

Lecture 7: Rise and Decline of Bond Markets

- Innovations in Bond Markets
- English CONSOL
- Napoleonic Wars
- Rothschild Banks, Bond Empire
- American Civil War and Bond Markets
- Decline and Resurgence of Bond Markets

Dutch innovations in bond markets

- Spain's financial difficulties
 - ▣ Costliness of trying and failing to bring down the rebellious provinces of the northern Netherlands, whose revolt against Spanish rule was a watershed in financial as well as political history.
 - ▣ Dutch with their republican institutions, the United Provinces combined the advantages of the city-state with the scale of a nation-state.

Dutch innovations in bond markets

□ Dutch bond markets

- They were able to finance their wars by developing Amsterdam as the market for a whole range of new securities: life and perpetual annuities, but also lottery loans (whereby investors bought a small probability of a large return).
- By 1650 there were more than 65,000 Dutch *rentiers*, men who had invested their capital in one or other of these debt instruments and thereby helped finance the long Dutch struggle to preserve their independence.

Dutch innovations in bond markets

- Dutch Debt mountain
 - As the Dutch progressed from self-defence to imperial expansion, their debt mountain grew high from 50 M guilders in 1632 to 250 M in 1752.
 - Yet the yield on Dutch bonds declined steadily, to a low of just 2.5 per cent in 1747, sign not only that capital was abundant in the United Provinces, but also that investors had little fear of an outright Dutch default.

English innovations in bond markets

- The Dutch innovations shift to England
 - the Glorious Revolution of 1688 ousted the Catholic James II in favor of the Dutch Protestant Prince of Orange, these innovations crossed the English Channel from Amsterdam to London.
 - The English fiscal system was already significantly different from that of the continental monarchies.
 - The lands owned by the crown had been sold off earlier than elsewhere, increasing the power of parliaments to control royal expenditure at a time when their powers were waning in Spain, France and the German lands.



English bond markets

- The English fiscal system
 - ▣ There existed an observable move for a professional civil service reliant on salaries rather than speculation, accentuated by The Glorious Revolution
 - ▣ From now on there would be *no more regular defaulting, as by Charles II* , deep in debt, suspended payment of his bills in 1672.
 - ▣ There would be no more debasement of the coinage, particularly after the adoption of the gold standard in 1717.

English bond markets

- The parliamentary scrutiny of British royal finances since glorious revolution
 - The parliamentary scrutiny stiffened, which followed sustained effort to consolidate the various debts that the Stuart dynasty had incurred,
 - culminated in 1749 with the creation by Sir Henry Pelham of the Consolidated Fund. Hence the name 'consols' for the new standardized British government bonds. where defaults continued to happen regularly.

English CONSOL (bond) markets

□ Consol

- originally short for consolidated annuities, but can now be taken to mean consolidated stock is a form of British government bond (gilt), dating originally from the 18th century.
- The first consols were originally issued in 1751.
- In 1752, the Chancellor of the Exchequer and Prime Minister Sir Henry Pelham converted all outstanding issues of redeemable government stock into one bond, Consolidated 3.5% Annuities, in order to reduce the coupon rate paid on the government debt.

English bond markets

- Previous British government bonds before CONSOL
 - ▣ defaults continued to happen regularly, and offices were sold to raise money rather than to staff the civil service; tax collection was privatized or farmed out;
 - ▣ budgets were rare and scarcely intelligible;
 - ▣ the Estates General (the nearest thing to a French parliament) had ceased to meet;
 - ▣ and successive controllers general struggled to raise money by issuing *rentes and tontines* (annuities sold on the lives of groups of people) on terms that were excessively generous to investors.

the Famed British CONSOL

- British CONSOL
 - perpetual bonds, without a fixed maturity date, which could be redeemed by the government only if their market price equaled or exceeded their face value (par), arguably the most successful bond ever issued.
 - In London by the mid 18C there was a thriving bond market, in which government consols were the dominant securities traded,
 - Highly liquid, and attractive to foreign (especially Dutch) investors.

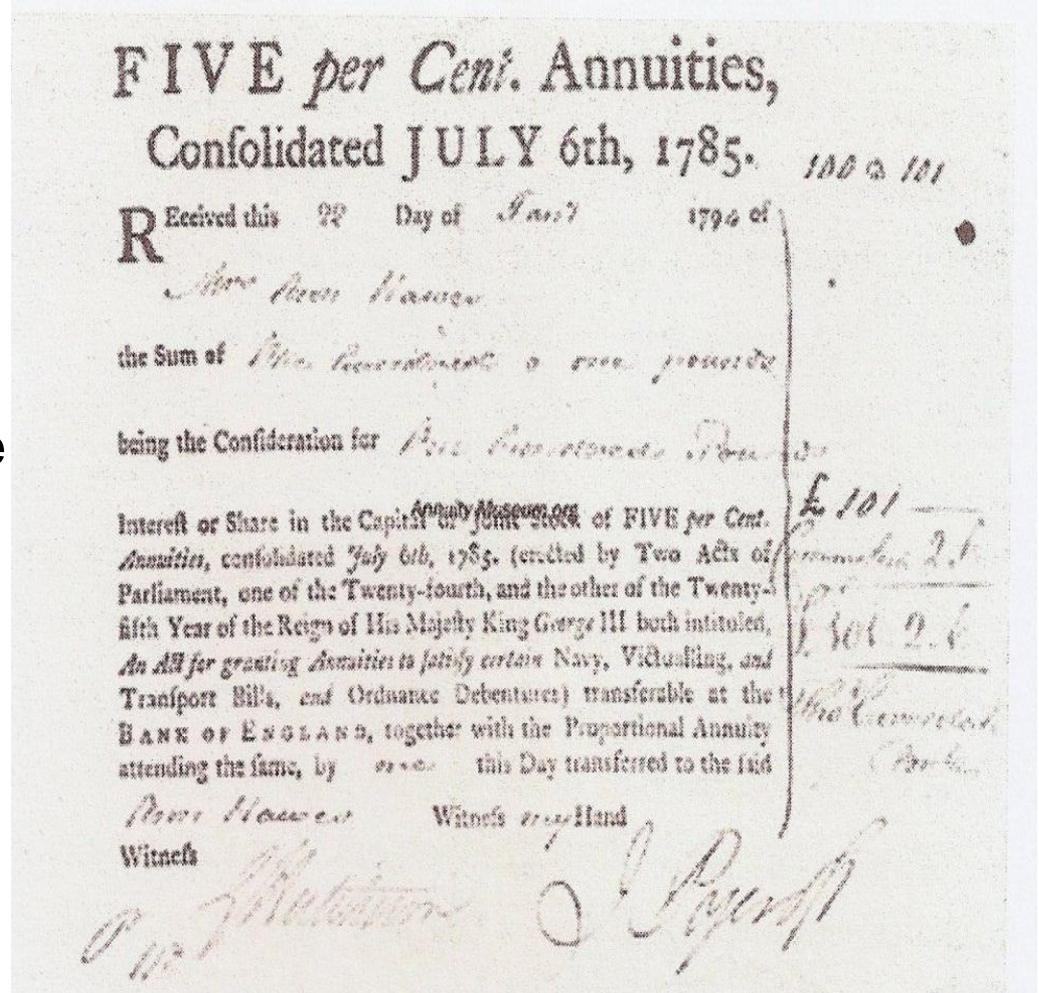
the Famed British CONSOL

□ CONSOL

- By the late 18C, possible to invest in two types: those bearing a 3 per cent coupon, and those bearing a 5 per cent coupon.
- In Paris, by contrast, there was no such thing. A financial divergence to have a profound political consequences.

the Famed British CONSOL

- CONSOL
 - a form of British government bond (gilt), dating originally from the 18th century. The first CONSOLS were originally issued in 1751.



the Famed British CONSOL

□ Consol

- Consols are one of the rare examples of an actual perpetual bonds: although they may be redeemed by the British government, this is unlikely to happen in the foreseeable future.
- In 1752, the Chancellor of the Exchequer and Prime Minister Sir Henry Pelham converted all outstanding issues of redeemable government stock into one bond, Consolidated 3.5% Annuities, in order to reduce the coupon rate paid on the government debt.

the Famed British CONSOL

□ Records of British CONSOL issued

1751	Consols first issued
1752	Consolidated 3.5% Annuities
1752	Reduced 3% Annuities
1757	Consolidated 3% Annuities
1855	New 3% Annuities
1888	National Debt (Conversion) Act 1888 (Goschen's Conversion)
1888	2¾% Consolidated Stock
1903	2½% Consolidated Stock
5 April 1923	first redemption date
1923 to present	2½% Consolidated Stock

Napoleonic Wars

- The rise and fall of Napoleon Bonaparte
 - ▣ The meteoric rise of a diminutive Corsican commander named Napoleon Bonaparte, to become Emperor of France and master of the European continent.
 - ▣ His victories at wars and his rise, a greater threat to the security and financial stability of the British Empire, or to the peace of Europe, than all the Habsburgs and Bourbons put together.
 - ▣ Defeating him led to the rise of yet another mountain of debt.

Napoleonic Wars and of Nathan Mayer Rothschild

- The debt mountain rose in Britain
 - As the debt mountain, so the price of individual consols declined by as much as 30 per cent at the lowest point in Britain's fortunes.
- The rise of Nathan Mayer Rothschild
 - founder of the London branch of the biggest bank in the world in 19C, *the Bonaparte of Finance*
 - Within just a few years of Napoleon's final defeat at Waterloo, a man who had grown up amid the gloom of the Frankfurt ghetto had emerged as the master of the bond market and, some suggested, the master of European politics as well.

Napoleonic Wars and of Nathan Mayer Rothschild

- The bond market to make the Rothschild rich
 - ▣ According to the radical MP Thomas Dunscombe, in 1828, Nathan Mayer Rothschild was ‘Master of unbounded wealth, boasted an arbiter of peace and war’; the credit of nations depends upon his nod; his correspondents are innumerable; his couriers outrun those of sovereign princes, and absolute sovereigns, ministers of state are in his pay.

Nathan Mayer Rothschild

- Nathan Mayer Rothschild
 - ▣ According to the 4th Lord Rothschild, Nathan's great-great-great-grandson. Nathan was 'short, fat, obsessive, extremely clever, wholly focused man'
 - ▣ With his phenomenal drive, allied to innate financial genius, Nathan propelled himself from the obscurity of the Frankfurt *judengasse* to mastery of the London bond market.



Rothschild at the outbreak of Napoleonic War

- War, the opportunity for financial innovation by Rothschild
 - War between England and France, for more than two decades of intermittent conflict between Britain and France, since Napoleon took power in 1804 .
 - Napoleon's blockade of England imposed on trade between England and Europe.
 - Admittedly, it was a breach the French authorities tended to wink at, in the simplistic mercantilist belief that outflows of gold from England must tend to weaken the British war effort.

Financing Napoleonic War

- A contest between rival financial systems:
 - ▣ the French, which under Napoleon had come to be based on plunder (the taxation of the conquered);
 - ▣ the British, based on debt.
- British bonds issued to finance the war.
 - ▣ Between 1793 and 1815 the British national debt increased by a factor of three, to £745 million, more than double the annual output of the UK economy, this had weighed heavily on the London market.
 - ▣ Prices of CONSOL plummeted, at one time, sinking below £ 50, half its face value.

Financing Napoleonic War

- Franco-British wars on the Continent since August 1808
 - ▣ Lieut-General Sir Arthur Wellesley, the future Duke of Wellington, then led an expeditionary force to Portugal, invaded by the French the previous year.
 - ▣ For the next six years, there would be a recurrent need to get men and matériel to the Iberian Peninsula.
 - ▣ Selling bonds to the public had certainly raised plenty of cash for the British government, but banknotes were of little use on distant battlefields.

Financing Napoleonic War

- Wellington needed a currency universally acceptable.
 - ▣ To provision the troops and pay Britain's allies against France, The challenge was to transform the money raised on the bond market into gold coins, and to get them to where they were needed. Sending gold guineas from London to Lisbon was expensive and hazardous in time of war.
 - ▣ But when the Portuguese merchants declined to accept the bills of exchange that Wellington proffered, there seemed little alternative but to ship cash.

Enter Nathan Mayer Rothschild for Gold Trades

- Enter NMR, Nathan Mayer Rothschild
 - The son of a moderately successful Frankfurt antique dealer and bill broker, Nathan had arrived in England in 1799 and had spent most of the next ten years in the newly industrializing North of England, purchasing textiles and shipping them back to Germany.
- NMR and gold trades
 - NMR did not enter the banking business at first in 1811, because he Nathan had acquired valuable experience as a smuggler of gold to the Continent, in breach of the blockade that Napoleon had imposed.

Nathan Mayer Rothschild as a Gold Trader

- the Rothschilds network Spread out around Europe
- Rothschilds in gold arbitrage
 - the five Rothschilds Spread out around Europe were uniquely positioned to exploit price and exchange rate differences between markets, the process known as arbitrage.
 - If the price of gold was higher in, say, Paris than in London, James in Paris would sell gold for bills of exchange, then send these to London, where Nathan would use them to buy a larger quantity of gold.

Nathan Mayer Rothschild as a Gold Trader

- Rothschilds in gold arbitrage
 - ▣ The fact that their own transactions on Herries's behalf were big enough to affect such price differentials only added to the profitability of the business.
 - ▣ In addition, the Rothschilds also handled some of the large subsidies paid to Britain's continental allies.

Nathan Mayer Rothschild as a Gold Trader

- The Chancellor of the Exchequer, in 1814, authorized the Commissary-in-Chief, John Charles Herries, to
 - ▣ ‘employ that gentleman [Nathan] in the most secret and confidential manner to collect in Germany, France and Holland the largest quantity of French gold and silver coins, not exceeding in value £600,000, which he may be able to procure within two months from the present time.’
 - ▣ These were then to be delivered to British vessels at the Dutch port and sent on to Wellington, who had by now crossed the Pyrenees into France.

Nathan Mayer Rothschild as a Gold Trader

- Gold shipping an immense operation
 - ▣ depended on the brothers' ability to tap their cross-Channel credit network and to manage large-scale bullion transfers.
 - ▣ They executed their commission so well that Wellington was soon writing to express his gratitude for the 'ample . . . Supplies of money'.
 - ▣ As Harries put it: 'Rothschild of this place has executed the various services entrusted to him in this line admirably well, and though a Jew [sic], we place a good deal of confidence in him.'

Rothschild banking Network

- Rothschild banking Network
 - well suited to the task due to the ready-made banking network within the family - Nathan in London, Amschel in Frankfurt, James (the youngest) in Paris, Carl in Amsterdam and Salomon roving wherever Nathan saw fit.
 - ▣ By May 1814 Nathan had advanced nearly £1.2 million to the government, double the amount envisaged in his original instructions.

Rothschild banking Network

- Rothschilds' gold shipping operation
 - ▣ Mobilizing such vast amounts of gold even at the tail end of a war was risky, no doubt. Yet from the Rothschilds' point of view, the hefty commissions they were able to charge more than justified the risks.
 - ▣ By June 1814, Herries calculated that they had effected payments of this sort to a value of 12.6 million francs.

Nathan Rothschild, the master of the Stock Exchange.

□ Gratitude to Nathan

- the Prime Minister, Lord Liverpool remarked 'Mr Rothschild', had become 'a very useful friend'. As he told the Foreign Secretary Lord Castlereagh, 'I do not know what we should have done without him'
- Nathan Rothschild the master of the Stock Exchange.
- By now his brothers had taken to calling Nathan Rothschild the master of the Stock Exchange.

Napoleon's return

□ Napoleon's return

- After his abdication in April 1814, Napoleon had been exiled to the small Italian island of Elba, from which he proceeded to rule as an empire in miniature.
- On 1 March, 1815, to the consternation of the monarchs and ministers gathered to restore the old European order at the Congress of Vienna, he returned to France, determined to revive his Empire. Veterans of *the grande armée* rallied to his standard.

The Battle of Waterloo

- The Battle of Waterloo:
 - ▣ the culmination of more than two decades of intermittent conflict between Britain and France.
 - ▣ 67,000 British, Dutch and German troops under the Duke of Wellington's command vs almost equal number of French troops commanded by the French Emperor, Napoleon Bonaparte across the fields of Waterloo, not far from Brussels.
- A contest between rival financial systems:
 - ▣ the French system based on plunder (the taxation of the conquered) vs the British system based on debt.
 - ▣ it was more than a battle between two armies.

Rothschild and The Battle of Waterloo

- Rothschild early in the Battle of Waterloo
 - Nathan responded early in the conflict by immediately resuming gold purchases, buying up all the bullion and coins he and his brothers could lay their hands on, and making it available to Herries for shipment to Wellington.
 - In all, the Rothschilds provided gold coins worth more than £2 million - enough to fill 884 boxes and fifty five casks

□

Rothschild and The Battle of Waterloo

- The Battle of Waterloo ended earlier than expected
 - ▣ Rothschild became rich because of the Battle of Waterloo?
 - ▣ Many conspiracy theories abound, but most of them were wrong. He became rich despite the war, how?
 - ▣ Nathan Rothschild responded to this 'unpleasant news'

Rothschild and The Battle of Waterloo

- War time activities of Rothschild
 - ▣ Nathan offered to take care of a fresh round of subsidies to Britain's continental allies, bringing the total of his transactions with Herries in 1815 to just under £9.8 million.
 - ▣ With commissions on all this business ranging from 2 to 6 per cent, Napoleon's return promised to make the Rothschilds rich men.

Rothschild and The Battle of Waterloo

- The risk Nathan underestimated.
 - ▣ In furiously buying up such a huge quantity of gold, he had assumed that, as with all Napoleon's wars, this would be a long one. It was a near fatal miscalculation
- The progress of the War
 - ▣ Wellington famously called the Battle of Waterloo 'the nearest run thing you ever saw in your life'.
 - ▣ After a day of brutal charges, countercharges and heroic defense, the belated arrival of the Prussian army finally proved decisive.

Rothschild and The Battle of Waterloo

- Wellington's glorious victory, Not so for the Rothschilds.
 - ▣ No doubt it was gratifying for Nathan Rothschild to receive the news of Napoleon's defeat first, thanks to the speed of his couriers, nearly forty-eight hours before Major Henry Percy delivered Wellington's official dispatch to the Cabinet.
 - ▣ No matter how early it reached him, however, the news was anything but good from Nathan's point of view. He had expected nothing as decisive so soon.

Dilemma faced by Rothschilds

- Dilemma faced by Rothschilds at the end of the war
 - ▣ Now he and his brothers were sitting on top of a pile of cash that nobody needed - to pay for a war that was over. With the coming of peace, the great armies that had fought Napoleon could be disbanded, the coalition of allies dissolved.
 - ▣ That meant no more soldiers' wages and no more subsidies to Britain's wartime allies. The price of gold, which had soared during the war, would be bound to fall.

Rothschild, the master bond trader

- Nathan and cash surplus
 - Nathan was faced not with the immense profits of legend but with heavy and growing losses. But there was one possible way out: the Rothschilds could use their gold to make a massive and hugely risky bet on the bond market.
- Nathan and bond markets
 - On 20 July 1815 the evening edition of the London Courier reported that Nathan had made 'great purchases of stock', meaning British government bonds.

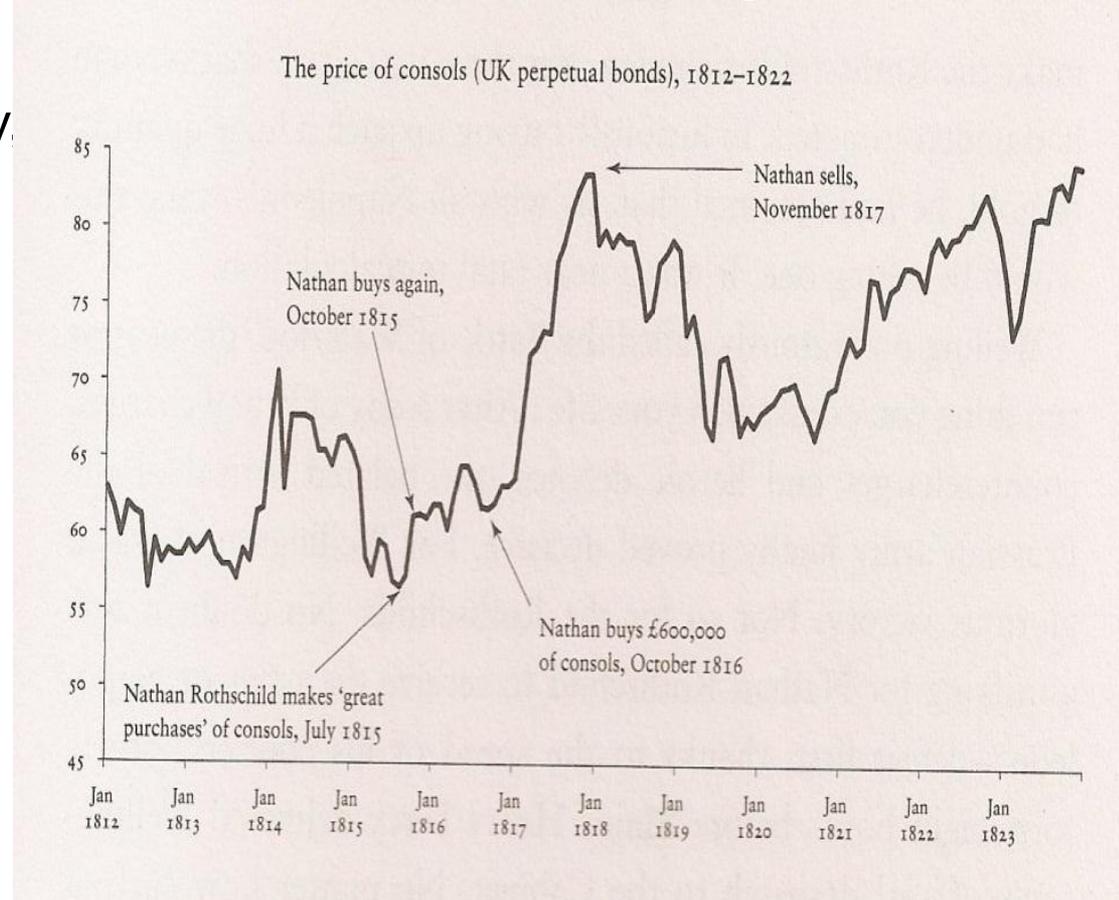
Rothschild, the master bond trader

- Rothschild, the master bond trader
 - Nathan's gamble was that the British victory at Waterloo, and the prospect of a reduction in government borrowing, would send the price of British bonds soaring upwards.
 - Nathan bought more and, as the price of CONSOL duly began to rise, he kept on buying. Despite his brothers' desperate entreaties to realize profits, Nathan held his nerve for another year.
 - Eventually, in late 1817, with bond prices up more than 40 per cent, he sold.

Rothschild, the master bond traders

- Allowing for the effects of inflation and economic growth, his profits were worth around £ 600 million today.

One of the most audacious
Trades in financial history,
one which snatched
financial victory from
the jaws of Napoleon's
military defeat.



Rothschild, the master bond traders

- The resemblance between victor and vanquished
 - ▣ The resemblance was not lost on contemporaries.
 - ▣ In the words of one of the partners at Barings, the Rothschilds' great rivals, 'I must candidly confess that I have not the nerve for his operations. They are generally well planned, with great cleverness and adroitness in execution - but he is in money and funds what Bonaparte was in war.'

Responses to Rothschilds' success

- Responses to Rothschilds' success
 - To the German writer Ludwig Boerne, the Rothschilds were simply *die Finanzbonaparten*.
 - the German poet Heinrich Heine declared in March 1841 'Money is the god of our time,' 'and Rothschild is his prophet.'
 - Their extraordinary achievement led to explanations like; dating from the 1830s, the Rothschilds owed their fortune to the possession of a mysterious 'Hebrew talisman' that enabled Nathan Rothschild, the founder of the London house, to become 'the leviathan of the money markets of Europe'.

Responses to Rothschilds' success

- Responses to Rothschilds' success
 - the Nazis preferred to attribute the rise of the Rothschilds to the manipulation of stock market news and other sharp practice.
 - Such myths are current even today. According to Song Hongbing's *Currency Wars*, published in China in 2007, the Rothschilds continue to control the global monetary system through their alleged influence over the Federal Reserve System.

Rothschilds, the financial empire

- Rothschilds, the financial empire
 - ▣ the Rothschilds went on to dominate international finance in the half century after Waterloo.
 - ▣ The reality of their success were built on a capital base and an information network, far superior to those of their nearest rivals, the Barings during the final phase of the Napoleonic Wars to become the dominant players in an increasingly international London bond market.

Rothschilds, the financial empire

- Rothschilds, the financial empire
 - Between 1815 and 1859, it has been estimated that the London house issued fourteen different sovereign bonds with a face value of nearly £43 million, more than half the total issued by all banks in London.
 - Although British government bonds were the principal security they marketed to investors, they also sold French, Prussian, Russian, Austrian, Neapolitan and Brazilian bonds.

Rothschild, the master bond traders

- Rothschilds, the financial empire
 - ▣ In addition, they all but monopolized bond issuance by the Belgian government after 1830.
 - ▣ Typically, the Rothschilds would buy a tranche of new bonds outright from a government, charging a commission for distributing these to their network of brokers and investors throughout Europe, and remitting funds to the government only when all the installments had been received from buyers.

Rothschild, the master bond traders

- Rothschilds, the financial empire
 - ▣ There would usually be a generous spread between the price the Rothschilds paid the sovereign borrower and the price they asked of investors (with room for an additional price 'run up' after the initial public offering).
 - ▣ Unlike previously existing large-scale international, notably in Genoa, Antwerp and Amsterdam.

Rothschild, the master bond traders

- Rothschilds, the financial empire
 - Rothschilds' insistence, after 1815, that most new borrowers issue bonds denominated in sterling, rather than their own currency, and make interest payments in London or one of the other markets where the Rothschilds had branches.
 - ▣ A new standard was set by their 1818 initial public offering of Prussian 5 per cent bonds, which were issued not only in London, but also in Frankfurt, Berlin, Hamburg and Amsterdam.

Rothschild, the master bond traders

- Rothschilds, the financial empire
 - As singled out by the German legal expert Johann Heinrich Bendoric in his book 1825 to be one of the Rothschilds' most important financial innovations.

Rothschilds' on government bond issue:

- Rothschilds' on terms on government bond issue:
 - ▣ At one point, when the Director of the Prussian Treasury, Christian Rother, attempted to modify the terms after the loan contract had been signed, Nathan exploded: 'Dearest friend, I have now done my duty by God, your king and the Finance Minister von Rother, my money has all gone to you in Berlin . . . now it is your turn and duty to yours, to keep your word and not to come up with new things, and everything must remain as it was agreed between men like us, and that is what I expected, as you can see from my deliveries of money.'

Rothschilds' on government bond issue:

- Rothschilds' insistence terms on government bond issue:
 - The cabal there can do nothing against N. M. Rothschild, he has the money, the strength and the power, the cabal has only impotence and the King of Prussia, my Prince Hardenberg and Minister Rother should be well pleased and thank Rothschild, who is sending you so much money [and] raising Prussia's credit?

Rothschild, Bond Empire

□ Rothschild Empire

- A Jew born in the Frankfurt ghetto dictated these terms to a Prussian official shows the social revolution Nathan Rothschild and his brothers personified.
- Any owner of government bonds . . . can collect the interest at his convenience in several different places without any effort.
- Rothschilds were not only were bond issuer, but also bond traders, currency arbitrageurs, bullion dealers and private bankers, as well as investors in insurance, mines and railways. Yet the bond market remained their core competence.

Rothschild, Bond Empire

- Rothschild, Bond Empire
- Unlike their lesser competitors, the Rothschilds dealing only in what would now be called investment grade securities.
 - ▣ No bond they issued in the 1820s was in default by 1829, despite a Latin American debt crisis in the middle of the decade.
- With success came ever greater wealth.
 - ▣ On his death in 1836, Nathan's personal fortune was equivalent to 0.62 per cent of British national income.
 - ▣ Between 1818 and 1852, the combined capital of the five Rothschild 'houses' (Frankfurt, London, Naples, Paris and Vienna) rose from £ 1.8 million to £9.5 million.

Rothschild, Bond Empire

- the Rothschilds' wealth
 - As early as 1825 their combined capital was nine times greater than that of Baring Brothers and the Banque de France.
 - By 1899, at £41 million, it exceeded the capital of the five biggest German joint-stock banks put together As early as 1825 their combined capital was nine times greater than that of Baring Brothers and the Banque de France.
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Rothschild Family

- the Rothschild Family
 - ▣ Increasingly the Firm became a multinational asset manager for the wealth of the managers' extended family.
 - ▣ As their numbers grew from generation to generation, familial unity was maintained by a combination of periodically revised contracts between the five houses and a high level of intermarriage between cousins or between uncles and nieces.

Rothschild Family Empire

□ Rothschild Family

- As their numbers grew from generation to generation, familial unity was maintained by a combination of periodically revised contracts between the five houses and a high level of intermarriage between cousins or between uncles and nieces.
- Of 21 marriages involving descendants of Nathan's father Mayer Amschel Rothschild between 1824 and 1877, no fewer than 15 were between his direct descendants.

Rothschild, the master bond traders

- Rothschild Family
 - In addition, the family's collective fidelity to the Jewish faith, at a time when some other Jewish families were slipping into apostasy or mixed marriage, strengthened their sense of common identity and purpose as 'the Caucasian Jewish royal family'.
 - Old Mayer Amschel had admonished his five sons:
 - ▣ If you can't make yourself loved, make yourself feared}
 - ▣ As they bestrode the mid-19C financial world as masters of the bond market, the Rothschilds were already more feared than loved.

Reactions to Rothschilds' success

- Reactionaries on the Right lamented
 - ▣ the rise of a new form of wealth, higher-yielding and more liquid than the landed estates of Europe's aristocratic elites.
- Heinrich Heine on Rothschilds
 - ▣ He discerned, there was something profoundly revolutionary about the financial system the Rothschilds were creating:
 - ▣ The system of paper securities frees . . . men to choose whatever place of residence they like;
 - ▣ they can live anywhere, without working, from the interest on their bonds, their portable property, and so they gather together and constitute the true power of our capital cities.

Reactions to Rothschilds' success

□ Heine on Rothschild

- ▣ Rothschild could now be mentioned in the same breath as Richelieu and Robespierre as one of the 'three terroristic names that spell the gradual annihilation of the old aristocracy'.
- ▣ Richelieu had destroyed its power; Robespierre had decapitated its decadent remnant;
- ▣ now Rothschild was providing Europe with a new social elite by raising up the system of government bonds to supreme power . . . [and] endowing money with the former privileges of land.
- ▣ To be sure, he has thereby created a new aristocracy, but this is based on the most unreliable of elements, on money . . . [which] is more fluid than water and less steady than the air . . .

Reactions to Rothschilds' success

- Meanwhile, Radicals on the Left bemoaned the rise of a new power in the realm of politics, which wielded a veto power over government finance and hence over most policy.
 - Following the success of Rothschild bond issues for Austria, Prussia and Russia, Nathan was caricatured as the insurance broker to the 'Hollow Alliance', helping to protect Europe against liberal political fires.
 - In 1821 he even received a death threat because of 'his connection with foreign powers, and particularly the assistance rendered to Austria, on account of the designs of that government against the liberties of Europe'.

Reactions to Rothschilds' success

- The liberal historian Jules Michelet noted in his journal in 1842:
 - ▣ 'M. Rothschild knows Europe prince by prince, and the bourse courtier by courtier. He has all their accounts in his head, that of the courtiers and that of the kings; he talks to them without even consulting his books. To one such he says: "Your account will go into the red if you appoint such a minister."'
 - ▣ Predictably, the fact that the Rothschilds were Jewish gave a new impetus to deep-rooted anti-Semitic prejudices.
 - ▣ When Rothschilds appeared on the American scene in the 1830s the governor of Mississippi denounced 'Baron Rothschild' for having 'the blood of Judas and Shylock flowing] in his veins, and . . . uniting the qualities of both his countrymen.

Reactions to Rothschilds' success

- the Populist writer Coin' Harvey on Rothschilds
 - Harvey Later, in the century, would depict the Rothschild bank as a vast, black octopus stretching its tentacles around the world.
- Prince Puckler-Muskau on Rothschilds
 - As early as 1828, Prince Puckler-Muskau referred to 'Rothschild . . .without whom no power in Europe today seems able to make war'
 - It was the Rothschilds' seeming ability to permit or prohibit wars at will that seemed to arouse the most indignation.

Reactions to Rothschilds' success

- A. Hobson on Rothschilds
 - A. Hobson, author of *Imperialism: A Study* (1902) . said 'Does anyone seriously suppose that a great war could be undertaken by any European State, or any great State loan subscribed, if the house of Rothschild and its connections set their face against it?'
 - It might, indeed, be assumed that the Rothschilds needed war. It was war, after all, that had generated Nathan Rothschild's biggest deal. Without wars, 19C states would have had little need to issue bonds.

Rothschild, the master bond traders and War

- What about risk and bond markets?
 - ▣ Wars tended to hit the price of existing bonds by increasing the risk that (like 16C Venice) a debtor state would fail to meet its interest payments in the event of defeat and losses of territory.
 - ▣ This is, wars can hurt bond markets.
- Rothschilds as a risk averter
 - ▣ By the middle of the nineteenth century, they had evolved from traders into fund managers, carefully tending to their own vast portfolio of government bonds.

Rothschild, the master bond traders and War

- Rothschild on the sidelines Of war
 - Rothschild, having made their money, they stood to lose more than they gained from conflict.
 - For this reason that they were consistently hostile to strivings for national unity in both Italy and Germany.
 - For this reason that they viewed with unease warfare outcome of the American Civil War by choosing to sit on the sideline, unlike their decision to their financial weight behind Britain.

Vulnerability of Bond

- Killers of bond (financial) markets
 - Defaults
 - Excessive Inflation
- Historical examples
 - Spanish and French monarchs
 - Russia
 - Latin American defaults in 18C-20C
 - Argentine defaults
 - Hyperinflation

Hyperinflation

□ Hyperinflation

- In economics, **hyperinflation** is inflation that is very high or "out of control".

□ Examples:

□ Greece 1944

- The overall impact of hyperinflation: 1 (1953) drachma = 50,000,000,000,000 pre 1944 drachmai.

□ Hungary, 1922–24

□ Germany 1923

□ Argentina 1975-1992

Hyperinflation in Argentina and in Germany

- Hyperinflation in Germany
 - ▣ went through its worst inflation in 1923
 - ▣ Beginning on 20 November 1923, 1,000,000,000,000 old Marks were exchanged for 1 Rentenmark so that 4.2 Rentenmarks were worth 1 US dollar, exactly the same rate the Mark had in 1914
- Hyperinflation in Argentina
 - ▣ went through steady inflation from 1975 to 1991.
 - ▣ The overall impact of hyperinflation: 1 (1992) peso = 100,000,000,000 pre-1983 pesos.

Inflation and National Debts

- And 1980s Inflationary period in America during 1970s
 - ▣ Double digit inflation
 - ▣ Mounting national debts and social welfare programs
 - ▣ Euthanasia of Rentiers?
- Monetarists and Stable Prices since 1980s
 - ▣ Triumph of monetarists economic policy
 - ▣ High Inflation became rare in developed economies since 1980s
- Resurgence of Rentiers