

[Steefel, L. D. (1936). The Rothschilds and the Austrian Loan of 1865, Vol. 8, No. 1 (Mar. 1936), 13 pgs., pp 27-39, The Journal of Modern History. Source: <http://www.jstor.org/stable/1881638>]

JOURNAL ARTICLE

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The Journal of Modern
History
[Vol. 8, No. 1 \(Mar., 1936\)](http://www.jstor.org/stable/1881638),
pp. 27-39 (13 pages)
Published By: The
University of Chicago
Press

<https://www.jstor.org/stable/1881638>

["There were, "it has been well said, "seven great powers in Europe: Austria, England, France, Prussia, Russia, Rothschild and Baring." (p. 27).]

THE ROTHSCILDS AND THE AUSTRIAN LOAN OF 1865¹

LAWRENCE D. STEEFEL

THERE were," it has been well said, "seven great powers in Europe: Austria, England, France, Prussia, Russia, Rothschild and Baring." That the bankers were justly placed in this august company is shown by the way in which, in 1865, the representatives of the proudest court in Europe went to them, hat in hand, to ask for a loan, negotiated with them as with another power, and, when the negotiations were broken, prepared to defend themselves against reprisals.

When the ministry of Belcredi succeeded that of Schmerling at Vienna at the end of July, 1865, the new minister of finance, Count Larisch, found the situation much worse than he had anticipated. An examination of the budget showed an impending deficit of 80,000,000 florins, the current income was for the most part already pledged for interest and other large payments, the domestic credit situation of the state was weak, economic conditions were stagnant, "and all the little expedients of a hand to mouth financial administration exhausted."² The 2,500,000 Danish thalers to be paid by Prussia four weeks after the ratification of the Convention of Gastein for the Austrian rights to Lauenburg would be but a drop in the bucket. The

[U.S. President Abraham Lincoln was assassinated by British-sympathizer John Wilkes Booth on Apr. 14, 1865, just as Lincoln was preparing to renew the highly successful "Greenback" currency that was not issued by the banks and carried no interest.]

¹ The material on which this article is based was gathered by the writer while a fellow of the John Simon Guggenheim Memorial Foundation

² Adolf Beer, *Die Finanzen Oesterreichs im XIX. Jahrhundert* (Prague, 1877), pp. 332-33. Ernst von Plener, whose father, the preceding minister, had been sharply criticized by Larisch, gives a slightly more favorable picture of the situation. *Erinnerungen von Ernst, Freiherrn von Plener* (Stuttgart and Leipzig, 1911), I, 47. In any case, the situation was very bad. Cf. Friedrich Engel-Janosi, "Die Krise des Jahres 1864 in Oesterreich," *Historische Studien A. F. Pribram o. o. Professor a. d. Universitat Wien zum 70. Geburtstag dargebracht* (Vienna, 1929), pp. 141-45. The political situation is ably described in Chester W. Clark, *Franz Joseph and Bismarck, the diplomacy of Austria before the war of 1866* (Cambridge, Mass., 1934), chaps. vii-ix.

ministry, therefore, had recourse to the usual Austrian expedient: a loan.

Early in September, Baron Becke, sectionschef of the ministry of finance, was sent to carry on the negotiations with the great banking houses of western Europe.³ Of these, the most important in the government loan business was the house of Rothschild, but Baring Brothers and its associate, Hope and Company of Amsterdam, were only relatively less powerful than they had been in the early years of the century.⁴ Rothschild, for some time, had been the chief source of funds for the Austrian government loans.

Becke's first interviews with the bankers showed the unfavorable opinions that were held of Austria's financial and political situation. Baring and Hope declined to take the loan themselves, but expressed their willingness to co-operate if the Rothschilds would. Baring raised the question of the constitutionality of the government's procedure in floating a loan without the authorization of the Reichsrat, but thought that the participation of the principal financial notabilities might get around this difficulty. Hope insisted on the creation of a sinking fund as a necessary condition.⁵

Accompanied by Count Mülinen, counselor of the Austrian embassy at Paris, Becke had his first interview with Baron James Rothschild on September 18. The latter, too, raised the

³ Franz Karl Freiherr von Becke (1818-70) had served for many years in consular and financial posts. Larisch, a *grand seigneur*, had little knowledge of finance and depended to a large extent on Becke. Cf. *Zur Geschichte der k. k. österreichischen Ministerien 1861-1916. Nach den Erinnerungen von Alois Freiherrn von Czedik* (Teschen, Vienna, Leipzig, 1917), I, 72-73. Beer, p. 332, characterizes Becke as resourceful and clever, but unscrupulous ("durch keinerlei Rücksichten gebunden"), Heinrich Friedjung, *Der Kampf um die Vorherrschaft in Deutschland 1859-1866* (10th ed.; Stuttgart and Berlin, 1916) calls him supple and courteous, and says that he was suspected of graft, especially in connection with the loan of 1865.

⁴ Cf. E. C. Corti, *Das Haus Rothschild in der Zeit seiner Blüte* (Leipzig, 1928), chap. ix, and L. H. Jenks, *The migration of British capital to 1875* (New York and London, 1927), chap. ix.

⁵ Telegram, Austrian legation at Brussels to ministry of foreign affairs (Becke to Larisch), Sept. 10, 1865. Documents, unless otherwise indicated, are in the Haus-, Hof-, und Staatsarchiv, Vienna, in a folder marked "Mission des Sectionschefs Freiherrn Karl von Becke nach Paris und London wegen Unterhandlung eines Anlehens. 1865," with *Varia d'Angleterre, 1865*.

question of the Reichsrat, but entered into some discussion of the details, promised to write to the London branch of the house, and seemed disposed to act with Baring.⁶ After another interview on the following day, Becke reported that the affair was making progress. Baron James still made his action dependent on the co-operation of the London branch, to which and to Baring he promised to write. He also laid much weight on the conclusion of Anglo-Austrian [?] treaty of commerce. To insure the desired co-operation, Becke advised direct and personal pressure on the London Rothschild by the minister of finance, and on Baring through Mr. Somerset Beaumont, M.P., who had been instrumental in founding the Anglo-Austrian Bank and who was active in the commercial negotiations.⁷ In response to this suggestion, Count Larisch telegraphed via the Austrian embassies in Paris and London to "Herr k. k. General Consul James Freiherr von Rothschild" and to "Herr k. k. General Consul Freiherr von Rothschild" urging their support of the loan.⁸

The effect of these messages, however, was weakened by the fact that on the same day, September 20, an imperial manifesto suspended the Austrian constitution, an action practically equivalent to its abolition.⁹ In a letter to a friend in the Vienna foreign office, Count Mülinen wrote that he had done all in his power to counteract the unfortunate effects of this news at Paris. He was quite at ease with respect to the French minister of foreign affairs but not so about Rothschild.

I judged it advantageous not to lose a moment in conveying the news to Baron James, in whose hands we are and whose good graces we must capture at any price. The baron is, above all else, vain and he could not but appreciate my alacrity. So he consented to receive me today [September 21] although he is immured for two days on account of the great Jewish holidays. . . .

⁶ As news of parallel negotiations at Vienna was having a bad effect at Paris, Mülinen warned his government against dealings with Erlanger and Pereire, rivals of the Rothschilds. Mülinen to ministry of foreign affairs, Sept. 18, telegram No. 53.

⁷ Mülinen to ministry of foreign affairs, Sept. 19, telegram No. 54.

⁸ Draft telegrams from Larisch, September 20. On the importance of these titles for the Rothschilds, cf. Corti, *Der Aufstieg des Hauses Rothschild* (Leipzig, 1927), chap. v.

⁹ Cf. Josef Redlich, *Das österreichische Staats- und Reichsproblem* (Leipzig, 1926), II, 425-29, 432-34.

At first he was dismayed at the news I gave him, but little by little, my explanations, my arguments, my appeal to the power which he wields, to his devotion to Austria, and to his own interests calmed him a little. None the less, he regrets that the manifesto appeared a fortnight too soon and increased the difficulty in the way of the loan. After an hour's conversation with the baron and his two sons, I gained the impression that there will be delays and fresh difficulties but that with determination and at the cost of some new sacrifices which will take the form of a percentage on the price of issue, we will end by winning the match. . . . Tomorrow, I plan to begin working on the French press, I am in touch with four or five papers.

Permit me to add a few more words about **Rothschild**. Baron Becke is of the opinion that **our financial fate is in his hands** and that if we don't succeed with him, we won't accomplish anything of consequence with the others. We must, then, make the sparks fly and, especially, flatter old man James. Anything pleasing to his conceit is worth one or two per cent. The telegram of Count Larisch had a magic effect. How would it be if we gave him a *grand cordon*? It was the cross of Stanislas that made the Russian loan. Has he the iron crown of the first class? If not, can we let him hope for it? . . .¹⁰

Mulinen's hint was taken and he was authorized to let **Baron James hope for the *grand cordon* of the iron crown if the loan was made.** Baron Becke found his attitude toward the loan much more favorable after this intimation.¹¹

The decision, however, depended upon **London**. The first news was promising, but Baring had insisted on a full week to assure himself on the question of legality. The **Vienna** newspapers of September 23 had stated that the suspension of the Reichsrat did not involve that of its committee for the control of the public debt and **James Rothschild** was of the opinion that an official declaration to that effect would reassure the "formalistic Englishmen." This declaration was made at once.¹² In addition, Count Kalnoky, secretary of embassy at London, was instructed to try to get the British ministers to use their influence with **Baring** and with the London representatives of **Hope and Company**.

¹⁰ Mulinen to Meysenbug, Sept. 21.

¹¹ Draft telegram, in Meysenbug's hand, to Mulinen, Sept. 24, Mulinen to ministry of foreign affairs, Sept. 26, telegram No. 58.

¹² Mulinen to ministry of foreign affairs, Sept. 26, telegram No. 58, draft telegram, in Meysenbug's hand, to Mulinen at Paris and to Kalnoky in London. The committee of control of the public debt, of which Anselm Rothschild was a member, held a meeting on Oct. 3.

Although the semi-official press bureau at Vienna announced that the loan was "as good as concluded,"¹³ the actual negotiations were dragging on slowly. Kalnoky had little expectation of aid from the British government. Rothschild, to be sure, spoke rather favorably and promised a decision "early next week" but when they met again on October 3, the banker found serious obstacles in the way of the loan. Its success would depend upon conditions to be accepted by the imperial government. Among them, he mentioned security as to the legality of the loan and, above all, recognition of the Kingdom of Italy. To the latter, Franz Joseph himself wrote the answer on the margin of Kalnoky's telegram: "*Davon kann nie die Rede sein.*"¹⁴

At Paris, Becke and Mülinen were having so little success that they found it difficult to avoid a rupture of the negotiations. Uncertainty as to the legal position of the committee for the control of the public debt, the "continued prattle" of some of the Vienna newspapers, the rapid rise of the discount rate at London and other financial centers, all had their effect on the attitude of the bankers.¹⁵ Bismarck's intrigues seem to have been another factor in the delay. On his way to the famous interviews with Napoleon III at Biarritz, the Prussian statesman spent two hours with James Rothschild. Mülinen reported to Vienna:

I do not know what passed between them, but I do know that the evening before, at Ferrières, the old baron [James Rothschild] was very well disposed and drank to the success of *all* our wishes, . . . while after the visit in question the negotiations took a turn for the worse. The rumor spread that M. de

¹³ H. Schulthess, *Europaischer Geschichtskalender, 1865* (Nordlingen, 1865), p. 205.

¹⁴ Telegrams from Kalnoky, Sept. 27 and Oct. 3.

¹⁵ The Bank of England discount rate was 4 per cent on August 3, 4½ per cent on September 29, 6 per cent on October 6, and 7 per cent on October 7. Mülinen wrote to Meysenbug, Oct. 12, in explanation of this that, while the crisis in the cotton market counted for something, other causes contributed: "Le monde financier sait positivement que l'Autriche s'occupe d'un emprunt et il tache de faire jouer des mines et contremines pour l'avoir à meilleur compte. Il en est qui accusent les Rothschilds d'avoir contribué au mouvement pour avoir de meilleures conditions et qui prétendent que le mouvement un fois donné, il a dépassé leurs intentions et qu'il est devenu une arme entre les mains de leur adversaires, Pereire et C[ompagn]ie."

Bismarck has offered 80,000,000 thalers for Holstein. One of Rothschild's sons, Alphonse, went so far as to tell one of my colleagues that we ought to accept the proposition and then we wouldn't need the loan!¹⁶

The idea that Austria might relieve her financial situation by the sale of her share of the duchies had been in the air for some time. At Schönbrunn, in August, 1864, Bismarck had first suggested buying Austria's share, but Franz Joseph, spurred on by Biegeleben, the influential counselor for German affairs in the foreign ministry, demanded compensation in land. In January, 1865, several newspapers took up the idea of a money payment and by March the plan had gained some ground, especially among the bankers. Bismarck's friend, Bleichröder, was corresponding with Moritz Goldschmidt, the banker, at Vienna, and Anselm Rothschild brought Ignaz von Plener, Austrian minister of finance, to discuss the matter with Werther, the Prussian minister. Franz Joseph, however, remained adamant about Holstein even after the sale of his rights to Lauenburg had set a precedent.¹⁷

Whatever may have been the intention of Bismarck and the wish of the financiers, there can be no doubt that Mülinen was acting completely in accordance with the intentions of his emperor when he took the first available opportunity for a categorical rejection of the scheme.

Towards the close of our conversation [he wrote], James Rothschild said to me suddenly: "Why do you not accept the offer that is said to have been made to you? Let them buy Holstem." . . . I replied to the baron in the presence of his two sons that I could not countenance his insinuation. Although I had no instructions on the subject, I believed that I must state to him my personal opinion that the Imperial Government was not contemplating that contingency. The baron interrupted me to state that it was just a Stock Exchange rumor like that about the sale of Venetia and that it had not come to him from any minister or diplomat. I replied that I had but too much reason to infer the source of these fine projects which had been reaching me for some time from all sides. Since he had just mentioned Venetia, I felt an additional obligation to act with vigor against those who were attempting to mislead the public as to the intentions of my government. Never could it

¹⁶ Mülinen to ministry of foreign affairs, Oct. 7, 9, 11, telegrams Nos. 62, 63, 64; Mülinen to Meysenbug, private letter, Oct. 12.

¹⁷ Cf. Clark, chaps. iii and v, and pp. 311-12. Through Bleichröder, Bismarck was using James Rothschild as a channel of communication with Napoleon III. R. Keudell, *Fürst und Fürstin Bismarck* (Berlin and Stuttgart, 1901), p. 194.

accept even a discussion on the basis that people were trying to establish by bringing forward Holstein in order to arrive at the famous scheme for the purchase of Venetia. . . . I was convinced that rather than permit the integrity of the empire to be meddled with, Austria would stake her last man and her last florin. . . . If foreign capital was going to put itself at the service of our enemies, it would be the first to suffer; it would not prevent us from finding at home the means to ward off the blows that they wanted to deal us.¹⁸

Baron Becke, too, began to take a firmer tone in his negotiations with James Rothschild; on October 19, he was forced "to show his teeth," to make the baron understand that there were limits to everything and that in spite of his desire to act with the house of Rothschild, his patience would soon be exhausted. The menace that the negotiations might be broken off brought a very friendly letter from Baron James and an invitation to call on him again. Becke found the banker, who the day before had termed him a charlatan for offering to conclude a loan at that moment, in quite a different mood and "himself ready to pass as the charlatan."¹⁹ The two Austrians were delighted with the turn affairs had taken. "Yesterday almost hopeless," they telegraphed to Vienna, "today decisive change. . . . Baring and Rothschild now want to conclude the loan and today, for the first time, we could get down to details."²⁰

From London, too, the news was encouraging. Lord Rothschild had been asking for the recognition of the Kingdom of Italy as a measure that would have a favorable influence on public opinion, especially in England, and would be followed by a great improvement in Austrian credit. Even signs of willingness to recognize would be of great value.²¹ Now, he seemed ready to come to a decision without this and had agreed with Baring to discuss the details with Becke in London. But unless the latter were prepared to consider "reasonable" conditions and to give due weight to the advice of men who had a thorough

¹⁸ Private letter to Count Mensdorff, Oct. 20. The end of the letter with the signature is missing but the handwriting is that of Mulinen. The conversation with Rothschild took place on or before Oct. 15. On the projects for the sale of Venetia, cf. Clark, p. 307, and references there cited.

¹⁹ Mulinen to Mensdorff, Oct. 20. Mulinen suggested that Rothschild did not want the hen with the golden eggs to pass into other hands.

²⁰ Mulinen to ministry of foreign affairs, Oct. 20, telegram No. 70.

²¹ Kalnoky to Mensdorff, Oct. 4, No. 35A-B.

knowledge of the English money market, he might as well not come. "As Friday is the funeral of Lord Palmerston and as Rothschild does not come to the City on Saturday nor Baring on Sunday," they were prepared to meet him at the beginning of the next week if he decided to come. In Count Kalnoky's opinion, Lord Rothschild hoped that the Austrian government would yield to necessity and grant his terms. He spoke from time to time of the many embarrassments that would arise for it if the negotiations should fail and said that in this event it would be impossible to get the money elsewhere. Nevertheless, he seemed a little suspicious and not without anxiety that some arrangement might be made without the house of Rothschild.²²

These suspicions were about to be realized. Through the mediation of Samuel Haber and of Altgraf Salm, representative of a group of Vienna banks, Mülinen and Becke had established contact with a number of other Parisian bankers.²³

Rothschild is making unacceptable propositions [Mülinen wrote to Mensdorff], but it is possible that they will improve, for with the old baron, tomorrow in no way resembles yesterday. One who is a charlatan in his eyes today may be a profound financier tomorrow. But in any case we will have to pay with real concessions—tax exemption for the [Rothschild controlled South Austrian] Lombard [Railway]—for the concessions he makes to us. On the other side, we meet a union of the greatest Parisian houses, among them Marquart, Hottinger, Mallet, Fould, the Crédit Foncier, etc. This consortium begins by offering us much more than Rothschild and without asking anything in return. It may be objected that this latter combination does not have the prestige of Rothschild-Baring. I admit it and it is for that reason that for seven weeks we have done the impossible, at the price of listening to some pretty hard things from the lips of Baron James, in order to go along with him.²⁴

For the moment the Austrian government decided not to break with the Rothschilds. Mülinen and Becke were authorized to concede the tax exemption for the South Austrian Lombard Railway.²⁵ But when James Rothschild refused to sign a supplementary convention to the effect that the concession

²² Kalnoky to Mensdorff, Oct. 25, No. 39B.

²³ Mülinen to Mensdorff, private letter, Oct. 20, Oct. 24, 25, telegrams Nos. 72, 73.

²⁴ Mülinen to Mensdorff, private letter, Oct. 28. Ernst von Plener, I, 47, estimates the value of the tax exemption at one and a quarter million gulden per annum.

²⁵ Larisch to Becke, Oct. 27, Belcredi to Mülinen, Oct. 30, telegram.

would be null and void if the loan were not granted, they decided that the limit had been reached. "It is impossible for me to accept this pretension," Becke telegraphed to Vienna on November 1, "and I have decided that if he does not yield by tomorrow, I will take advantage of the authorization . . . to begin negotiating with Haber." Baron James continued to be "obstinate," so Becke turned to the rival group. Hoping to cover up his game and fearing lest Haber's definitive offer should be insufficient, **he did not formally break with Rothschild, but went to London "to evade any pressure in Paris and, if possible, to win Baring for the new combination."**²⁶

In London, Count Wimpffen, of the Austrian embassy, had tried to prepare the terrain for Becke. He believed that Rothschild really wanted to conclude the loan and feared a rupture, but found that he was intriguing against Baring and other rivals. Earl Russell seemed sympathetic and said that he had expressed his sympathy for Austria to Rothschild and other financial notabilities. Russell's platonic friendship was, however, probably less representative of the feeling in financial circles in London than Clarendon's displeasure with the progress of the Anglo-Austrian commercial treaty. "He accuses us," Wimpffen wrote, "of simply wanting to gain time until a loan can be concluded in England in order then to break off negotiations as soon as we have it."²⁷ Further negotiations served only to convince Becke that the London market was "hermetically closed" to new Austrian securities.²⁸

The hesitation of the Austrians to break with the Rothschilds came to an abrupt end when the *Wiener Presse* of November 10 published an article bitterly attacking the demand for concessions to the South Austrian Lombard Railway. Larisch tele-

²⁶ Becke to Larisch, Nov. 1, telegram No. 76; Mulinen to Mensdorff, Nov. 3, telegram No. 77; private letter, Nov. 11; Kalnoky, Nov. 4, telegram No. 29

²⁷ Telegrams from Wimpffen, Nov. 2, 5, 6, Nos. 26, 30, 32; private letter, Wimpffen to Mensdorff (?), Nov. 8. On the negotiations for the treaty of commerce, cf. Mrs. Rosslyn Wemyss, *Memoirs and letters of Sir Robert Morier* (2 vols., London, 1911), II, chap. xvii.

²⁸ Telegram from Kalnoky, Nov. 8, No. 33; Becke's speech in the Reichsrat, July 13, 1867, *Stenographische Protokolle über die Sitzungen des Hauses der Abgeordneten des Reichsrathes*, 4th sess., I, 362.

graphed to Becke that an agreement with the Rothschilds was henceforth out of the question and urged him to conclude the loan with Haber's syndicate as quickly as possible. A speedy arrangement was the more necessary as the Vienna papers were beginning to publish details and Herr Schnapper of the Bodencreditanstalt was beginning to rig the market.²⁹ A few days were needed to arrange the details and the final contract was signed on November 14.

The subscriptions were opened on Monday, November 27, and the loan was oversubscribed on the first day. Most of it was taken at Paris, where its success was undoubtedly due more to the auspices of the Comptoir d'escompte and to a well-financed campaign in the press than to the credit of the Austrian treasury.³⁰ The position of the latter is evidenced by the terms on which the loan was floated. The bonds were sold to the public at 69, the Austrian treasury received $61\frac{1}{4}$. In round numbers, the treasury received 90,000,000 gulden and contracted to repay 157,000,000. The resulting rate of interest was about 9 per cent and the bankers' profit 28,500,000 francs.³¹ The State Debt Commission, in its report of May 11, 1866, stated that the conclusion of this loan, at a time when peace was not yet threatened, had been under the most unfavorable and burdensome conditions and had exerted a depressing effect on Austria's finances. Becke, on a later occasion, justified his action on the ground that there was no choice other than the loan or bankruptcy.³²

For the moment, however, the negotiators rejoiced in the success of the loan and in the discomfiture of the Rothschilds. Mülinen had been of the opinion that if the loan were issued at 65, it would be satisfactory. The Austrian treasury would receive a net return of $61\frac{1}{4}$ whereas the last Italian loan, which

²⁹ Draft telegram to London and Paris, Nov 10

³⁰ *Journal des économistes*, XLVIII (1865), 476, *Economist*, XXIII (Nov 27, Dec 2, 1865), 1427, 1460, Plener, I, 48, Gramont to Drouyn de Lhuys, Nov 29, 1865, *Les origines diplomatiques de la guerre de 1870-1871*, VII, 210, Metternich to Mensdorff, Dec 2, 1865, Haus-, Hof- und Staatsarchiv, P A Frankreich, IX, 77

³¹ Cf *Le Moniteur universel*, Nov 25, 1865, p 1450, *Economist*, XXIII (Nov 25, 1865), 1452, *Journal des économistes*, loc cit, Plener, I, 47

³² Beer, 333, *Stenographische Protokolle*, 4th sess, I, 362.

had been floated at 68, had netted only 59.60. "A higher rate, say 68, would have the double advantage of raising the price of our older securities on the Vienna Bourse and of securing to the subscribers to the new loan advantages calculated to entice them in the future." The actual price, 69, was, on the basis of this reasoning, a veritable triumph. In addition, the loan represented, Mülinen wrote, the "naturalization of Austrian securities in France." Hitherto, French financial operations in Austria had been marked by losses. The essential point, then, was to ensure substantial profits for the contracting bankers in so far as was compatible with the needs of the Austrian treasury. That result, he believed, had been obtained without the necessity of submitting to any political demands. Indeed, the intervention of Napoleon III, which had secured the admission of the new bonds to the Bourse, gave evidence of a sympathy for Austria that seemed to promise immense political advantage.³³

As to the Rothschilds, Mülinen reported:

[Baron James] after having lured us on for eight weeks . . . now sees the concession for the [South Austrian and] Lombard [Railway]—a net profit of 28 millions—escape him and begins to menace with a countermine. It will be useful perhaps to reply to his threat by the threat that on the day on which it is confirmed that he is among our adversaries the Austrian lines will be separated from the Lombards.³⁴ Such a measure will surely stop him. We must expect strained relations with Baron James and prepare to cope with him by every means. . . .³⁵

When Prince Metternich, the Austrian ambassador, returned to his post at Paris, James Rothschild called at once to exculpate himself. He complained of the way he had been treated,³⁶ tried

³³ Mülinen to Mensdorff, Nov. 11. Metternich, on Dec. 2, in his dispatch No. 49A, expressed similar opinions; in his Nos. 49B and 49C of the same date he discusses the political significance of the loan (Haus, Hof, und Staatsarchiv, *P. A. Frankreich*, IX, 77). On this and Napoleon's intervention, see *London Times*, Paris correspondence, Nov. 25, Vienna correspondence, Nov. 29; *Les origines diplomatiques*, VII, No. 1669; Clark, p. 300.

³⁴ On the complicated situation of the Rothschild railroads in Austria and Italy, see *Geschichte der Eisenbahnen der oesterreichisch-ungarischen Monarchie* (Vienna, Teschen, Leipzig, 1898), I, 326-31, 342-43, 430-36.

³⁵ Mülinen to Mensdorff, Nov. 11

³⁶ Larisch had instructed Becke in a draft telegram on Nov. 12 "Beschwichtigen Sie Rothschild vorläufig mit Hoffnungen über deren Erfüllung wir uns noch näher verständigen müssen."

to discredit the firms composing the consortium, and claimed that he had intended to take the loan on terms that would have been very advantageous to the imperial treasury.³⁷

The Rothschild archives are inaccessible. Without knowledge of the correspondence of the members of the firm, it is impossible to say what their intentions really were and what they thought about their defeat. That they hoped to use the embarrassment of the Austrian government to secure financial advantage for their railroads is clear from the course of the negotiations. The unsolved problem is the cause and extent of their political interest. Mülinen stated that everything, "even admissions which he has made to a mutual friend," went to prove that James Rothschild had been acting at the instigation of Bismarck.³⁸ Becke, in defending his policy before the Reichsrat in 1867, suggested that the financiers were opposed to the suspension of the constitution in 1865: "capital as a rule is constitutional."³⁹ It is possible, too, that the suggestions about the recognition of Italy and the sale of Venetia may have some connection with the secret mission of the Italian Count Malaguzzi to Vienna in the fall of 1865.⁴⁰ There is no direct evidence for any of these conjectures but whether or not they are true, it can hardly be doubted that in urging the recognition of Italy, in favoring the sale of Venetia to Italy and of Holstein to Prussia, the Rothschilds were acting in their own interest as well

³⁷ Metternich to Mensdorff, Dec 2, No 49A

³⁸ To Mensdorff, Nov 11, 1865 In a letter to Roon on July 3, *Die Gesammelten Werke*, XIV, Part 2, 697, Bismarck had written "Unsre Aufgabe bleibt, durch eigne Geldoperationen die von Oestreich beabsichtigten lahm zu legen und damit für Erhaltung des Friedens zu sorgen" Cf note 17 above

³⁹ *Stenographische Protokolle*, 4th sess, I, 362, Beer, p 334

⁴⁰ A. Luzio, "La missione Malaguzzi a Vienne nel 1865-66 per la cessione del Veneto," *Risorgimento italiano*, XV (1922), 125-200, 414-48, XVI (1923), 213-60 That both the French and British governments favored this solution of the problem must have been known to bankers as well informed as the Rothschilds When, in the spring of 1866, Lord Clarendon spoke to the Austrian ambassador of the sale of Venetia, he added that James Rothschild was of the opinion that Italy would not consider £40,000,000 as too high a price "All the bankers of Europe would most joyfully use their influence to bring about such a result, which would furnish a strong guaranty for the peace of Europe" Corti, *The reign of the house of Rothschild* (New York, 1928), pp 370-71

as in that of the peace of Europe. The recognition of Italy by Austria would have improved the commercial relations between the two states and thus increased the revenues of the Rothschild railroads on both sides of the frontier and the profits of the industries in which they had substantial interests. The sale of Venetia would have removed for an appreciable time the danger of an Austro-Italian war.⁴¹ The sale of Holstein would have helped Austrian finance in two ways. The purchase price would have provided ready cash in lieu of or in addition to the loan. The withdrawal of the Austrian troops from Holstein and the lessening of the tension with Prussia would have permitted a considerable saving in the military budget. The consequent advantages to a firm specializing in government loans must have been obvious.

The attempt of the Rothschilds to secure these advantages was blocked when the government of Napoleon III decided to authorize the subscription in Paris and to admit the bonds to listing on the Bourse. So long as money could be obtained only from the Rothschilds, "pitiless bills of exchange"⁴² might have extorted from Franz Joseph a reluctant consent to their terms. The Emperor of the French would have welcomed a peaceful solution of the Venetian question to complete the work of 1859. At the moment, however, the sale of Venetia by Austria seemed less likely than that of Holstein. The latter would be a serious blow to Napoleon's policy. It would leave the Austro-Prussian entente intact and would make it unnecessary for Austria to consider the cession of her Italian province. By authorizing the loan, Napoleon gave Austria the courage and the financial means to resist further menaces from Prussia and to avoid a second Gastein. It kept open the prospect of a war that would solve the Venetian question without the expenditure of French blood and treasure. With one great power, the Rothschilds had dealt on equal terms; the intervention of a second spelled defeat.

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⁴¹ Clark, pp. 300-301, 307-11.

⁴² Metternich's phrase, to Mensdorff, Dec 2, No. 49A.