

# The House of Rothschild: Prototype of the Transnational Organization

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It is a commonly accepted conventional wisdom that the Transnational Organization (TNO)<sup>1</sup> is a twentieth century occurrence. While this may be true as a gross generalization it too patly ignores its antecedents. Valuable lessons can be learned from prototypes and this study will focus on the House of Rothschild as just such a prototype which can provide insights into this contemporary phenomenon.

Of course, due to the technologically backward "environment" in which the House of Rothschild (hereafter to be called the HR) operated, it obviously did not have various modern means at its disposal. Nevertheless, the fundamental problems endemic to all TNO relations were there. Just as one cannot argue, for instance, that Platonic political theory is irrelevant today merely because we now have mass media and other technological additions which did not exist in Plato's time, so too the invention of the telephone, computer, and airplane, does not negate the relevancy of the Rothschilds' problems and means of overcoming them for the modern TNO. As the prototype, the HR encountered the same difficulties that beset contemporary TNOs and, as we shall see, its tactics and strategies were strikingly similar to what is prevalent today.

Although the HR's *raison d'être* was the economic function of aggregating wealth, the sheer size of its operations soon propelled it into the labyrinthian machinations of nineteenth century diplomacy and statecraft. Power was the inevitable byproduct of wealth and their immense fortune ultimately bred contempt for money. Only power could substitute for the financially jaded; and the Rothschilds early became skillful power brokers.

Yet money and power are ultimately only means, not ends in themselves. With surprising consistency, the HR directed its energies and influence toward the alleviation of Jewish suffering and the advancement of Jewish emancipation throughout Europe. In this respect, the Rothschilds marked not the beginning of a new corporate order but rather the end of an old Jewish tradition—*Shtadlanut*—paternalistic protection of their less fortunate brethren. This study will analyze this facet of the HR phenomenon as well, for it is one heretofore not much appreciated.<sup>2</sup>

*The Court Jews*

It may seem unusual to commence an analysis of a prototype with a discussion of prototypes of the prototype, but a clear picture of the HR phenomenon cannot be achieved without some understanding of the historical milieu from which it emerged. For various cultural, linguistic, sociological, and political reasons, Jewish merchants for the past millenium at least had far surpassed their Christian and Moslem counterparts in the scope and range of their international network of commerce, trade, and communications. Over the centuries, the Jews were restricted from agriculture and certain crafts, thereby being forced into the "non-productive" occupations of moneylending and commerce. Yet in the long run, this channeling became a boon rather than a handicap. Since they were a nation without a distinct territory and considering the pervasiveness of religious intolerance throughout the western world, it is hardly surprising to find that by the year 1000 Jews were dispersed to the "four corners of the earth." Since the Jews had a common language and culture, communication was relatively easier for them and they were able to bridge the gap between Moslem and Christian and connect the worlds of the Christian and the Hindu. The Jew was both despised and indispensable.<sup>3</sup>

Of even greater importance, however, was the fact that their lack of a homeland sometimes enabled the Jews to be particularly valuable to native rulers. Having no inherent allegiance to any single sovereign, many monarchs began to realize their usefulness in the political and diplomatic realm; only the Jew, a distinctly political animal without a specific national tie would not be suspect to a host country of a different allegiance. The Jews' statelessness occasionally stood them in good stead, both economically and politically.

By the time of the Thirty Years War, certain Jews occupied key positions in the political configuration of that era. These were known as the Court Jews. Their initial and primary function was that of war commissary, for "the Jew seemed to be better qualified for the position of war commissary than the Christian. He was in close contact with his coreligionists throughout Europe. He was therefore able to maintain agents and correspondents in all countries and could receive through them the necessary goods and important news,"<sup>4</sup> the latter of which was to equal in importance the former. Soon, however, they graduated from simple goods brokers: "Many of the Court Jews . . . for example, Samuel Oppenheimer [and] Samson Wertheimer . . . in their capacity as bankers and moneylenders often participated in political councils, in secret diplomatic missions, in the negotiation of peace treaties and in military conferences. In this way they often contributed to the shaping of events. . . ."<sup>5</sup>

Their influence did not become clear, however, until the "Prague Affair" of 1744 when Queen Maria Theresa decided that all Jews were to be expelled from Prague. She had not reckoned with Jewish power and resourcefulness:

A few days after the order was issued, the campaign to rescue the Jews got under the way. Wolf Wertheimer . . . placed himself at the head. He assembled his forces like a general about to storm an enemy fortress. Like an experienced statesman, he drew all the threads together and managed to weave about the queen a web that reached from Augsburg over Swabia, Bavaria, Franconia, Saxony, Brunswick, Berlin, Hanover, Holland, England, Denmark, and Italy to Austria. He called upon all of them, the Court Jews of the archbishops and bishops, dukes, electors, governors, and margraves, to intervene with their rulers and persuade them to induce the queen to withdraw her order. . . . All united with Wolf Wertheimer and lent him their aid.<sup>6</sup>

The rising crescendo of pressure succeeded and the Jews were allowed to return. In a macrohistorical sense, however, it was merely a foreshadowing of the Rothschilds' accomplishments in the next century—a network of communications and power unparalleled in European history.

### *Goals*

Perhaps it is ironic that while the initial Rothschild fortune was made during the turbulent Napoleonic years, the major policy goal of the firm became accretion of wealth through the preservation of the reigning political order. Nothing could better illustrate this point than a remark made by the Austrian Finance Minister Count Stadion to the emperor: "Through the great services which the Rothschild firms' have rendered to us during a most eventful period, their existence has become most intimately bound up with that of the Austrian monarchy. They have incurred the envy and hatred . . . of the whole Liberal party in Europe."<sup>8</sup>

Yet the HR recognized that if anything is a constant it is change itself. The brothers were far from reactionary, counseling moderation in a number of crises. In addition, their tactics and strategies included the inevitability of change. Nevertheless, the post-1815 HR policy was generally conservative in the political realm. The Rothschilds, however, were caught in a paradox of which they were perhaps unaware. Whereas the various governments stayed in power through the use of their political power, the HR could only stay in power through a continuing accumulation of wealth. The problem was that with increasing European industrialization the HR was forced into, indeed pioneered in, the newly emerging railroads and metal mining industries that inevitably changed the social order, thereby undermining the political system on which the HR political power was based. The economic sphere gave the HR its political power; economics would eventually sever it. This was not a mistake on their part but rather almost a dialectical inevitability. The lesson to be learned is not one of repeating the "error"; it is one of avoiding hubris.

As previously mentioned, the HR had a second major policy goal which

was intimately connected with the first: the alleviation, protection, and, where possible, further broadening of Jewish economic and political rights. As their biographer Count Egon Corti put it, "while the first principle of the HR was to amass wealth, the liberation of the race from oppressive restrictions contributed indirectly to this end, since it would facilitate intercourse with the rest of the world and thereby increase the possibility of financial gain, which in turn would serve to increase its power."<sup>9</sup> Even while the HR was penetrating the deepest sanctums of European affairs of state it had to fight for recognition in its native town—withheld because of gentile Frankfurt's aversion toward the Jews.

### *Strategy and Tactics*

The key aspect of the HR operational strategy was secrecy. There were a number of sound political and economic reasons for this. Most obviously, governments were loathe to divulge financial affairs of state and the HR was quite prudent in this respect. For the HR, as well, discretion was the better part of corporate manipulation, because of the vagaries of international power politics, which were then especially unstable. Since one day's vanquished opponent could be tomorrow's triumphant enemy it made little sense to divulge the range of involvement with any party. This was sensible simply because the HR had numerous enemies who would not hesitate to go to the masses with charges of Jewish usury, collusion, and international conspiracy.

The extent to which they followed this strategy bordered on the incredible. To this day their records have not been made public. When in 1810 the founder of the HR, Mayer Rothschild, decided to incorporate his sons directly into the firm one of the clauses provided for a steep penalty for any brother who brought litigation against another within the firm,<sup>10</sup> thereby avoiding all outside perusal of Rothschild documents. Even more interesting was the clause in his last will, which barred the female descendants and their husbands from any active participation in the firm.<sup>11</sup> The daughters were well provided for but the pater familias wanted to insure that no non-Rothschild blood would infiltrate the organization, thereby precluding any leak from personnel as well as documents. This whole idea was ultimately carried to its logical and absurd conclusion with the marriage of most of the brothers to their cousins and nieces.

So successful were they in maintaining their secret operations that on occasion it actually hurt them. For instance, the Rothschilds' greatest difficulties in national penetration occurred in Austria where the HR was almost totally unknown owing to their penchant for secrecy even while almost singlehandedly supporting the British war effort against Napoleon. Nathan in London quickly

grasped this drawback and did not repeat his brothers' mistake. When the initial funding of Louis XVIII was undertaken on his return to France, Nathan made sure that while the public did not discover the source of the money, Louis would. As Corti explains, "Nathan carefully preserved the close veil of secrecy covering his activities, and let Herries (the British war commissary-in-chief) get most of the credit, whilst he contented himself the . . . fact that the transactions served to introduce him to other governments. On this occasion Nathan was careful to see that the newly established monarch learned of his share of the transaction."<sup>12</sup>

Secrecy was prized to such an extent that the HR occasionally resorted to reprisal or censorship. About a matter of Jewish concern, the Rothschilds used both direct and indirect means to attain this end. In those territories where the firm was already established, the brothers used their presence with its concomitant financial importance for the area as an umbrella under which other Jews could be harmed only at the risk of HR retribution. In Frankfurt, for example, the Jews had less to fear from Austria and Prussia than would normally have been expected. Even when Grand Duke Dalberg (the Jews' protector) left Frankfurt, the Jews rested somewhat easy because the HR was his creditor for considerable sums. Nevertheless, trouble did arise when the Frankfurt senate tried to revoke the rights which the Jews had bought from Dalberg,<sup>13</sup> thereby provoking HR wrath and moving the oldest brother, Amschel, to teach the senate an expensive lesson. Through various political maneuverings and pressure, he had some of the remaining claims charged back to the senate, shouldering it with part of the price of the rights of the Jews it had attempted to restrict.<sup>14</sup>

Censorship was another tactic in the quest for secrecy not relished by the HR but one it did not hesitate to use on occasion when such an unpleasantness was patently needed. The HR's close association with Austria, which was ruthlessly repressing all liberal movements in Germany, caused the more radical German newspapers to venture passing rather hostile judgments on the Rothschilds. Consequently, Solomon "complained" to Metternich who subsequently banned the *Allgemeine Zeitung* throughout the entire dominion of the Austrian monarchy. It was, however, readily apparent to the politically astute Solomon that this overly harsh response was counterproductive. A more moderate *modus vivendi* was consequently concluded with the publisher Cotta and the editor-in-chief Stegemann. The latter gave his "formal promise not to . . . accept anything in the future relating to the value of Austrian public securities, or anything whatever relating to the House of Rothschild [at least as affecting its relations with Austria]."<sup>15</sup> Thus, both the Rothschilds' good name and their monetary dealings were protected in the press.

While secrecy, reprisal, and censorship are all defensive measures of

corporate strategy, the HR also developed a positive one seemingly antithetical to that of secrecy—institutional advertising. Advertising today is taken for granted as a central cog in the capitalist system especially in regard to fueling demand. This was not always the case; for as Sombart points out, a pretty display in a window was considered unethical business practice a mere three hundred years ago. Whether or not the Jews themselves instituted the variegated forms of advertising is irrelevant for our purposes. Noteworthy is that this institution was elevated by the HR to new heights, advertising not any specific product but rather a corporate name.

The brothers recognized from the start that good advertisement, which had to be of a literary nature owing to the limitations of time, could be of the greatest value. Friedrich von Gentz, the personal secretary to Metternich and a leading polemicist in his own right, wrote propaganda articles for the HR in various papers and exerted his influence upon the contemporary press in their favor. The icing on this cake came in 1826. A new edition of the widely circulated, mass appeal *Conversational Encyclopedia* was to be published and the HR seized this golden opportunity at institutional advertising on a massive scale. Gentz, the supreme stylist, wrote it with the effect that "the essay was accepted at its face value by very large numbers of people . . . [being] incorporated into similar foreign works."<sup>16</sup>

They did not limit themselves only to public relations through the media. One of their cleverest ideas was a mass-produced handkerchief with Nathan's color portrait printed on it. In a somewhat radical departure from their usual secrecy the Rothschilds also printed on it some of the major HR loans to various states, giving the amounts in each case. These were distributed throughout England and Austria and could not help but enhance their already legendary image.

Along with appealing to the masses, the Rothschilds also appealed to the more elite. All sorts of ingenious modes of bribery were used, especially when the goal was particularly justifiable—Jewish rights. It should be immediately noted that this practice was a modality of governmental affairs at that time. As Prof. Hans Morgenthau has observed, "bribes offered by one government to another for political advantage were until the beginning of the nineteenth century an integral part of the armory of diplomacy. No statesman hesitated to acknowledge the giving and accepting of bribes."<sup>17</sup> The relativity of morality with regard to economic practice is interesting, for while the perspective on advertising has shifted from unethical to acceptable, the morality of bribery has been reversed from accepted practice to immoral conduct.<sup>18</sup> This highlights just one of the problems in trying to place normative judgments on various economic and political practices.

With the convening of the international conference at Aix-la-Chapelle in 1818, the still unresolved question of total Jewish emancipation in Frankfurt

(as elsewhere) had to be considered. The Rothschild brothers were well aware of the great influence that Gentz exerted upon Metternich, especially concerning state finances, and they also knew that in counterdistinction to Metternich, Gentz was bribable. Yet, the new "morality" had begun to spread and the brothers had to ensure that such exertions would be kept secret. Thus, while actually given a bribe, we find that Gentz laconically wrote in his diary: "visited by Rothschild (I made an 800 Ducat profit in English bond speculation)."<sup>19</sup> Indeed, the brothers were also rewarded, for their efforts on behalf of Gentz and the pressure he brought to bear on Metternich resulted in the disallowance of the Frankfurt senate's objections to the diet's jurisdiction in the Jewish matter. A commission of the diet was set up to mediate between the two parties in Frankfurt.

Aside from this quasi-legal mode of influence peddling, the HR had other means of "buying" influence when bribery was untenable. Although Gentz was the most important link to Metternich, the HR concluded that it would be helpful to have some control over the prince, too. Consequently, in 1822, when Metternich sought a personal loan, he found that he could obtain one with ease from the HR at the very low interest rate of five per cent. As Corti astutely observes, "there was nothing in the least suggestive of bribery about the transaction—Metternich was no Gentz—but it was bound to make the chancellor who thus became Solomon's debtor feel not entirely free in his dealings with him."<sup>20</sup> It is no coincidence that a mere six days thereafter Solomon and James were raised to the rank of baron. A similar but even more airtight form of influence-peddling was the HR's brilliant stratagem: giving some highly placed officials a small percentage of the firm's profits on specific dealings. This early profit-sharing (for "services" rendered) was embodied in a legal, albeit secret, document whereby the official would directly share in the profits of that to which he may have indirectly contributed. This ploy cost the HR a pittance in comparison with the invaluable commodity, information, that they received in return.

As recent corporate revelations have shown, bribery is not always voluntary; similarly, bribery was not always a matter of Rothschild beneficence. During the complex, protracted affair of the Spanish Succession in the 1830s, the HR attempted to retrieve payment due on loans issued earlier to the Spanish government. Finance Minister Toreno refused to pay, however, and the HR only succeeded in reconverting part of its money by "buying him off" to the tune of one million six hundred thousand francs in Spanish securities. This did not end the matter since the brothers were enraged by the extortion. Subsequently, an intricate reprisal was carried out through various stock manipulations which not only caused a severe drop in Spanish securities but the resignation of Toreno as well. Needless to say, the HR reaped a profit on the whole affair exceeding the amount of the bribe! In Rothschild hands

bribery was a two-edged sword. Again we should note that bribery in such cases is not necessarily a clear matter of moral bankruptcy. The original refusal of debt repayment (or to take a contemporary example—nationalization) can be viewed in an equally unethical light. This is not to condone the “eye for an eye” credo of all too many TNOs but it does point up the danger in insisting on ethical absolutes.

Bribery however is dangerous, expensive, and worst of all from the HR point of view rather uncouth. Subtler means to a specific end were more highly esteemed and sought. It is a commonplace of post-Freudian thought that man has an ego which constantly seeks reinforcement. While the systematization and verbalization of this insight may be attributable to Freud, all men of perception historically have grasped this axiomatic principle. Consequently, one is not surprised to find the Rothschilds resorting to the age old tactic of flattery with new variations on the theme. To be sure, one consistently finds in their correspondences with monarchs and officials the usual obsequy used to such a great extent in that status-conscious era. In addition, the HR may be said to have institutionalized this form of sycophancy as a method of corporate strategy.

One example should suffice to illustrate this point. As the financial force behind the pioneering construction of the first European railway systems, the HR met greater opposition<sup>21</sup> than for any other project they had ever attempted. The problem of successful obstruction was especially acute in Austria. What was to be done?

[Solomon] racked his brains as to the most effective way of countering this opposition and hit upon the idea of associating the name of the emperor and of the leading ministers with this great scheme. This would flatter their vanity, and there would be the further advantage that these important persons, having become intimately associated with the whole undertaking, would be morally compelled, in the case of any crisis or unforeseen difficulty, to lend their active assistance, unless they were prepared to see their names associated with a possible failure.<sup>22</sup>

Finally, we come to perhaps the most important aspect of the HR corporate strategy, that of communication of information and transport. This is the most irrelevantly interesting and yet the most important part of this functional analysis. It is irrelevant in the sense that the physical problems which the HR had to overcome are technologically obsolete. No highwaymen will intercept telecommunications.<sup>23</sup> Yet the energy, ingenuity, and sheer emphasis that was placed on this aspect shows that the HR understood its centrality; its importance is no less diminished today. For this reason a cursory sweep of their methods would be of more than antiquarian interest.

Immediately it becomes apparent that the firm was heavily concerned with overcoming the great difficulties to which monetary dealings were subject owing to the backward state of communications. By communications we mean



not only the flow of information but also the transfer of money and goods. Even at the early stage of its development in 1814, the HR was already in a unique position to bypass the latter problem because of the transnational structure of its organization. For instance, when Baron von Hugel had to transfer eight thousand gulden from Frankfurt to Vienna, the HR offered to issue a bill payable on sight at their branch in Vienna. With clearing-houses in London, Paris, Frankfurt, and Vienna the firm did not actually have to transfer the money, thus not only cutting their own costs but also alleviating their clients' worries about the dangers of transport. In fact, the one per cent commission charged in this case was actually smaller than the cost of sending the money by regular post.

Sometimes, letters and valuables still had to be transported physically. Most of Germany after the Napoleonic wars was serviced by various post bureaus whose only common denominator was their propensity toward "interception": "if a letter came to a lodge office it was carefully opened before being sent on, read through, and any important passages were copied."<sup>24</sup> The HR penchant for absolute secrecy coupled with their appreciation of receiving news as quickly as possible led them to create their own system of couriers between the branch offices.<sup>25</sup>

This became especially valuable to Nathan in London who had a problem the other brothers did not share—the English Channel. To solve it, he set up dual lines of communication. The first dealt exclusively with information—a carrier pigeon service linked with James in Paris. It enabled Nathan (among other things) to be the first to deliver the news about the revolutionary events in 1830 France to the British government. As Talleyrand marveled: "probablement Rothschild aura déjà son courrier. Le ministre anglais est toujours instruit par lui dix ou douze heures avant l'arrivée des depeches de lord Stuart."<sup>26</sup>

However, the key to Nathan's communications system was a small fleet of boats which were not common carriers but rather acted as a bridge between the London house and its associates on the continent. Used mainly for the conveyance of money, securities, and letters, they were one of the earliest foreign news services in the world. Their commanders had standing orders to rush back regardless of the weather whenever any event of outstanding importance had occurred. This was as an expensive indulgence but there was no doubt in HR eyes about the primacy of receiving information quickly and efficiently. As the organization theorist, James G. March, has pointed out, "the capacity of an organization to maintain a complex, highly interdependent pattern of activity is limited in part by its capacity to handle the communication required for coordination. The greater the efficiency of communication within the organization, the greater the tolerance for interdependence."<sup>27</sup> To anthropomorphize the situation, a corporation's organs (personnel) are limited in productivity by its nervous system (information and communications network).

Whereas the quantitative problem of speed of communication has been solved technologically, the qualitative problem of corporate osmotic capability and adaptability are still present. The HR "organs" were superb for their day; the "nervous system" it created can still serve as the standard for the modern TNO.

One need not overexaggerate the parallels and analogies between the HR and modern TNOs to see that valuable lessons can be learned from the former. Considering the HR's dual policy goals of economic expansion and aid to their Jewish brethren, comparisons to modern TNOs are especially intriguing. The traditional role of a corporation or a TNO is that of profit maximization for the benefit of the owners or stockholders. The comparison here is obvious and needs no elaboration. In the past decade, however, we have seen a new phenomenon: "enlightened corporate policy"; called by Prof. Daniel Bell the "sociologizing mode,"<sup>28</sup> a gradual shift of corporate policy away from purely economic considerations. The contemporary trend has been more noticeable in national corporations than in the younger TNOs, but if one were to project ahead one could well use the HR as the prototype for a future TNO trend toward greater concern with the indigenous population of its business dealings. The cultured Rothschilds had as little in common with a Russian Jewish peasant as an American IBM mogul has with a Venezuelan worker, yet when Czar Nicholas I requested a huge war loan from the Rothschilds in late March 1828 they refused on the grounds of his maltreatment of Russian Jewry.<sup>29</sup> This rebuff was remarkable because the loan not only had the potential to earn the firm a great profit but it also offered the HR a golden opportunity for access to the only major European power with which it was not yet involved. The rejection becomes even more astonishing given the HR's realization that theirs was merely a symbolic gesture since they knew that Russia could (and eventually did) get the necessary funds from another source. This latter point should quiet any doubt about the Rothschilds' concern for world Jewry.

The analogy with the present enlightened TNOs is further validated when it is realized that the substitution of internationally controlled TNOs for national ones means that the incentive for "enlightened" corporate policy toward the sundry native populations will be increased; for instance, it will be eventually a Venezuelan IBM mogul who will have charge over the Venezuelan computer programmer. Here too the HR was prototypical because after the death of the initial generation the local branches tended to view their respective national goals as predominant over the firm's original international ones. One final parallel is that Rothschild benevolence to the Jewish masses increased in proportion to the widening socioeconomic gulf between them and their less fortunate brethren. Should one doubt that this is being repeated today, one need only look at contemporary TNOs (such as Xerox) which become more socially enlightened as they gain in economic power. Being big does not necessarily connote being bad; in the final dialectical irony the exploitative TNOs may yet bring tremendous benefits to the previously exploited.

The historical "lessons" of the HR for the modern TNO should not be aduced in all cases, however. The aforementioned case of the railway system holds pitfalls today that hardly existed in the early nineteenth century. While human psychology has hardly changed, other extenuating circumstances might mitigate the utility of this stratagem for modern TNOs. First, naming a project after a national leader might only tempt him even more to nationalize it, thereby actualizing that which was formerly only nominal. Second, and probably more germane, is the high rate of turnover among modern rulers especially in the underdeveloped areas where a TNO might be most tempted to try such a project. With the rise of a new leader any connection of a project with the discredited predecessor can only hinder the TNO's efforts in gaining governmental cooperation. Here perhaps discretion is the better part of flattery.

In sum, the methods and strategies employed by the Rothschilds were as variegated as they were ingenious. They used: secrecy to protect themselves and their clients; reprisal and censorship to exact punishment or receive one's due; institutional advertising to promote the corporate name; bribery, profit sharing, and flattery to penetrate, proliferate, and protect themselves in the cauldron of international politics; and finally, a superb communications network to maintain the organization's dynamism and vitality. Some of these are less relevant and applicable to modern TNOs than others. Yet with some sensible adaptations to modern needs and circumstances these tools and principles can become as strong as they were in the hands of the Rothschilds. Precisely how potent these were becomes clear when we turn to actual instances of their full implementation.

Before analyzing the various corporate strategies within the perspective of three case studies, it would be worthwhile to repeat one point—the Rothschilds' overriding concern was peace and the maintenance of the status quo. Of course, there was an element of self-preservation in this but the HR was better able to adapt than most firms and countries. For the HR the term "reaction" was not viewed in a pejorative manner; the HR was reacting most against the almost continual warfare between 1789 and 1815. The Rothschilds were neither democrats nor Metternichian Conservatives, but rather saw themselves as the bridge between the two, helping all concerned to avoid the turbulent waters beneath. True, their fortune was initially made through the upheavals of war (and our first case will deal with their indispensable contributions to Napoleon's defeat), but for over thirty years thereafter they were mainly concerned with peace.

#### *Reaction Initiated: Nathan Rothschild and Napoleon's Defeat*

The first case in which the HR seems to have had significant influence upon the course of European history occurred during the Napoleonic wars,

specifically Wellington's southern campaign. Wellington's army was in bad financial straits almost from the beginning because of Napoleon's blockade and the devastating storms in the Bay of Biscay. As early as May 1809 he lamented that "we are terribly distressed for money . . . two months pay is due to the army. I suspect the Ministers in England are very indifferent to our operations in this country."<sup>80</sup> This barb, however, goaded no one to action on his behalf. Matters became progressively worse until in utter despair Wellington argued that "it will be better for Government, in every view of the subject, to relinquish their operations in Portugal and Spain, if the country cannot afford to carry them on."<sup>81</sup>

This sad state of affairs continued for another two years with Wellington barely able to stalemate the French. The financial need was so acute that he did not hesitate to send thinly veiled threats against the king himself:

I shall be sorry if Government should think themselves under the necessity of withdrawing from this country on account of the expense of the contest. . . . I have no doubt that if the British army were for any reason to withdraw from the Peninsula, and the French Government were relieved from the pressure of military operations on the Continent, they would incur all risks to land an army in His Majesty's dominions. Then indeed would commence an expensive contest; then would His Majesty's subjects discover what are the miseries of war . . .<sup>82</sup>

Ironically, two similar suggestions were offered to the British government independently of one another. Wellington admonished that "I think that Government have [sic] been wrong in employing the Bank to make purchase of bullion to supply this army . . . instead of employing agents to purchase it as the dealers in coin do."<sup>83</sup> Meanwhile, on the other side of the Channel, Nathan Rothschild heard that the East India Company was about to put a huge block of bullion on the market. He boldly bought all of it and then turned to the beleaguered British government offering it to them for sale. In addition, he made the incredible offer of transporting the bullion to Wellington.

The double offer was accepted but not without deep thought on the part of the Ministry, for the plan was to be superseded in its danger only by its audacity. James had already established himself in Paris in 1811 and was immediately engaged in heavy illegal (due to the blockade) financial transactions with England. Napoleon's Finance Minister Mollien was aware of the huge sums involved but permitted the smuggling because James pretended to the Ministry in Paris that the English authorities viewed the export of cash with extreme displeasure and did everything possible to prevent it. Mollien and through him Napoleon were completely hoodwinked, as an economic historian has noted: "Le gouvernement français voyait sans déplaisir ces importations de guinées anglaises par le port de Boulogne: il les considerait a la fois comme une preuve et comme une cause de l'affaiblissement progressif de l'Angleterre."<sup>84</sup>

Once the money was safely in France the transfer became simple in its deviousness—James obtained bills on Spanish, Sicilian, or Maltese notes from Parisian bankers and soon thereafter the funds passed through the labyrinth of the intricate network of financial firms and were sent to Wellington. The gold pieces trickled through in complete security under the eyes and indeed the protection of the French government, across France itself into the pockets of France's archenemy. Later, when Wellington crossed into France the procedure was altered only slightly; French metal currency was substituted for British gold. As Herries later commented almost breathlessly in his diaries, "by this means an abundant stream of genuine French gold and silver currency was made to flow steadily into the military chest; and the British general was thus enabled to display . . . the unusual spectacle of a victorious invader paying his way with ready cash."<sup>35</sup>

The total extent and volume of the Rothschild involvement here was phenomenal. During the period October 1811 to October 1816 no less than £42,500,000 had passed through Herries' hands, half of which was handled by Nathan and his brothers. It was qualitatively even more than quantitatively, however, that HR influence was felt as Herries acknowledged:

Notwithstanding the utmost exertions, the extent to which specie could be supplied from home fell much short of the wants of the army when it entered France in the Spring of 1814. It became at that time of the most urgent importance that a large quantity of French money should be poured into the military chest to enable the Duke of Wellington to prosecute his successes. Operations were undertaken for that object through the agency of Mr. Rothschild . . . which proved highly efficacious. . . . The agency of Mr. Rothschild and his brothers on the continent could alone, perhaps, have enabled him to direct the exchange operations so favourably.<sup>36</sup>

While it would be presumptuous to argue that the HR directly caused the defeat of Napoleon, there can be no doubt that military events would have been drastically altered if the firm had not provided the necessary funds for the British army. Luck, imagination, and daring all aided them in this ecomilitary endeavor. Yet the key element was corporate interdependence: the teamwork involved. Like goals could only be achieved through concerted efforts; the Rothschilds were consistent in their policies and effectiveness throughout.

### *Reaction Sustained: The Neapolitan and Spanish Rebellions*

The defeat of Napoleon ushered in the Age of Metternich, an age marked by the stolid defense of the old order against the rising tide of liberalism in Europe. In 1822 the cracks began to appear with rebellions in both Naples and Spain, and Metternich quickly moved to quash the uprisings. He viewed the Naples campaign as a crucial one: "Whether the word be Bonaparte or the

sovereignty of the people; they are equally dangerous and must therefore be resisted. The Neapolitan revolt, and everything connected with it, must be completely stamped out, or else the powers themselves will be destroyed."<sup>37</sup> Yet problems abounded because he was unsophisticated financially and generally carried out his policies without any consideration of their cost. Stadion was expected to produce the necessary funds as if by magic and he was at a loss to do it. When Stadion complained to Metternich, the chancellor advised him to see the Rothschilds. As Corti puts it, "the emigrant from Frankfurt had suddenly become the sheet-anchor for Austria's two leading statesmen."<sup>38</sup>

The HR managed the difficult financing for this expedition with no burden on Austria whatsoever. What transpired subsequently is history. Naples was conquered and the insurrection quelled. Stadion almost sounds like Herries in his assessment of the HR: "To the energy and resources of the Rothschilds, to their tireless efforts to apply large sums of money at points where they were immediately required to stem the tide of events, I owe the fact that I have been able continuously, in all phases, and at the right moment, to provide what was necessary for military operations."<sup>38</sup> Nor was this merely aiding another military adventure. Metternich's previous analysis of the dangers of "the powers themselves will be destroyed" almost proved prophetic but for financial not political reasons as Austrian credit was stretched quite thin and only HR intervention prevented a possible catastrophic credit crunch. Thus the importance of the HR aid here was not only that it enabled Austria to conquer Naples and prevent a nineteenth century version of the domino effect, but even more important it staved off the possible collapse of Austrian finances with the untold consequences which that would have entailed.

The Spanish case was equally problematic but presented its own unique difficulties. Here King Ferdinand was being held hostage by the Cortes which was demanding the liberalization of monarchical absolutism. France, urged by Metternich, decided to intervene. The process was strikingly similar to the Neapolitan affair, both militarily and financially, with James this time supplying the needed funds to the financially depleted French treasury. While one cannot unequivocally state that without HR funds France would have been unable to wage war, HR funds did in fact determine the means by which the affair was settled without bloodshed. The need to take the town by storm did not arise because in accordance with James' advice (backed by French Finance Minister Villele) the duke in charge of the French forces liberally distributed the Rothschild money to various members of the courts and to the persons who held the king captive. The bribetakers thereupon promoted mutinies in the garrisons and the Cortes released the king unharmed.

While it is pointless to indulge in historical speculation, it is rather clear that with the death of the king, matters would have become more serious for

all concerned. If HR money had to support force, means were found wherever possible to minimize its destructiveness, thereby ensuring a more stable post-bellum order. An absolute monarchy was reintroduced much to Metternich's delight, with the HR money again preserving the authoritarian status quo, but at least in this case the money was well spent for human life.

*Reaction Modified: The July Revolution of 1830*

The July Revolution of 1830 offers perhaps the best example of the strengths and limitations of the HR. With the overthrow of Charles X and the rise of Louis Philippe, Europe's "Pandora's Box" — France — was again spreading terror throughout the reactionary states while raising the revolutionary hopes of the European masses. Indeed, soon thereafter, outbreaks of revolutionary fervor occurred in various parts of Europe and prospects of war loomed high. Obviously neither Louis Philippe nor the HR desired war and all their efforts were subsequently put forth to dam the flood of reactionary indignation. Their great influence, extensive contacts, and vast communications network stood them in good stead. Realizing that more uprisings would force Metternich's hand in his contemplated invasion of France, the HR endeavored to quell the disturbances or at least inform the authorities beforehand. For instance, when numerous refugees from the Neapolitan and Spanish Revolutions residing in Paris decided to resume their revolutionary activities, the Rothschilds who knew some of them and heard of their plans, did everything possible to induce the new authorities in Paris to refrain from supporting their efforts.<sup>40</sup>

Similarly, when the HR received word of an expected uprising in Spain, it immediately informed the newly constituted French government of the forthcoming threat as well as advancing the information to Metternich. The latter was a considerable risk because it tended to reinforce the chancellor's perception that anarchy was gaining the upper hand. Nevertheless, the brothers felt that the long term political advantages outweighed the perceptual consideration and they made sure to inform Metternich that Louis Philippe was also in possession of this information and was using it to quell the disturbances to the best of his ability. As James was to relate (through Solomon) to Metternich: "The king assured me that he was opposing revolutionaries in all countries as far as his position as a constitutional monarch allowed him to do."<sup>41</sup> In addition, a nineteenth century "hot line" was formed (with James and Solomon as the receivers on either end) after Louis Philippe told James that "I should be exceedingly glad . . . if you could possibly be the means of communicating my views to his Highness Prince von Metternich."<sup>42</sup>

In an orchestrated campaign reminiscent of Wolf Wertheimer, letters were written to Metternich from all over at an increasingly feverish pace. The

basic theme though remained constant: "we will leave nothing undone to preserve peace," exclaimed the French Foreign Minister Court Sebastiani; "it depends entirely on the prince, whether we have peace or war," argued the new Finance Minister Lafitte; and then Sebastiani claiming, "I am doing everything possible for peace . . . and I do not see what we should go to war about."<sup>43</sup> Unfortunately, in the last days of November, peace suffered an almost mortal blow as Poland rose against Prussian rule. This prompted the brothers to redouble their efforts to convince the statesmen of the necessity for peace. James, Nathan, and Solomon practically competed with each other in their feverish efforts to influence their respective countries' policies. As Baron von Prokesch assessed the situation, "it is all now a question of ways and means, and what Rothschild says goes, but he won't give any money for war."<sup>44</sup>

Yet that only prevented France from going to war. Austria meanwhile invaded Italy to overthrow the successful revolution there. The HR realized that even their influence was limited, for it could not fail to appreciate the fact that Metternich's inveterate hatred of everything revolutionary was a more powerful factor than the Rothschild weight. Still all was not lost so long as France did not counter. To this end James did everything to allay French indignation and prevented any hasty action from being taken. In the final analysis, it all came down to soothing French pride without antagonizing Metternich. The denouement is best recounted by James:

Yesterday, the note was drafted which is to be sent to Austria. It contained the phrase: "evacuez immediatement Bologne." Pozzo, Granville, and your humble servant spoke to Perier [the third new Finance Minister], suggesting that Austria would be offended, and regard the note as too strong. . . . A fresh draft was made, which is very mild and excellent, but I heard that it contained the words, "evacuez promptement." I saw Perier about it. The note hasn't been handed in yet. I shall see that this is left out.<sup>45</sup>

Indeed, as James would later gladly report, the government in Paris sent a note to Austria which was "happily phrased."<sup>46</sup>

Thus a major war was barely averted, in part by Solomon's constant admonitions to Metternich against military intervention. Nevertheless, it was in France this time where HR influence was most heavily felt. As Corti sums up, James "was always the advocate of peace and discretion. The HR as a whole had really reason to be thankful to him at that time."<sup>47</sup> Europe had too, for that matter.

### *1848: Twilight of an Era*

1848 marked a watershed for European history and for the HR. Ironically, the power of the HR waned at precisely the same time that the goal for



which they fought so long—Jewish emancipation—was provisionally achieved. The Rothschilds financially withstood the shocks of 1848 well enough<sup>48</sup> and even now continue to rank among the world's elite, but conditions had significantly changed the loci of power.

In the long run, the socioeconomic forces of 1848 proved to be inexorable. Economically, power had begun to shift from private companies to mass-based public corporations and banks. This was reflected in the political sphere as well, for the age of mass power was dawning. The Jews too were beginning to learn this lesson and so the aforementioned irony was no paradox. Power now lay in numbers so that while the HR managed to maintain its financial resources, given the nature of the new mass-based economic and political configurations, its political power became drastically curtailed.<sup>49</sup>

Not all of its diminution of power, however, was caused by external factors. Of crucial importance, too, was the HR's abandonment of its legal and practical international character. When the five brothers of the second generation died around this time the close union and intimate cooperation between the branches which had marked them as elements of a truly transnational organization became somewhat modified because the members of the third generation had almost completely adapted themselves to the nations in which they resided. This change can best be seen in the regulation of family property. Previously, each brother shared in the profit or loss in every transaction while the HR was dominated by the five brothers; after their deaths each of the four presiding Houses (Naples had fallen) had its own private property, and it was only in large transactions, individually specified when they arose, that the four Houses acted in concert. In essence, after 1848 one could no longer speak of the House of Rothschild in the singular—it had ceased to be a TNO. It would be another century before corporate phenomena of this scope and power would reemerge on an international plane. Thus, the HR marked the end and the beginning of two eras: the quintessential end of Jewish *Shtadlanut*; and the prototypical beginning of the contemporary transnational organization.

## NOTES

1. This term includes multinational corporations, and indeed the focus of this study is on the latter. Of course, it is not being suggested here that the House of Rothschild was the first such prototype. For example, the Fugger mercantile and banking dynasty of fifteenth and sixteenth century Europe displayed many of the same corporate characteristics as the House of Rothschild. Nevertheless, as the most prominent economic TNO at the time of the Industrial Revolution's maturation, the House of Rothschild more closely typified and more directly influenced the growth of the modern TNO phenomenon.

2. For example, Salo Baron in his otherwise impeccable, "Impact of the Revolution of 1848

on Jewish Emancipation," *Jewish Social Studies*, 11 (July 1949), 205, says that "on the whole the House of Rothschild and its great influence in public affairs were more of a liability than an aid to the Jewish people."

3. For a radical exposition of the Jewish role in the rise of capitalism, see Werner Sombart, *The Jews in Modern Capitalism* (New York, 1913). He tries to advance the thesis (now rather discredited) that the Jews created capitalism both in form and spirit. The most one can safely say is that proportional to their numbers they did more than other groups but were still but a minute part of the western world.

4. Selma Stern, *The Court Jews* (Philadelphia, 1950), p. 18.

5. *Ibid.*, p. 115.

6. *Ibid.*, pp. 204-205.

7. While appreciating the communications link between the brothers, Stadion never fully understood that he was dealing with one firm with numerous branches rather than a few firms with some close links.

8. Count Egon Corti, *The Rise of the House of Rothschild* (New York, 1928), p. 255. That this should have ultimately occurred is not surprising, for as the noted international economist, Charles P. Kindleberger, points out: "the view that all economic strength will be used aggressively is cynical only at a naive level; with greater sophistication, it is apparent that the largest companies and powers are content to defend. . . . After a certain stage, power is used to support the status quo." Charles P. Kindleberger, *Power and Money* (New York, 1970), pp. 56-57.

9. Corti, *Rise*, p. 127.

10. Christian Wilhelm Berghoeffer, *Meyer Amschel Rothschild* (Frankfurt am Main, 1922), p. 223: "derselbe schon bey dem ersten Gerichtlichen Schritt, ohne weiteres einer binnen 24 Stunden zu bezahlenden Conventionalstrafe von zwanzig tausend Thalern des 24 f. Fusses halb zum besten des hiesigen neuen Zuchthauses, und halb zum besten des Jüdischen Hospitals unterworfen seyn, und vor deren wirklichen Berichtigung von keinem Richter auch nur angehört werden soll." The complete articles of incorporation are on pages 219-25.

11. ". . . ich verordne und will daher, dass meine Töchter und Töchtermänner und deren Erben an der unter der Firma 'Meyer Amschel Rothschild und Söhne' bestehenden Handlung keinen Antheil haben, und noch weniger eine Forderung aus was immer für einem Grunde machen können und dürfen, sondern vielmehr gedachte Handlung meinen Söhnen ausschliesslich zusteht und gehört; Keine meiner Töchter, Töchtermänner und deren Erben ist daher befugt, Einsicht der Handlung, deren Bücher und Scripturen zu verlangen, Caution, Obsignation, Inventur pp zu fordern. . . ." *Ibid.*, p. 226. (Despite some apparent misspellings, this and the preceding quote are reproduced exactly as written).

12. Corti, *Rise*, p. 150.

13. The cost of these rights was the huge sum of 440,000 gulden of which Mayer Rothschild paid 100,000 out of his own pocket and arranged another 290,000 gulden to be paid in debentures. *Ibid.*, p. 103.

14. *Ibid.*, p. 151.

15. Edward Heyck, *Die Allgemeine Zeitung, 1798-1898* (Munich, 1898), p. 252 (translation mine).

16. Corti, *Rise*, p. 338.

17. Hans Morgenthau, Jr., "A Political Theory of Foreign Aid," *American Political Science Review*, 56 (June 1962), 302.

18. The recent revelations about international corporate bribery point to the fact that while the practice is still rampant its ethicality is not accepted by the public, especially within the "post-Watergate morality" guidelines.

19. Frederick von Gentz, *Tagebücher von Friedrich von Gentz* (Leipzig, 1873), II, 277 (translation mine).
20. Corti, *Rise*, p. 275.
21. The opposition was political, financial, and even scientific. Medical "experts" of the day direly warned that if a train were to surpass fifteen miles per hour its passengers would assuredly die from an inability to breathe enough oxygen! Count Egon Corti, *The Reign of the House of Rothschild* (New York, 1928), p. 91.
22. *Ibid.*, p. 89.
23. With the increasing sophistication, ease, and usage of wiretapping, one wonders whether the physical problems of maintaining secrecy have really been overcome.
24. Corti, *Rise*, p. 218.
25. It is interesting to note that not only were the usual obstacles overcome, but characteristically this problem was occasionally used by the brothers to their own advantage. A cardinal corporate rule was that no major business was to be transacted by one brother without the consent of the others. In the case of propositions which the firm did not like, the brothers would excuse themselves from the proffered deal by pointing out to their clients the difficulty in obtaining agreement between all the brothers due to the barbaric state of communications—this without ruffling the clients' feathers.
26. C. M. Talleyrand, *Memoires complets et authentiques* (Paris, 1967), III, 456.
27. J. G. March, *Organizations* (New York, 1963), p. 162.
28. Daniel Bell, *The Coming of Post-Industrial Society* (New York, 1973), p. 43.
29. Corti, *Rise*, pp. 371-74. Corti suggests that another possible factor in the Rothschilds' Russian loan refusal was Metternich's wariness about Russia's ultimate intentions. While the chancellor thought that he was the deciding factor in their decision, Corti notes however, that "whenever the Rothschilds did, or omitted to do, anything from motives of personal interest, which happened to coincide with Metternich's wishes, they always conveyed the impression that it was Metternich who had won the day. . . ." on pp. 373-74.
30. Wellington, *The Dispatches of Field Marshall the Duke of Wellington* (London, 1838), IV, 374.
31. *Ibid.*, p. 473.
32. *Ibid.*, VII, 392.
33. *Ibid.*, IX, 369.
34. Marcel Marion, *Histoire Financiere de la France* (Paris, 1925), IV, 358.
35. Edward Herries, *Memoir of the Rt. Hon. J. C. Herries* (London, 1880), I, 86.
36. *Ibid.*, pp. 245, 247.
37. Corti, *Rise*, p. 229.
38. *Ibid.*, p. 230.
39. *Ibid.*, pp. 254-55.
40. *Ibid.*, p. 396.
41. *Ibid.*, p. 398.
42. *Ibid.*
43. *Ibid.*, pp. 400, 403 and 406.
44. Baron von Prokesch, *Tagebücher des Grafen Prokesch von Osten* (Vienna, 1909), p. 68 (Corti's translation).
45. Corti, *Reign*, pp. 21-22.
46. *Ibid.*, p. 23.
47. *Ibid.*, p. 33.
48. They went on to take their biggest loss in the American Civil War when they invested

heavily in Confederate bonds. This was actually a double loss because it deterred them from future investments in America at a time when its economy was about to boom and the HR could really have made a profit.

49. This did not stop some political powers from seeking HR aid. Perhaps the most bizarre occurrence regarding the HR and their paternalistic attitude toward their fellow Jews took place after the Revolution of 1848 when the Pope desperately needed funds for his return to the Vatican. In Naples, Carl was approached and agreed to lend the money, but on the conditions that: the gates and walls of the ghetto be abolished; the Jews should be allowed to live where they pleased in the Papal states; and that all special taxes and separate forms of procedure for dealing with Jews in the courts should be stopped. Needless to say, the Pope flatly refused, claiming the impossibility of subordinating higher to temporal interests! (Corti, *Reign*, p. 273). In Paris James was eventually able to extract some rather general promises for the Jews under Papal hegemony, and he acceded to giving the loan.