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The World's Banker: a History of the House of Rothschild

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This is an ambitious book, history on the grand scale: 1,040 pages of text and 200 pages of references, telling the story of the Rothschild family's business over two centuries and on six continents. Most of the book is devoted to the first century of the family's involvement in international finance. It is bedded in nineteenth-century Europe's diplomatic manoeuvrings, wars, and preparations for wars, the prime reasons for government borrowing and the opportunity for financiers to enrich themselves by speculating in government debt and by acting as intermediaries between national treasuries and investors. Niall Ferguson has an easy style, the Rothschild story gives great scope, and, between the style and the raw material, he has written one of the most readable and exciting histories of any banking family we have seen thus far. Moreover, it is not just the history of one business in one city, but of five businesses in five cities - Frankfurt, London, Naples, Paris and Vienna - and how they were related in their commercial affairs, exploited shared intelligence and divided their profits. Beyond the commercial business, Ferguson tells of the family, its inter-marriages, its ostentatious displays of wealth, its attachment to Judaism, and places these in the context of European societies' uneasy relationship with the Jewish minority in their midst.

In the main, the approach is episodic, the common theme being the family, the getting and spending of great wealth and the political milieux in which the Rothschilds conducted their business of borrowing (issuing securities) on behalf of governments. Inasmuch as the book is a familial biography, it follows the Middlemas and Barnes treatment of Baldwin, rather than the Williamson, and Ferguson sometimes allows the background to overwhelm the foreground. However, in his opening pages, Ferguson firmly states the book is 'primarily.about banking', emphasising that the British Rothschilds were not a bank in the sense that they took deposits payable on demand from a large number of clients. Nathan Rothschild (1777-1836), the founder of the British branch of the family, began as a textile exporter, 'technically a merchant who came to specialise in various financial services', who moved on to make a fortune 'by lending to governments - or by speculating in existing government bonds'. 'At the core of this book', we are told, 'is the international bond market which the Rothschilds did so much to develop.' This is an 'authorised' history and the first to be written with 'unrestricted access to all the surviving archives of the five Rothschild branches'. It will be used by students and historians for years to come. It is thus particularly unfortunate that the treatment of the debt markets is so weak.

Conceptually, there was little change in the questions that faced those organising and facilitating the sale of Government debt in public markets in the two hundred years covered by this book, although there were certainly changes in the practitioners' responses. This is fortunate for a historian trying to cover such a long period, as it provides a backbone to hold together the episodes, enabling the similarities and differences between issues (individual debts) to be seen, and helping to show how and why change occurred.

A security always needed to be priced and designed. This involved selecting an interest rate - what annual return, or 'redemption yield', should the investor be offered? How much of the yield should be derived from income and how much from capital gain or loss? Design involved selecting redemption terms. That is, should borrowers be bound to repay the capital on, between, or not before a specified date, and should lenders have the option to demand repayment on, between, or after a specified date? Should investors be given confidence by continuous repayment by means of a sinking fund? Should the sinking fund operate by random drawings at par (thus offering the prospect of a speculative gain or loss to the investor) or by purchases in the market at the market price (thus offering no gamble, but support to the price)? How large should the annual sinking fund be, and how quickly should it extinguish the debt? Should the securities be sold 'partly paid', with only a few pounds or francs per cent paid at once, and the balance in instalments over a period? How long should that period be? During this period, should investors be paid the interest as if all the money had been paid over?

Second, a method of sale had to be chosen. This involved a choice about the relationship between the borrower (in this case, often a national treasury or public body), the issuing intermediary (Rothschilds) and the investor, who would ultimately buy and hold most of the securities. There were many possibilities. An issue might be sold to a single 'contractor' (Rothschilds) or a syndicate of contractors (perhaps led, organised or managed by Rothschilds), who would buy the issue at a price, before selling it to investors, either at a price known to the borrower beforehand, or agreed with the borrower (who will thus know what profit Rothschilds could make), or selected by the contractor in the light of circumstance. The contractor might have agreed with the borrower to sell the issue on immediately, or be given discretion to hold the issue for a rise in price, taking the risk that the rise would actually turn out to be a fall. Another possibility was for the borrower to advertise directly to the public for subscriptions, cutting out the intermediary altogether. Because of the risk that the investors would not apply for all the securities offered, public subscription may have been combined with underwriting, a procedure involving an intermediary (Rothschilds) or a syndicate of intermediaries ('sub-underwriters', perhaps managed or organised by Rothschilds), being paid a commission to take any of the issue not subscribed by the public. In other cases, where the demand was judged to be limited, the securities may have been 'placed' with a handful of investors or, if the issue was large, the risk of failure may have been reduced by 'pre-placing' part, so the market had less to absorb. Whatever; the system evolved, but always depended on circumstances, the attitude of borrowers, and the offers being made by competitors. At all times the method selected had to be combined with price and design to produce an issue which would keep the borrower away from competitors, provide Rothschilds with acceptable risk and profit and, of course, be saleable to the investor.

Third, the features incorporated into the pricing and design of the securities had to suit investors, whose needs constantly changed, with some waxing as others waned. Which investors had money available at the time of the issue? Capital-rich individuals? Small savers? Banks, using their depositors' money? Fire and accident insurers? Life insurers? Savings banks? Which of these had an appetite for risk? Were investors risk averse, having recently lost money? Were the investors of a type that could be inveigled by the promise of a quick profit, over-excited newspapers, or commission hungry brokers? Were investors constrained by their liabilities, only able to buy certain redemption dates or securities priced beneath par? Would delaying payment of the full sum due, spreading the part payments over a longer period, increase demand?

These were some of the decisions that the Rothschilds and their clients had to make when issuing a new security. On the terms depended Rothschilds' profitability, exposure to risk and relationship with the client for whom they were borrowing. The way the decisions were taken and their implications should tell us much about the nature of the nineteenth-century debt markets and how they evolved. Yet the options are scarcely mentioned until Ferguson discusses the organisation of the French indemnity loan of 1871, three-quarters of the way through the book. This may reflect the sources used: Ferguson relies heavily on *A century of finance, 1804 to 1904* by Jules Ayer (published in 1905, not 1904), which lists the bare facts of each issue and displays the weaknesses of its in-house authorship; additional detail might have been found in the prospectuses (the contracts with the investor), newspapers and journals (not one of which is listed in the Bibliography) and, to a lesser extent, *The Stock Exchange Official Year Book* (not listed in the Bibliography), first published in November 1874.

The failure to explore the terms of issues can produce bemusing, or even misleading results. Ignoring the value of the 'hidden discount' that came from issuing partly paid, with interest calculated as if the security was fully paid, means that Ferguson almost invariably overstates the price and understates the yield to borrowers. A specific example of the consequence is to be seen with the first Boer War issue of British 2 ¾ per cent Consols in 1901, where the published price was £94.50, but the real price £93.30 after adjustment for the full interest payments. Conversions, such as those between 1822 and 1824, are incomprehensible without an understanding of the redemption terms attached to the individual issues which permitted, or did not permit, Treasuries to call (repay) their debt. Readers cannot hope to understand the Rothschilds' own finances without understanding that the securities they contracted to buy from borrowers were often part paid, so absorbing little capital. The methods of issue - Rothschilds acting as 'manager', taking an issue 'firm' (or *á forfait*), selling 'on commission', 'placing', 'underwriting', 'floating', 'organising' - are too often slipped in without definition and explanation of why the particular form of issue was selected, or the effect on the Rothschild business.

Ferguson's handling of the method of selling new issues is fastidious, at least in comparison with the verve with which Jenks treated the subject over seventy years ago in *The Migration of British Capital to 1875*. If it was underwriting, Rothschilds had a financial interest in ensuring the issue was fully subscribed. If it was an outright purchase as a contractor, they had an interest in the price rising before they began to sell. Unsurprisingly, it is difficult to find records to show how markets were 'groomed' (rigged) and the means used to beguile investors into buying out the intermediaries' holdings at satisfactory prices. The historian has no reason to assume that the Rothschilds indulged in the practices recorded in the evidence to the Select Committee on Loans to Foreign States, whose *Report* (not listed in the Bibliography) was published in 1875. But the market was competitive, the Rothschilds were financially successful, and Nat (1840-1915), as a Member of Parliament giving evidence to the Committee and advising against controls, gave the impression that his House was familiar with the practices. Curiously, Ferguson refers to the 'applause' Nat's evidence won in the City, but does not mention that Rothschild earned it for defending the issuing business. Surely, even if we give Rothschilds the benefit of some doubt, it would be useful to know which, if any, of the available temptations Rothschilds resisted? In particular, the relationship between the Rothschilds' political and diplomatic influence and the procedure of secretly buying a new issue, holding it until there was favourable news, and then advertising it for sale (without divulging that it had been issued earlier) merits exploration.

During the second half of the nineteenth century, the establishment and growth of savings banks investing their depositors' money, gave national Treasuries a source of finance independent of markets and issuing houses. In the UK this new investor (together with other, much smaller, government departments), owned one-third of the National Debt in 1899. Towards the end of his book (p. 937) Ferguson introduces savings banks in the shape of those in Austria and Hungary, 'After 1897, a share of any new issues of rentes had to be allotted to the Postal Savings Banks.The last vestiges of the Rothschild group's monopoly were swept away in January 1910 when a new Austrian issue of rentes was sold exclusively to the Postal Savings Banks.' Yet, much earlier, in Britain, after the Post Office Savings Bank had been established in 1862, Gladstone believed he had provided 'an instrument sufficiently powerful to make him [the Chancellor] independent of the Bank [of England] and City power when he has occasion for sums in seven figures.' By the 1890s the savings banks had grown to embarrass the Treasury, so great being their demand for investments that in the summer of 1896 they drove the price of 2¾ per cent Consols to 113½, an unsustainable level from which they could only fall. The savings banks (both the Post Office Savings Bank and the Trustee Savings Banks) also played a central role in ensuring the success of conversions in the second half of the century. Ferguson, following Kynaston's *The City of London*, points to Goschen's great conversion as testimony 'to the continuing dominance of N.M. Rothschild & Sons in the London bond market.' Over a century ago the *Report by the Secretary and Comptroller General of the Proceedings of the Commissioners for the Reduction of the National Debt* and Hamilton's dry, but indispensable, *Conversion & Redemption* (neither listed in the Bibliography), showed that a trickle of Treasury Bills and Exchequer Bonds sufficed to satisfy the Treasury's needs when it came to redemption, mainly because the savings banks' were available to mop up non-assented stock and provide the Treasury with cash. The Rothschild advance to the British government in 1875 to buy the Khedive's shares in the Suez Canal is a well-known story; less well known is that the sale of the Exchequer Bonds that provided the permanent finance were not sold to the Rothschilds, but to the savings banks.

In places the lack of precision in the use of terms and concepts makes the book impenetrable. It took a banker with decades of experience in the credit markets to explain to this reviewer the account of how Nathan made money from buying and exporting Lancashire cotton goods. Irritatingly, Ferguson uses 'bonds' and 'bond markets' as a generic term to describe nineteenth-century traded debt and debt markets. Indeed, at the outset, he defines debt securities as 'tradeable, fixed-interest bearer (that is, transferable) bonds', as if other forms of debt were not transferable. This is not helpful when the ownership and transfer of the largest categories of European security - Consols and Rentes - were evidenced by 'inscription' (written entries) in books. Thus the 1883 edition of *Fenn on the English & Foreign Funds &c* (his references show that Ferguson uses Fenn, but it is not listed in the Bibliography) divides the Russian debt into 'Redeemable Inscribed Debt', 'Perpetual Inscribed Debt' and 'Debt not Inscribed'. There were, indeed, 'Certificates of Inscription', but they had no value and they were not required when ownership was transferred. The nearest Consols came to being bearer bonds were 'stock certificates to bearer'. Only in 1853 did Gladstone introduce Exchequer Bonds, and their issue was never large until 1915. Short-term government debt in the UK, Exchequer Bills (until they were extinguished in 1896-7) and Treasury Bills (up to the present day) continued to be called 'Bills'.

So long a book, with so large a scope, might well contain many errors: it does. Treasury Bills were introduced with the Treasury and Exchequer Bills Act, 1877, and could not have helped finance the Crimea War twenty years earlier (Ferguson means Exchequer Bonds). At one point (p. 289) we are told that £250m. represented 'very roughly a tenth of total British overseas assets in the 1850s' and at another point (p. 812) that 'by the 1850s, British overseas investments totalled in the region of £200 million'. The discrepancy is partly explained by different sources (Kindleberger's *A Financial History of Western Europe* and Morgan and Thomas's *The Stock Exchange*) and partly by a confusion of currencies; Kindleberger refers to British assets of US$2,300m., and not £2,300m. The title of Table 25c, 'Loans issued by N.M. Rothschild & Sons, 1852-1914', implying that the whole of the issues included came from Rothschilds, means something very different from the title given in the source (Ayer), 'Loans contracted for or participated in by the London House of Rothschild'. Both here, and elsewhere, the failure to specify whether the data are for nominal or money values is of particular importance in an age when borrowers were prone to issue at prices deeply beneath par. Goschen's conversion of 1888 (not 1889), involved £592.6m. (not £500m.) nominal of securities, equal to 84 per cent of the national debt (not 'nearly half'), and the new security was 2¾ per cent Consols (they became 2½ per cent in 1903 and were known as 2¾ per cent until then). Contemporary practice, Harley's article 'Goschen's Conversion of the National Debt and the Yield on Consols' (1976) and Ferguson's own endnote describing the sale of Consols for the Crimea War show that prices for Consols after 1903 cannot be derived for comparative purposes by recalculating them using a 2¾ per cent nominal interest rate. The sources cited by Ferguson suggest to this reviewer that the financial significance of the British purchase of shares in the Constantinople Quay Company in 1906 was not that they were 'brokered' by Rothschilds (a mechanical function, albeit one, in this case requiring unusual discretion), but that Ministers were deliberately circumventing the statutory restrictions imposed by the Bank of England Act, 1819, on lending to the Treasury by the Bank. The Bank of England, a private company until it was nationalised after the Second World War, should not be equated with the British government: Sir Otto Niemeyer left the Treasury for the Bank of England in 1927 and could not have been sent to Brazil by the Treasury in 1931. As Sayers shows in *The Bank of England 1891-1944*, he was sent by Montagu Norman. For a banker, the distinction between lending to a private syndicate to stockpile coffee and lending to the sovereign Brazilian State, so that it could stockpile coffee, is fundamental, not 'somewhat Jesuitical'. A more forgivable error is the understatement of the reduction in the British National Debt between 1887 and 1913. This is given by Ferguson as 5 per cent (Table 29c), when it was a doubly more virtuous 11 per cent. This mistake comes from an uncritical use of Mitchell and Deane, *Abstract of British Historical Statistics*, whose data on the National Debt need treating with caution. 'Aggregate Gross Liabilities of the State' in Table 5 in their Chapter on 'Public Finance', is correct, but the sub-heading (used by Fergu son) of Funded p*lus* Unfunded debt (a proxy for deadweight debt) should include a third category - Terminable Annuities. Because it does not, the Funded Debt *plus* Unfunded Debt moves erratically as Terminable Annuities are set up and other debt cancelled and Mitchell and Deane's columns do not, and cannot, sum. To keep us on our toes, on the same page Ferguson tells us that 'the Boer War drove up government borrowing - by £132 million in total - in the years between 1900 and 1903.' This is not the rise in the Funded debt *plus* Unfunded debt (£146.5m.), nor is it the rise in the Funded Debt *plus* Unfunded Debt *plus* Terminable Annuities (£141.8m.), nor is it the rise in the 'Aggregate Gross Liabilities of the State' (£159.4m.). In fact, this reviewer cannot reconcile the figure at all. In any case, even if we assume, as we must, that Ferguson is referring to the periods ending 31 March, the borrowing would exclude that in the first six months of the war, which broke out in October 1899. For the record, the cost of the Boer War and the Boxer Rebellion (they cannot be separated for the purpose of calculating expenditure and borrowing) was £217.2m., with the period of the war seeing £152.4m. in cash borrowed by the issue of £159m. nominal of securities.

Despite the book's other virtues, errors such as these mean that it is unsafe to use it as a source for the debt markets.

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