised New Court, at the end of March 1920, that a company had been formed – the Anglo-Danubian Association. N M Rothschild & Sons were allocated shares as part of a syndicate of City houses. A precedent had been set a few months earlier when British interests had bought up a controlling share of various shipping companies on the Danube to form the British River Syndicate Ltd. The British navy controlled the Danube and this provided an opportunity to project commercial interests as a counter to French political influence and control of railways.[27]

Colonel George Schuster was appointed to conduct an investigation into the economic prospects of the region. The syndicate was also looking for reliable information on the various local firms that were anxious to deal with the City. Schuster set off, therefore, bearing letters of introduction from the London Rothschilds to their cousins in both Paris and Vienna. They were asked to provide Schuster with reliable information on the character of the relevant firms and especially whether they were trustworthy and credit-worthy.[28]

Schuster reported in July 1920 on the general economic conditions. He recognised that all the political dangers provided arguments against locking up large sums in central Europe. To set against this, the existence of such dangers in itself argued strongly in favour of taking any preventative action which was possible. However, the report concluded, it was not reasonable to expect a private group to take the risks; what was needed was some form of under-writing by government. Schuster believed that the best hope lay in the intervention of a group like the Anglo-Danubian, as opposed to the activities of what he took to be bargain hunters and speculators on the one hand, and political-commercial groups – such as the French one – on the other.[29]

Very little came of these aspirations. A small company was formed in August 1920 to take over the activities of the Anglo-Danubian and to act as agents and security-holders for those interested. While N M Rothschild & Sons remained willing to examine any business that was proposed, they took the view that prevailing political conditions made it unlikely that they would be anything other than passive shareholders in the new company.

Indeed, the problems besetting the former territories of the Austro-Hungarian Empire were multiple and inter-related. The new national economies could not be constructed without external financial support. But, for as long as the region remained utterly depressed and politically unstable, private bankers in London, Paris and New York found it difficult to see how the capital markets would ever gain the confidence to invest. Furthermore, the Allied Powers were beginning to learn how the imposition of reparations made attempts at economic reconstruction vastly more difficult and thereby reduced the chances that any initiatives would be successful. Little progress could be made without the intervention of some form of agency at national or international level. This was the outlook when Sir Ernest Harvey, Deputy Governor of the Bank of England, called at New Court in September 1920. Harvey had recently served as financial adviser to the Reparations Commission in Vienna; he was trying to develop a scheme for a central bank in Vienna that would have international shareholders and certain guarantees from the Commission. But New Court believed that it would be difficult to go forward with a public subscription before an economic recovery had taken place.[30] At the beginning of November 1921, Anthony recorded that Lionel and he called at Barings for a friendly conversation over the question of examining Czechoslovakian finance.[31] This led, eventually, to the issuing of the Czech State Loan of 1922.

This brought forward the question of whether it would be possible to raise a similar loan for Austria. In May 1922, N M Rothschild & Sons, Barings and Schroders, in conjunction with Morgan, Grenfell – acting on behalf of JP Morgan – made an initial, but unsuccessful, attempt to find a basis on which a loan might be made to the Austrian government. However, the consortium told the minister at the Austrian legation in London that they were deeply impressed with the importance to Austria of such an operation and that, so desirous were they of being of some service, they accepted the invitation to send a representative to Vienna. This task was undertaken by Young, of the Anglo-Őesterreichische Bank, during June 1922. A few signs of political stabilisation were emerging with the formation of a new government. Yet, what clearly impressed Young the most was the ‘crisis of despair’. Reporting from the Austrian *Bundeskanzlei*, he declared that the position was very grave indeed, and one which required the intervention of Allied governments. He hoped that some combination could be found to avert the serious political consequences which would follow any break-up of Austria.[32]

The next month, the Governor of the Bank of England was informed of the group’s decision not to proceed. Nothing more could be done until, following the Geneva Protocols, a League of Nations scheme was proposed in October 1922. But the bankers were still kept waiting on the politicians. On 15 December, Grenfell rang New Court to say that he had just lunched with the Governor; the latter passed on the information that nothing could be done until other countries had given the necessary authorisation for the guarantees. Nor had anything been settled over which banks should undertake the issue of the proposed loan.[33]

Consequently, partners from the same group of City banks assembled at the Bank of England in January 1923 to reconsider the League plan for Austria. Also present at the meeting were Sir Otto Niemeyer, representing the Treasury, and Sir Henry Strakosch, Deputy Governor. Yet, the City was conscious that an international loan required some support, at least, in New York if the issue was to have any chance of being a successful one. But in the eyes of American investors the Austrian proposals were contingent on developments in the situation of Germany. JP Morgan telegraphed from New York to confirm that the general feeling was one of very great discouragement over the position of central Europe. It was quite simply futile to discuss the possibility of an Austrian issue with the distributing houses.[34]

But, curiously, JP Morgan were simply reiterating what the Bank of England had already told Thomas Lamont, the leading partner in the American firm, when he had visited London in May 1922. It had been Lamont, at the behest of the Austrian authorities, who had initiated discussions over the idea of a loan. But the Bank had carefully explained that, even with the best will in the world, American participation would not be possible given the condition of the Ruhr – occupied by France - and central Europe.

Lamont, according to Henry Davidson, a fellow partner, was quite clear about the reasons for a difference in outlook between the London banks and those in New York: in the case of the former, almost all had long-standing and valuable connections in Vienna and Austria which it was wise for them to conserve and protect. Moreover, Lamont acknowledged, London had the leadership of the Bank of England whereas the Federal Reserve Bank was unable by law even to take an interest in such matters. In the words of Davidson, 'the appeal to the New York banking fraternity generally had to be made almost solely on humanitarian grounds.'[35] It seems very unlikely, however, that appeals to American investors to show generosity of spirit would have achieved very much unless, at the same time, a healthy rate of return on capital could also be guaranteed.

III

As attempts to act in support of Austria stalled so, in the course of 1922-23, attention began to focus on Hungary's need for financial support. As with Austria, Norman attached the highest importance to achieving reconstruction and stabilisation. But Budapest remained deeply hostile to the territorial settlement that the peace had imposed and, furthermore, any loan proposal had to take the question of reparations into consideration. N M Rothschild & Sons had been responsible for issuing, in 1914, the last Hungarian loan. New Court was approached in March 1923 by a London-based business agency with contacts in Hungary with a request to consider a new loan. Large British engineering firms, such as Vickers, were apparently declining business as payment in sterling could not be obtained in reasonable time. Although initially cautious, in a matter of weeks Anthony had handed Sir William Goode, financial adviser to the Hungarian government, a proposal to be taken to the authorities in Budapest.[36] But with the political and economic crisis in Germany continuing, and American sentiments unchanged, no headway could be made over Hungary either.

On 14 March 1924, a further set of protocols was signed at Geneva, this time for the financial reconstruction of Hungary. Hopes were raised that an international loan consortium could be put together. New Court's associates in the US were Kuhn, Loeb & Co. This bank, second only in size to J.P. Morgan, was highly influential as an intermediary in such international issues.[37] But in May 1924, Kuhn, Loeb confirmed that they agreed with JP Morgan: in the absence of governmental guarantees and the disinclination of the American public, the prospects for a loan were not favourable. The only possibility to enlist American co-operation was to base an appeal on 'grounds of needed helpfulness' and combine the efforts of the leading US houses. Yet even then, Kuhn, Loeb told New Court, the investment climate was so much more favourable in the US than in central Europe that it represented an 'immovable element' in the way of a new loan – however regrettable that was from the point of view of America's own interest and the economic equilibrium of the world.[38] Ironically, what appeared to be immovable in terms of the international outlook was very soon thereafter swept away when the Dawes Plan allowed a flood of American credits to enter the German market. Furthermore, as the onset of Depression was to reveal, the unstable nature of such lending helped to undermine yet further the economic equilibrium of the global system.

On 14 June 1924, the Council of the League adopted a resolution notifying the Reparations Committee that it undertook the responsibility of completing the Hungarian reconstruction plan contained in the Geneva Protocols. Two days later, the Governor wrote formally to Anthony in order to pass on confirmation from Niemeyer – in Geneva – that this made definite the release of Hungarian assets from Reparations liens. The way was now open to raise a loan. But, without support from across the Atlantic, placing such a loan was always going to be an uphill struggle. The issue stood at risk of turning into a flop. Unlike the Czechoslovakian State Loan, the Hungarian scheme carried no governmental guarantees. In the event, the market –

mostly through N M Rothschild & Sons, Barings and Schroders - took up just under £8 million when the issue was floated in July 1924.[39]

Although the purpose of the loan was to enable the Hungarian government to balance its budget, it seems that the cause of stabilisation was hardly advanced. One historian is struck by the discrepancy between the positive short-term accomplishment of sound money and the lack of progress achieved in the region's economy. The greater part of the loan was used on the due amortisation instalments of old debts, the bureaucracy and non-productive building projects. The loan was 'political' in the sense that it bolstered the prestige of the regime. It also encouraged a dependency culture of relying on external financial support.[40] By 1928, new foreign lending was insufficient to cover the annual repayment of Hungarian debt.[41]

The second half of the 1920s was, of course, a period of optimism in international affairs and foreign lending took place on a scale that appeared, in retrospect, to be reckless. But the First World War had brought a succession of shattering and bewildering events which were without precedent and many in the City, as elsewhere, desperately wanted to see a return to something like the conditions that had prevailed in 1914. N M Rothschild & Sons, however, does not appear to have been anything other than conservative and orthodox in its approach. Corresponding at the end of 1924 with Paul Warburg, who was then based in New York, Anthony described how the British authorities were seeking to encourage the appreciation of sterling to a level where it got back to the point of its gold value. He understood Bank of England and Treasury policy to be one of dissuading all reputable firms in the City from making public issues to raise money for use in foreign countries. Naturally, there was a certain amount of impatience with this policy. But it didn't apply to commercial credits. Anthony commented that the City was doing a considerable amount of this type of business with the continent – especially with Germany – although 'with competition from your side the rates of commission are no longer so tempting'.[42]

While reports reaching New Court of Austria's continuing difficulties made depressing reading, the news from Hungary appeared in contrast to be very satisfactory. For one member of the Rothschild family in Britain - Rozsika von Wertheimstein – any positive news from Hungary was something to be exploited. Rozsika was part of the preceding generation of family bankers and, in this sense, was an embodiment of the 'long view'. A wealthy Hungarian baroness with Jewish ancestry, she had married Charles Rothschild, a partner in the bank, in 1907. She took an active interest in international politics. As the London Rothschilds moved closer during the First World War towards supporting Zionism, she became an enthusiast for the cause.[43] Tragically, in 1923, when he was aged 46, Charles committed suicide. Rozsika represented a link, therefore, to the period before the First World War – an era which was looked back upon as a golden age for merchant banking in general and for the house of Rothschild in particular.

Writing to New Court, in late 1926, from her home in Tring, Rozsika deftly but powerfully defended Hungary and Hungarians against their British-based detractors. It was a painful irony that newspaper articles on Hungary were written from Vienna and influenced by a large émigré community - mostly brilliant young Jews - who were connected in some way or the other with the previous two regimes. Rozsika realised that compared to English standards there was not as much political freedom under the government led by Count Bethlen, the Prime Minister, as one would have wished. Yet, for a country that had gone through a revolution, a Bolshevik regime, a counter-revolution, occupation by Rumania, and a White Terror - not to speak of a lost war - she found it astonishing how improved economic conditions were in Hungary given these ideological upheavals. Rozsika maintained that the dividing line in Hungary between Socialism and Bolshevism was not as clearly defined as it was in Britain and that to fear the spectre of communism was, therefore, hardly nonsensical. At the same time, she dismissed the supposed tyranny of the right: 'It is worse than absurd to speak of a war like regime with an army of 35,000 men!' [44]

Nothing suggests that the two Rothschild brothers felt able to resist the emotional pull of family traditions, even if they had wanted to remain entirely objective in their assessments of where sound business opportunities lay. In this respect, it may be instructive to consider what studies of family businesses with different culturally-specific characteristics have revealed about patterns of behaviour. In Asian family businesses, for example, decision-making that may determine long-term strategy is influenced by not only by members of the family who are actively involved, but also by those who are not – such as leading female members.[45] Anthony and Lionel clearly understood the significance of the historical connection between the Rothschilds and central Europe. This was, after all, why New Court had been approached first with a proposal for a new loan to Hungary. For reasons of tradition, and because of long-standing connections and familial influence, New Court remained supportive of the new Hungarian state. Yet, at the same time, this did not mean that the business looked to be anything other than promising. The bank acted as principal agent for the 1926 Counties of Hungary bond issue which raised £2.25 million. In the second half of the decade N M Rothschild & Sons was involved in various schemes to raise finance for the development of Hungary's industrial infrastructure, particularly activity related to the electrification of the railways. This was also of considerable interest to British manufacturers of power-generation equipment, such as Metropolitan-Vickers.

At the beginning of the following decade, protracted and delicate negotiations commenced over a proposed long-term Hungarian State Loan; N M Rothschild & Sons, as with the League issue of 1924, took the lead. But the timing of the proposal was hardly propitious and negotiations became mired in difficulties. While the London authorities were sympathetic to the idea of extending support to Hungary, the Bank of England gave priority to the marketing of the Young bonds. At the same time, the delay in ratifying the Hague Agreement threw up legal complications which were only resolved when the Hungarians were granted dispensation by the Paris-based Reparations Commission. Furthermore, with the effects of the Depression hitting commodity prices, conditions in Hungary deteriorated sharply. As a result, a loan was finally floated towards the end of 1930, but in a much reduced form.

Nonetheless, it allowed City bankers to claim that it was the prelude to a more ambitious programme that would be of material assistance in the stabilisation of Europe. Furthermore, there was satisfaction that the leadership of the international group had been entrusted to London.[46] The links between New Court and Hungary were strengthened further when, at the request of Rozsika and the Hungarian government, Anthony agreed to be appointed as Honorary Consul General in London.[47]

In March 1931, consideration was given to the idea of another international loan. Samuel Stephany, manager of N M Rothschild & Sons, visited Speyer and Company, in New York, and informed London that this American bank believed the bond market was sufficiently improved to make a new Hungarian loan possible. An issue totalling a sum of up to $30 million was thought possible, particularly if Paris could be persuaded to participate as this would have helped to create a favourable investment climate on both sides of the Atlantic. At the request of H.A. Siepmann, at the Bank of England, and at the invitation of the Hungarian Government, Per Jacobsen, from the newly-established Bank for International Settlements, visited Budapest in March and April 1931 to investigate the budget position. Jacobsen was accompanied by Charles Gunston, a Bank of England official. The subsequent report attached great importance to the ability of Hungary to dispose of sufficient funds for investment. As Count Bethlen, in Budapest, pointed out to New Court on 9th May, an early and satisfactory settlement of a new loan, already pending for several years, was especially necessary in times of economic difficulties.[48]

IV

But such optimism must have suddenly seemed to be greatly misplaced: it was precisely at this point that the extent of the losses of the Credit-Anstalt in Vienna, the most important bank in central Europe, was announced to the public. With a loss of investor confidence spreading like a contagion, the rapid and shocking onset of the financial crisis revealed the fragility of the international system. All hopes of reconstruction in Europe gave way to the fear of economic collapse and political disorder. The Credit-Anstalt had been founded in the mid-nineteenth century by the Rothschilds, and the family had remained closely associated with the bank. Any failure of this institution would have represented, therefore, the biggest possible risk to Rothschild investments collectively and to the reputation of the family name. If the ties linking the Rothschild houses in London, Paris and Vienna became looser after the First World War, the Credit-Anstalt crisis strained relations between the cousins to the point of rupture. The events of the summer of 1931 heralded the beginning of the years of crisis – a time of acute anxiety for those who were running N M Rothschild & Sons.[49]

In June 1931, Anthony travelled to Paris to meet his cousins, Edouard, Robert and James, at de Rothschild Frères, in Rue Laffitte. The Paris house was eager, perhaps too eager, to stress that discussions over a rescue plan were based merely on a hypothetical case and that there was absolutely no question of putting any such plan into operation. As they put it in a letter to Lionel de Rothschild, in sole charge at New Court, 'We only wanted to know whether, and how, in case of emergency, we might directly, or rather indirectly, be momentarily helped out'.[50]

After he left Paris, Anthony went back over New Court's records to conduct a post-mortem on the bad business - though the Credit-Anstalt was supported rather than wound up. The London house had expressed its uneasiness to Vienna when, in 1929, the Boden Credit Anstalt had been absorbed by the Credit-Anstalt. Anthony blamed himself for not persisting at the time with his questioning of this take-over. But he had no doubt that the source of their troubles lay in the behaviour of their cousin, Louis, in Vienna. New Court had received reassuring statements and explanations which it felt obliged to accept as satisfactory. Anthony did not conceal from his Paris cousins his extreme frustration over how he had been treated. As late as October 1930, Louis had been reassuring the family that he was completely satisfied with the position of the Credit-Anstalt: the bank was becoming more liquid and the absorption of the Boden Credit Anstalt was proceeding more rapidly and successfully than could have been expected. Reflecting on the sorry episode, Anthony considered that 'The only charitable explanation is that all parties concerned deluded themselves with a facile optimism'.[51]

If anything, Anthony's bemusement increased when he travelled to Vienna and, in accordance with the wishes of his cousins in Paris, devoted himself entirely to arranging with Louis the conditions of the advance that was being made to the Viennese house and to the task of preventing Louis from giving way to depression. Anthony told his Paris cousins that he was much impressed with the extraordinary mentality which existed: 'It seems never to have occurred to Louis that he ought to have kept London and Paris fully informed.' On the contrary, Louis had thought it best not be in close touch in order not to implicate the other Rothschild houses. Even at this point, no explanation of the Credit-Anstalt troubles was forthcoming; rather, Louis appeared to suggest that they were the result of world conditions and to have accepted the crisis as something inevitable. As for the losses suffered by the Viennese house, these were thought to amount to no less than £9.75 million - incurred, it seemed likely, over a period longer than just the preceding few weeks. Baron Louis and his two brothers considered themselves ruined. Anthony demurred from this assessment. At the same time, he did not believe that the cousins in Vienna appreciated the extent of the sacrifices which they were calling on the rest of the family to make. This was exemplified by a request by Louis for a £250,000 credit for the Witkowitz iron and steel works. Anthony remarked, somewhat bitterly, that one would have thought that every effort would have been made to avoid the necessity for this in view of everything that had happened.[52]

As the loss of confidence among international investors spread to London, correspondence between New Court and Rue Laffitte also provides a rare insight into the traumatic effects of the Financial Crisis on the City's banking community. The panic-induced capital flight that took place in the summer weeks of 1931 brought several City banking houses to the edge of collapse. It seems likely that New Court was not so badly hit as some institutions.[53] Nevertheless, shortly before Britain left the Gold Standard, Anthony informed Paris that a large proportion of the foreign balances which had been held by N M Rothschild & Sons at call or at short notice had been taken away. Nearly every other institution in London was in the same position. Anthony could not say what remained in London in the shape of time deposits and it was too soon to know whether any foreign money would remain as a result of the formation of the National Government.[54]

On 23 June 1931, Bethlen pleaded with Goode to persuade the British and Americans not to withdraw their short-term credits from Hungary.[55] Lending to Germany - if on a much larger scale - and to Austria gave rise to the same urgent need, with the result that the international credits extended to those countries were maintained under the so-called Standstill Agreements. On behalf of the League of Nation's Financial Committee, Niemeyer urged the bankers to support the same arrangements for Hungary; the alternative, he warned, was a complete transfer moratorium. Budapest was hard put to make interest payments and, in Niemeyer's view, it was a chimera to suppose that any maturing capital sums could be repaid for many months to come, even with the greatest conceivable improvement in the trade balance.[56] An Hungarian Committee was formed, as a sub-committee of the British Short Term Creditors Committee, with representation from N M Rothschild & Sons, Lloyds, the British Overseas Bank, and Kleinworts. With total acceptances amounting to some £135,000 and a total of £80,000 committed to loans and advances, New Court's commitments in this respect were not especially problematic. But, as N M Rothschild & Sons acted as the financial agent of the Hungarian government, it was natural that Anthony should become chairman of the sub-committee of short-term creditors. Unfortunately, this was to place him in the eye of furious transatlantic storm that blew up at the beginning of 1932.

There were several factors that complicated negotiations over Hungary's short-term credits and, in contrast to the discussions that led to the other Standstill Agreements, quickly created an acrimonious atmosphere. A consortium of British, European and American banks had issued tranches of Hungarian Treasury bills in November 1930. Just as these were about to mature at the end of November 1931, the Hungarian government despatched Baron Koranyi, the Finance Minister, to London to inform New Court that Budapest was about to announce a transfer moratorium. The bankers were effectively presented with a forced renewal of the bills.[57]

In these circumstances, the bankers in London refused to begin negotiations for a Standstill. On hearing this, an incensed Niemeyer told the bankers that their attitude was injudicious. But the American bankers completely sympathised with their British counterparts. Goodhue, of the International Acceptance Bank in New York, insisted that the League should recognise its moral responsibility to Hungary in order to control the country's fiscal affairs and to protect international banking interests. America would then, Goodhue thought, be willing to participate in the Standstill negotiations.

Niemeyer reacted furiously. He asked Anthony whether he could disabuse Goodhue of his extremely ignorant notions. Apart from one or two technical matters, the responsibility - moral or otherwise - of the League for Hungary had ceased with decontrol in 1927. At the same time, Niemeyer declared that nobody took a more emphatic view of the moral responsibilities of the League than he did, though he did not always find that the same views were held in London banking circles. Niemeyer rejected the idea that the League should represent Hungary's creditors, especially as they had continued to lend money after Jeremiah Smith's warning in 1927 that Hungary should not borrow too much abroad. In turn, the American banks blamed Niemeyer. In their view, the system of exchange controls and priorities which had been set up in Hungary with the co-operation of Niemeyer and the League's Finance Committee had brought about the virtual paralysis of Hungarian foreign trade and the drying up of the sources of foreign exchange.[58]

The divisions between bankers and the financial authorities in London and Geneva widened still further in February 1932. At issue was the question of discrimination between the different classes of loans. It was clear that the service of the League Loan of 1924 and of the American Relief Bonds took priority. But the Hungarian Treasury bondholders suddenly learnt that the service of the $20.8 million loan granted by the Bank of International Settlements to the National Bank of Hungary, at an interest rate of 8 per cent, would also receive priority. The Hungarian Treasury bondholders saw no reason why they, as private bankers, should agree to wait for their interest to be paid if the BIS adhered to such a policy of discrimination.

But Goode pleaded with the London bankers, if on no other grounds than in the bigger interests of world recovery, to show the lead that was just then so badly needed. If Hungary was a relatively small link in the chain of international credit, it was a link nonetheless. Goode, in common with many in the western democracies, believed that nothing less than the ideological basis of an entire way of life was at stake. He wrote: 'The survival of capitalism must in a great degree depend on the continuity of credit and the recovery of purchasing power.'[59] The British committee finally signed a Standstill Agreement on 14th March 1932. But no agreement was reached with any of the other foreign creditors. In practice, the policy of discriminating between types of lending came to nothing as there was insufficient foreign exchange in Hungary to meet even the monthly requirements of the League loan.[60]

The effect of the Great Depression and Financial Crisis on Hungary was severe. Moreover, the evolving character of the commitment by N M Rothschild & Sons to support Hungary bears witness to the close association between the adverse consequences of the financial crisis and the rise of political extremism and fascism in Europe in the 1930s. Just before Britain suspended the gold standard in September 1931, Sir William Goode predicted that as a result of the crisis, central and eastern Europe would be plunged into chaos. He warned Ramsay MacDonald, the British Prime Minister: 'Perhaps I am over-pessimistic as to the imminence of European collapse, but my knowledge of financial conditions there impels me to warn you most seriously of the danger that exists - as great as that in 1920 when I reported to the Cabinet as Director of Relief in Europe.' Without the operation of a scheme similar to the one that helped to relieve the suffering in the aftermath of the First World War, Goode couldn't see how social order was to be maintained across Europe.[61]

Confirmation that Hungary was on the point of collapse came from Baron Koranyi, the Finance Minister, at the end of May 1932. He compared the country's position to that which had prevailed in the 15th century when Europe had been beset with rivalries and had allowed the Turks to invade and ruin the Danubian countries for centuries. Koranyi declared that the Great Powers had to 'understand that if a political and economic plague kills us here, the same epidemy will ruin them too'.[62]

Though Hungary did not collapse in any formal sense, the country's political institutions were fatally undermined and the government became progressively more authoritarian. The reports reaching New Court must have made depressing reading. One banker, after a visit to Hungary in late 1933, noted that, contrary to expectations, General Gőmbős, the new Prime Minister, had not quite turned out to be a dictator. On the other hand, his methods of establishing a very firm government were hardly democratic: the visiting banker noted that Gőmbős seemed to get on very well by more or less 'eliminating parliamentary interference'.[63] It was difficult for western bankers to see behind the scenes of the small, aristocratic clique that had traditionally governed Hungary. But, by the mid-1930s, there was no doubt that the regime established by Gőmbős, who belonged to Regent Horthy's inner circle of friends, had become fascist and anti-semitic in character. As one observer put it, the regime was more or less a dictatorship dependent on the army and high aristocracy. To make matters worse, especially for the Rothschilds, Gőmbős was thought by all to be pro-German.[64] After his death in 1936, Hungary was drawn ever closer into Germany's economic orbit.[65]

V

In many respects, as Youssef Cassis comprehensively demonstrates, during the interwar years London still had some claim to be the world's leading financial centre. Similarly, change in the City's institutional structures was anything but radical. Although the merchant banks were forced to share the acceptance market with the big banks, they were still able to mobilise the advantages they enjoyed over their bigger rivals in the London market for foreign issues. In general, these advantages included an highly-developed network of political and business relationships both at home and abroad, and expertise in dealing with complex questions of international finance - one of the legacies of the First World War.[66] The bewildering conditions in the years following the First World War, confronted all banking businesses with a challenging climate of highly increased uncertainty and political risk.

In this respect, the evidence suggests that the role of City houses in attempting to reconstruct central and eastern Europe – and particularly the role of the London Rothschilds – has been somewhat obscured and the motivation of bankers misinterpreted. The primary purpose of financial institutions is, naturally enough, to make money. But it is hardly correct to assume that bankers were in no sense mindful of wider responsibilities, nor that they would have preferred to turn away from the grave difficulties confronting the birth of the new Europe.

In the case of the Rothschilds, familial affiliations and traditions were especially important influences in determining where responsibilities lay and how entrepreneurial decisions were measured against political risk. At the same time, the decisions N M Rothschild & Sons took over business in central and eastern Europe were not simply the product of path dependency: the house was well informed about political and economic developments and took such considerations into account when evaluating the relevant risks. In November 1926, one of the younger, but upcoming, members of the Warburg family - Siegmund - wrote to Lionel and Anthony to thank them for his recent stay in London:

> ‘I learnt something also which will be far more important to me in my future life. This is the fine tradition of New Court which combines business with humanity, without neglecting either.’[67]

But, if there was a degree of continuity in banking practices and structures before and after the First World War, the environment in which international banking operated was to change fundamentally after 1929. The nature of such change - brought about by economic crisis and political extremism - could scarcely have been predicted or even imagined in 1918-19. With the onset of the Depression, business in central and eastern Europe was to come at a considerable cost; for the London Rothschilds, maintaining commitments in Hungary resulted in costs that were to be measured in personal as well as in financial terms. The Standstill Agreement between the London creditors and the Hungarian debtors was renewed annually in the course of the 1930s; likewise, the Hungarian Treasury Bills were periodically renewed by the bondholders. As foreign transfers were stopped, the creditors were forced to accept payment via blocked, pengő accounts which were of virtually no value.

The hopes for political and economic reconstruction, which had been entertained in the City before the Financial Crisis, faded rapidly as the international political situation deteriorated with the rise of the European dictatorships. N M Rothschild & Sons appears to have conducted very little, if any, new business with Hungary. In discussing the Hungarian Standstill with Anthony de Rothschild, Montagu Norman revealed the extent of his disappointment. The Governor was very disturbed by how Hungary was becoming pro-German and pro-Italian, and also hostile to Britain because of the sanctions imposed by the League of Nations against Italy. Norman admitted that the political situation had completely prevented the favourable developments which he had anticipated and he did not know what could be done.[68] Such feelings of optimism turning to bleak pessimism must have been shared in no small measure by those at New Court. Even greater challenges lay ahead, with the coming of war in Europe. But the house of Rothschild in London survived. If family-related factors were partly responsible for creating problems for the bank, perhaps less tangible qualities of conviction and resilience should also be counted among this particular family's characteristics.

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[1] Forbes,. "history of banking,." 106-11.

[2] Pressnell, *Country Banking*. This seminal work remains unsurpassed as a study of private banking.

[3] Colli and Rose, "Family Firms," 352. Among the extensive literature see: Murray, "emotional dynamics,"; Miller and Le Breton-Miller, *Long Run*.

[4] Kobrak, "Family Finance," 38-89.

[5] Ferguson, *House of Rothschild,* 459.

[6] Brayshay, Cleary, and Selwood, "Social networks," 144-67.

[7] Ward, *Perpetuating the Family Business*, 106.

[8] James, *Wendels, Haniels, Falcks*.

[9] Jones and Rose, *Family Capitalism*, 4.

[10] Cassis and Pohle Fraser, *World of Private Banking*, xxiii.

[11] Janjuha-Jivraj, *Asian Family Firms*, 72.

[12] Teichova, *Economic Background to Munich*; Siklos, Pierre L. "first Hungarian hyperinflation,"; Feldman et al., *Erfahrung der Inflation*.

[13] See, for example, Clavin, "Defining Transnationalism," 4.

[14] Among the literature see: Natmeβnig, "Anglo-Czechoslovak Bank," 96-115.

[15] Lojkó, *Middle Europe,* 6.

[16] Cottrell, *Financial System,* 62.

[17] Kurgan-van Hentenryk, "Jewish Private Banks," in *World of Private Banking*, 222.

[18] Kynaston, *Illusions of Gold*, 136.

[19] Orde, "Baring Brothers," .

[20] Aldcroft, *Interwar European Economy*; see also by the same author, *Europe's Third World*.

[21] The Rothschild Archive London (hereafter RAL) 111/108, notes of visits, 8 and 10 Dec., 1919.

[22] Ibid, note of visit, 11 Dec., and note of conversation, 18 Dec., 1919.

[23] Protheroe, *Searching for Security*.

[24] RAL 111/108, notes of visits, 18 and 22 Dec., letter from the Foreign Office to Anthony de Rothschild (hereafter Anthony), 1 Jan., 1920.

[25] RAL 111/127, letter, Huth Jackson to Anthony, 9 March 1920.

[26] Ibid, letter, 3 March 1920.

[27] Bátonyi, *Central Europe,* 104.

[28] RAL 111/127, letters, 13 April 1920.

[29] RAL 111/108, Report, 21 July 1920.

[30] RAL 111/148, memo, 2 Sept., 1920.

[31] RAL 111/163, memo, 2 Nov., 1921.

[32] RAL 111/189, copy letters, Young to Charles Wigham (Morgan Grenfell), 15 and 23 June 1922.

[33] Ibid, note, 15 Dec., 1922.

[34] Ibid, copy telegrams, Morgan Grenfell to JP Morgan, 16 Jan., and reply, 18 Jan., 1923.

[35] Ibid, copy letter, Davidson (JP Morgan) to Jimmy Warburg (International Acceptance Bank, New York), 16 March 1923.

[36] RAL 111/228, letters, 21 March, 22 March, and 8 April 1923. Goode seems to be the epitome of the expert that emerges at the end of the war. In addition to his role in Hungary between 1922 and 1941, he was British Director of Relief in Europe, member of the Supreme Economic Council, 1919, and President of the Austrian section of the Reparations Commission, 1920-21. He was also a friend of Norman and Goodenough.

[37] Cassis, *Capitals of Capitalism,* 56.

[38] RAL 111/228, telegrams, Kuhn, Loeb (New York) to New Court, 14 and 21 May 1924.

[39] Ibid, letter, Norman to Anthony, 16 June 1924; memo of meeting at Barings, 18 June 1924.

[40] Lojkó, *Middle Europe,* 130.

[41] Bátonyi, *Central Europe*, 151

[42] RAL 111/419, letter, Anthony to Warburg, 22 Dec., 1924.

[43] Ferguson, *House of Rothschild*, 450.

[44] RAL 111/539, letter, Rozsika to Anthony, 4 Nov., 1926.

[45] Janjuha-Jivraj, *Asian Family Firms*, 67.

[46] RAL 111/414 (b), draft press notice, 18 Nov., 1930.

[47] RAL 111/539, memo by Anthony, 4 Sept., 1930.

[48] RAL 111/442, telegrams between Stephany (New York) and New Court, 12 March 1931; copy letter, Siepmann to Jacobsen, 16 March 1931 ; letter, Bethlen (Budapest) to New Court, 9 May 1931.

[49] Palin, *Rothschild Relish*, 127.

[50] RAL 111/480, letter, Rothschilds Frerès to Lionel de Rothschild, 22 June 1931.

[51] RAL 111/480, letter, Anthony to Rue Laffitte, 29 June 1931.

[52] Ibid.

[53] For details see, Forbes, "Third Reich," 238-41.

[54] RAL 111/480, letter, New Court to Rue Laffitte, 27 Aug., 1931.

[55] RAL 111/442, copy telegram, Bethlen to Goode, 23 June 1931.

[56] RAL 111/455, telegram (relaying content of a telegram received from Niemeyer), New Court to Speyer & Co., New York, 5 Nov., 1931.

[57] RAL 111/454(a) memo, 29 Jan., 1932

[58] RAL 111/454(a) telegram, Goodhue to Holland Martin (Secretary of the British Short-Term Creditors Committee) 23 Jan., 1932; letter, Niemeyer (Bank of England) to Anthony, 28 Jan., 1932.

[59] RAL 111/455, memo, by Sir W. Goode, 'Hungarian Treasury Bills', 18 Feb., 1932.

[60] RAL 111/454(a) letter, Francis Goldsmith (chairman of the Committee of British holders of Hungarian Treasury Bills) to Dr J. de Teleszky (Hungarian National Foreign Credit Committee), 8 Feb., 1932.

[61] RAL 111/518, copy letter, Goode to MacDonald, 16 Sept., 1931.

[62] RAL 111/454 (a), copy letter, Koranyi to Goode, 30 May 1932.

[63] RAL 111 496, memo, by Cotton (Anglo-French Banking Corporation) 17 Nov., 1933.

[64] RAL 111, 547, memo (unsigned), 15 Jan., 1935.

[65] Feinstein, Temin and Toniolo. "International Economic Organization," 58-9.

[66] Cassis, *Capitals of Capital*, 167.

[67] RAL 111/433, letter, 1 Nov., 1926.

[68] RAL 111/576, Note, 8 Nov., 1935.

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