

THE RAVEN OF
ZÜRICH



The Memoirs of Felix Somary

WITH A PREFACE BY
OTTO VON HABSBURG

Felix Somary, known in his lifetime as the 'Raven of Zürich' for his dire but accurate predictions of the future, led a life of action as banker, social thinker, diplomat and relentless battler for the integrity of currencies as the key to democratic survival. Born in imperial Vienna in 1881, he was trained in the renowned Vienna school of economics, and then had an adventurous banking career with the Anglo-Austrian Bank amid the Balkan intrigues that preceded the First World War. Serving with honour in the German administration of occupied Belgium, he warned in vain against the dangers of rampant nationalism and unrestricted submarine warfare.

In the inter-war period, from his pivotal position as a highly-regarded Zürich private banker, Somary prophesied and lived through a vastly destructive inflation and the Great Depression, and their political aftermath, Hitler and the Second World War. Called to an exceptional diplomatic mission by the Swiss Government, he spent the Second World War in Washington, again predicting accurately the break-up of the wartime coalition, the era of Cold War and the dangers of world inflation.

Until his death in 1956, Somary was as unsparing of others as he was strict with himself: his memoirs abound in astringent portraits of statesmen such as Franklin D. Roosevelt and Walther Rathenau, economists from John Maynard Keynes to Joseph Schumpeter, and a pride of bankers, including Hjalmar Schacht and several Rothschilds. Somary's intellectual brilliance, tough-minded realism, and an almost uncanny intuition for the groundswell of those cataclysms that have shaped our century, make his memoirs vivid reading, and his warnings as urgently relevant now as when they were written.

Cover photograph of Felix Somary, taken during his mission to Belgium 1914-15.

Felix Somary, known as the 'Raven of Zürich', was a banker, social theorist, and a tireless battler for the cause of democracy. He was instrumental in the founding of the League of Nations in 1919 and served as its first Secretary-General. He was also a key figure in the development of the League of Nations' financial system. He was a member of the League of Nations' Council of Experts and served as its President from 1920 to 1922. He was also a member of the League of Nations' Council of Experts and served as its President from 1920 to 1922. He was also a member of the League of Nations' Council of Experts and served as its President from 1920 to 1922.

In the inter-war period, he served as a high-ranking official in the League of Nations. He was also a member of the League of Nations' Council of Experts and served as its President from 1920 to 1922. He was also a member of the League of Nations' Council of Experts and served as its President from 1920 to 1922. He was also a member of the League of Nations' Council of Experts and served as its President from 1920 to 1922.

Until his death in 1937, he remained a prominent figure in international affairs. He was also a member of the League of Nations' Council of Experts and served as its President from 1920 to 1922. He was also a member of the League of Nations' Council of Experts and served as its President from 1920 to 1922. He was also a member of the League of Nations' Council of Experts and served as its President from 1920 to 1922.

Cover photograph of Felix Somary in Belgium 1914-15.

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THE RAVEN OF VIENNA

Overleaf: Felix Somary, a photograph taken during his mission to Belgium, 1914-15.

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The Memoirs of Felix Somary

TRANSLATED FROM THE GERMAN BY
A. J. SHERMAN

WITH A FOREWORD BY
OTTO VON HABSBURG



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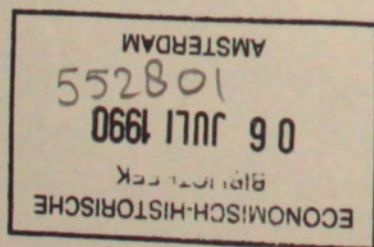
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March 1986

WOLFGANG SOMARY

Foreword by Otto von Habsburg

Our time has often been called the 'age of the expert'. This is certainly true. The rising tide of information makes an increasing number of people know more and more about less and less. We all too often lack the universal person, who has an adequate though not always detailed knowledge of many areas of human life and is consequently able to pass an adequate judgement.

There are those who feel that this type of man is gone. It is also argued that one cannot be universal and expert at the same time. But this is not true. Dr Felix Somary, who passed away only three decades ago, was such a man. On the one hand he was one of Switzerland's leading bankers and certainly his time's outstanding expert on economic crises. He was one of the very few to predict the big crash of 1929, and thus helped those who trusted him to preserve their assets amidst general ruin. But Somary was also a universal man. Those who knew him well were aware of his profound knowledge of the arts, literature, ancient cultures, history, politics and, last but not least, science. It was a great experience to be a guest in his wartime apartment at the Shoreham Hotel in Washington, where he gathered not only the best brains of statesmanship and military life, but also those scientists who were instrumental in the greatest discoveries of that stormy period.

Somary not only integrated many areas of human knowledge. He was also a living witness of history. His roots were in the old Austro-Hungarian Empire with its great supranational tradition and its remarkable Vienna school of economics. He worked as quite a young man with the unforgettable Böhm-Bawerk, went with him to the World Fair in St Louis, and played a major role in wartime economics between 1914 and 1918. He was subsequently a most active figure in the period between the two wars. Foreseeing the second world conflict as an inevitable consequence of the peace treaties after 1918 – in this he was as much a visionary as the late Jacques Bainville – he advised his new homeland, Switzerland, concerning the need to prepare economically for such an eventuality. It was hence logical that he represented the trade and finance interests of Switzerland in Washington in the course of the war, where he not only did an outstanding job for his country, but also was a respected adviser to many leading people who had decisive tasks not only in the war but also in the preparation for the post-war period. Especially Chief Justice Stone, who was gravely concerned about the future, often consulted Dr Somary.

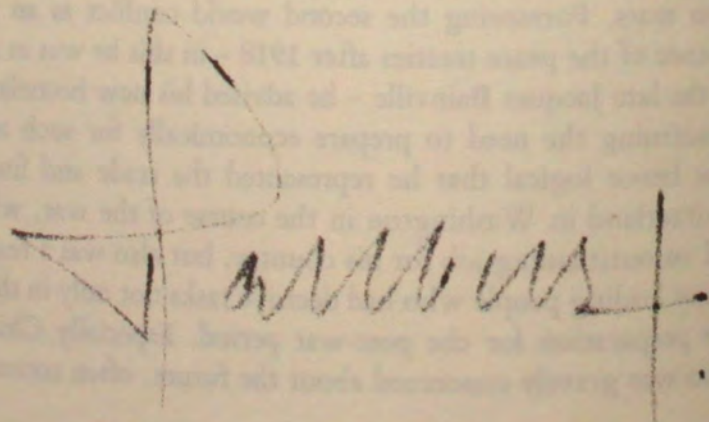
When the latter had to realise that his advice was not taken in the highest Allied quarters, he was not discouraged. In the post-war years he tried unrelentingly to show to those who were willing to listen to him what would be in store for us. Expressive of his concern was his outstanding book *Krise und Zukunft der Demokratie* of which the late Carl J. Burckhardt, a universal man like Somary himself, wrote in the *Neue Zürcher Zeitung* that it might not be read in his time but that the day would come when Somary would be as much appreciated as Tocqueville with his analysis of the United States.

Somary thus lived history and, thanks to his all-embracing formation, had a penetrating vision. His memoirs are nevertheless marked by his great modesty. Somary always wanted to be more than appeared on the surface. He did not care for publicity and public recognition. He tried only to let others benefit from his wisdom.

If there is an undertone of melancholy in these memoirs, it is because Somary suffered the fate of prophets. They are always tragic figures because few want to listen to them when they reveal the truth. But while Somary's fate was thus often sad, there was much compensation in a most happy family life, a wonderful wife who had deep understanding for someone so exceptional, and a circle of real friends. Perhaps it would have been a consolation if he could have seen that three decades after his sudden death his memory is coming back to life. Today, when we enter a critical stage, his teachings once again motivate young people in politics and economics. The prophecy of Carl J. Burckhardt becomes true: people read Somary.

In this sense I wish the English publication of Felix Somary's memoirs a well-deserved success. Together with *Krise und Zukunft der Demokratie*, which at present is not available in English but has numerous readers in the German language, it is an invaluable source of wisdom. Let us hope that those responsible for our fate will follow the path which he traces for us.

October 1985



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1. Early Years

I was born in Vienna on November 20, 1881, to Dr Simon Somary, an Imperial and High Court advocate, and his wife Fanny. I was their sixth child: the four older ones had died of diphtheria, which was then incurable. The fifth child, my sister Ella, and later the seventh, my sister Paula, were bound to me throughout our lives in the closest intimacy. They had learned from our parents what 'family' can really mean: the tacit understanding, characteristic of genuine families, that in all life's vicissitudes one considers first others and only then one's own needs. Those who have experienced family life of this kind are fortunate indeed; it brings a deep happiness that nothing else can replace.

My father's law office and our home were at that time linked; the participation of the family in Father's professional life, and his in the life and education of the children, were much closer than in big cities nowadays. Even as small children, we learned respect for Father's profession, when Mother admonished us to silence, with a finger on her lips, because clients were discussing their business in the office nearby, or Father was involved in work and not to be disturbed. For us, Father's work was almost sacred, and we valued the notion of 'profession' so highly that later the word 'job' struck us as almost insulting.

The 'inner city', the ancient centre of Vienna, surrounded by a wall until the third quarter of the 19th century, had barely 60,000 inhabitants in my youth, but it contained the Government buildings of the great Austro-Hungarian Empire, the Supreme Court, the University and leading arts institutions. Everything outside the centre was known as 'Vorstadt' — the suburbs — which almost meant the same as 'provinces'. Aside from certain residential quarters containing substantial detached villas, the 'Vorstadt' was the home of trade and industry and working-class dwellings. The arts, sciences, professions and bureaucracy were all concentrated in the centre of Vienna, and almost a quarter of that was taken up by the Kaiserburg with its courtyards, gardens and great art galleries. When we were children, our favourite places to play were the vast square in front of the Burg and its adjacent Volksgarten. Before I was ten, my sisters and I were keenly interested in what went on in the other buildings.

The complex of buildings known collectively as the Hofburg contained a group of art and scholarly institutions that for the supreme value of their collections, their historical significance and the quality of their cultural contributions were scarcely equalled anywhere in the world. There was the

Treasure Chamber (*Schatzkammer*) with the crown of the Holy Roman Empire; further along, to the left, the Court Chapel (*Hofkapelle*), in which the most beautiful sacred music, which I can still hear in memory, was performed each Sunday. Still further was the Spanish Riding School, which surely belongs among the art institutions, for here a sport was transmuted into art. In the adjacent Josefsplatz there stood Fischer von Erlach's masterpiece, the imposing Library building with its splendid reading-room and choice collection of volumes. Then came the Albertina, with its unique collection of drawings and prints; and finally the Opera which, at that time under Hans Richter, Richard Wagner's collaborator, and later under Gustav Mahler, put on productions of unparalleled beauty. In the southern wing of the complex were the art and natural sciences collections; in the west wing, the Schauspielhaus and the Burgtheater, whose Shakespeare productions remained unforgettable to two generations. From the time we were ten years old, my sisters and I were 'planted' at least three times a week in the standing-room section at one or the other of these theatres, and saw the masterpieces of all nations in the most outstanding productions. Never since have I encountered more enthusiastic or more critical audiences.

All these extraordinary riches seemed to us part of daily life, since they were in the immediate vicinity of our home. Our parents first introduced us to all this, and then at an early stage drew our attention to the essence, to the best. Thanks to them, we saw the original of Dürer's 'Green Passion' and not a copy, as was shown to other visitors. 'If permitted to see this, one really ought to kneel,' my father said to me at the time. We learned quite early to value quality. We were able to enjoy all this splendour to the full, and in most places almost alone — because, except for theatre, most of the Viennese didn't bother about the other superb treasures that they could so easily have enjoyed.

Our parents asked us daily what we had seen, and then shared with us their own wide knowledge, much of which has remained with us throughout our lives. In the spring and autumn I made Sunday excursions with my father to the Vienna woods, and sometimes the Alps. In the summer there was mountain climbing, which my father loved passionately; my mother, who preferred less strenuous exertions, used to say with a loving smile, 'he can't see a mountain without climbing up it.' The mountains, which for so many centuries had been the terror of travellers, had become within no more than two generations the greatest of summer and sport resorts.

How short nonetheless this period of Alpine sports was: it lasted

essentially for hardly two generations, for even by 1900 skiing began at Lilienfeld near Vienna, brought by Zdarsky from Norway; and with it summer mountain-climbing was eclipsed in importance. I well remember how my heartbeat quickened when my father, his face beaming, called out to me on a Saturday afternoon, 'We're going up to Rax!' Fifty years later I saw young American soldiers on leave, after the Second World War, driving past the Urnersee with indifference, without so much as an upward glance.

We spent our holidays in my early childhood in the immediate vicinity of Vienna, and later in the Salzkammergut, the part of Upper Austria richly endowed with lakes and forests. The law courts were in session throughout the year, and Father came to us only on weekends, taking the late afternoon train from Vienna on Saturdays which arrived toward midnight, returning on Sunday night. There were sleeping cars only on international trains, and they were considered a luxury: 'luxuries' were reserved only for a few holiday occasions; otherwise they were considered a vice.

In the Communist literature of our time, the middle-class person, the bourgeois, is depicted usually as an exploiter and an idler whose sole activity is 'clipping coupons' — something which, incidentally, I have never seen a private individual do — and the outside world sees the Austrian as a *bon vivant*, who thinks of nothing but food. The era of Franz Joseph is regarded, under Hollywood's influence, as some fool's paradise in which happy bourgeois spent their youth in dance halls, their middle years in coffee houses, and their old age drinking new wines '*beim Heurigen*', while girls and women, right up to extreme old age, were permanently involved in amatory entanglements. How ridiculously defamatory these oft-repeated legends are!

We forget these days that the bourgeoisie originated the theory of the value of labour; and that for the professional middle class, in contrast to industrial workers, there were no time limits on work.

*Winkt der Sterne Licht
ledig seiner Pflicht
Hört der Pirsch die Vesper schlagen —
Meister muss sich immer plagen!**

That was true also two generations after Schiller — there simply were no

* When the star's light signals the end of his tasks, the apprentice hears vespers sound — but his master must still continue with his toil!

limits to work. Often Father worked after the evening meal — we were able to gauge how long by the hour when our parents bent over our beds to say good-night — and even when their labours went on till midnight or later, they would be up in time to waken us at 7.00 in the morning.

Our style of living was extremely simple: for breakfast there was coffee with milk and a piece of roll or bread; at midday on the five weekdays there was soup, beef and vegetables, often Vienna specialities; in the afternoons coffee, and evenings simply buttered black bread and fruit. We had roasts only on Sundays. The excellent Vienna spring water was our sole drink: I saw my parents drink wine only once, on the day of their silver wedding anniversary.

My mother had unusual musical talent, and her piano playing had won the approval of Anton Rubinstein. Under her influence, my sister Ella studied piano and was further trained in the master classes of Leschetitzky. My sister Paula made her debut as an actress at the age of fifteen in the Deutsches Volkstheater in Vienna, and later acted with great success at the Royal Theatre in Berlin, often as partner of Josef Kainz, and at the Lessing Theatre in a full repertoire, from Shakespeare to Strindberg, whose female roles she brought to life for the German-speaking public.

After four years of elementary school — the fifth I was allowed to skip — I enrolled at the Schottengymnasium in Vienna, a justly famed school run by the Benedictine Order, considered the best secondary school in Austria. The curriculum was broad, with particular attention to Latin, Greek, history, mathematics and natural sciences. Partly in school and partly at home we read almost all the Roman and Greek classics, and tackled Middle High German literature in our German studies. The Burgtheater and Volkstheater filled in our knowledge of English, French and Spanish literature.

Since I did not want to be a total financial burden on my parents, I started at fourteen tutoring in Greek, mathematics and history — so that I can now look back on a working life of sixty years. I tutored my students at their homes, as was then the custom, on my two free afternoons, Wednesdays and Saturdays. My remuneration of one *krone* per hour (equivalent to one Swiss franc, but with much more purchasing power) was modest; but then school fees were also low.

In those days, apart from a few horse-drawn buses and the exceptionally expensive hansom cabs there was no public transport in the inner city of Vienna. The usual means of getting about was walking, even for the swift transmission of messages. The telephone was introduced only during my years in Gymnasium; when I was near graduation, the first bicycles and a

few lines of electric trams appeared. The houses, all four or five storeys high, had no lifts. Daily I did more than 12 kilometres on foot, and countless stairs up and down, a far healthier form of exercise than the often pointless bursts of concentrated athletics. The athletics programme in school was limited to gymnastics, swimming, football, snowshoeing and some tennis. In addition, from spring onward there was mountain-climbing — I only went skiing later, in my university years. Riding, fencing and hunting were by definition reserved for the nobility and the wealthy, and in those circles they were pursued with passion and talent. Since, after three hours spent daily running about, I spent at least as much time most evenings standing in the theatre, I hardly led a sedentary life. Walking was the natural thing: riding was an exception. We didn't go as far as in the age of the motor-car, but we saw more: our eyes were more alert, and saw deeper. Even today I can walk for many hours, and I read without spectacles.

Insofar as his schedule permitted, my father took part in all my studies, and through him history and the old classics came alive for me. I still remember his unique interpretations of Catiline; and when nowadays I drive by Terni, I go on up to Amelia, in order to think in that unequalled landscape about Cicero's defence of Roscius Amerinus and my father's commentary. How few students understand this book: most of them torture themselves in boredom with Cicero's vocabulary. Once at supper I mentioned Cicero's statement: 'If my client is condemned, it would be better to go among wild beasts than to go on living in this slough of Romulus.' I said that this was an impossible sentence. Thereupon my father answered me 'Do you know what it was all about? When Sulla undertook to outlaw the democratic party, and each informer was promised the property of his enemy, one of his followers murdered a property owner in Amelia and denounced the victim's own son as the murderer; and without Cicero's defence the innocent son would have been condemned. Therefore, nothing in those words is exaggerated: the language was necessary because of the lawlessness of those times, and indicates the quite rare courage of the defence counsel, who is often otherwise criticised for lack of courage.' My mother remarked that 'such a thing would be impossible today anywhere in the world.' 'Don't say that,' rejoined my father, 'what happened at the height of Roman civilisation can repeat itself in our time. The struggle between brute force and justice is not over by a long shot.'

How clearly I can still see everything in my parental home! Even stern warnings and sharp criticism played their part in shaping my character. One day, when I was twelve years old, our old shoemaker Crejcy was

measuring me for shoes, old-style, kneeling on the ground, and spoke to me in his Czech-German. I imitated him in the same intonation. My father heard it through the open door, called me into his office, and for the first and only time in my life gave me a resounding slap. 'How dare you make fun of that man, insulting him for his own language, the most sacred thing he has on earth? Can you speak his language? Do you speak any foreign language without an accent? How would you feel if you were mocked by one of the natives in some foreign country because of your accent? Leave that sort of meanness to ordinary people; it's to separate you from them that you are attending Gymnasium.' Deeply ashamed, I apologised to the shoemaker. From that moment on, I was immune to the virus of any nationalism.

His colleagues considered my father a wise attorney; they came to him often for advice, and he was generous in sharing his knowledge with them. They would go away and show off by plagiarising his thoughts. He did not take it amiss; for he had inner resources that were more than sufficient. He was more concerned about his clients' affairs than his own, and when he came home for meals still tense from his office, my mother would look at him with her sweet eyes and tell him something amusing about the children or the house. We children saw what a marriage can be, and were grateful.

In the summer of 1899 I completed my final examinations (*Matura*) at the Schottengymnasium and shortly afterwards enrolled at the University in Vienna.

2. University Years, 1899–1904

I was seventeen when I enrolled as a student in the Faculty of Law and Political Science at the University of Vienna. Many in America would consider that somewhat young, but the Gymnasium was the equivalent of high school and college. Nowadays almost everywhere law and political science are separate disciplines; but despite the intellectual specialisation of our studies, their thoroughness could hardly be surpassed elsewhere. Three contemporary American authorities share this view: Robert Hutchins, the former Dean of Yale University and President of Chicago University, praised the Gymnasium of German-speaking Europe, saying that its graduates were far more advanced than American college graduates. Herbert Hoover, one-time President, also valued highly the great Austrian school of economics taught in the Gymnasium, and Harvard University too expressed in a memorial for one of its professors admiration for the high level of Austrian secondary schooling.

It had been eighty-four years since the Congress of Vienna, and both Europe and America basked in the long peace and looked down on the Austrians as incompetents, immature, patiently enduring a tyrant's yoke. The reality was quite different, for the big issues that we were struggling over in Austria had not been dealt with in other countries; on the contrary, they had not even surfaced in those countries, and were to do so only decades later. Nationalism, political anti-Semitism, even Communism, were already fighting issues with us, while in the rest of the world the curious duality of liberalism and imperialism still held sway.

While all the rest in their smug peace and quiet looked down at the Austrian turmoil as if at some curiosity, we young people felt ourselves at the very centre of political events. For our world was far more real than the other: we didn't discuss, we fought; and not, as outsiders imagined, over the questions of the day before yesterday, but about those of the day after tomorrow. When in later decades the new barbarism came flooding in, it surprised the West; for us it was a familiar phenomenon, we had seen it churning with wild and uninterrupted turbulence at the heart of a highly developed and refined civilisation. I say 'we', meaning the entire intellectual youth of Vienna at that time: we stood at a decisive turning-point in history and felt it in our innermost being.

Vienna University in those years gave the impression of a battlefield. At the entrance to the monumental building was the spacious auditorium, and there, almost daily, fights of the most savage kind, with fists and

sticks, took place between students of various nationalities and parties; the losers were pushed out of the auditorium, and the struggle went on along the two ramps that led to the street, until the stone balustrades gave way and the howling mobs found themselves on the street itself. There the police intervened and put a stop to it. Since the Middle Ages, the University had enjoyed immunity from any state intervention, a right which the Government respected punctiliously — but precisely at the point where the University boundaries ended, the most strict law and order were insisted upon. The Austro-Hungarian empire, which contained the two oldest German universities at Prague and Vienna, was justly proud of its tradition of academic freedom. We have learned to value these splendid medieval liberties, now that we have been forced to experience how the attempt at universal freedom ended in total slavery!

There was a continual struggle at the University between the Pan-Germans and the Austrian Germans, between Germans and Czechs, between anti-Semites and Jews: and along with that there was the sharp conflict between members of the Christian Socialist Party, the coalition of the lower middle class and peasants, and the Socialists.

Each of the eight nationalities of the Monarchy felt it was struggling for freedom, and understood by that the right to dominate or indeed destroy its neighbouring nationality — as in fact after Austria's defeat the Germans did to the Czechs in the Sudetenland, and thereafter the Czechs to the Germans. But in this context, the Government reacted sharply against any over-assertiveness, compelling an orderly communal life in the teeth of all fanaticisms and assuring the respective minorities of political and personal freedom. 'Self-determination' in the Austro-Hungarian empire always meant subjugating one's neighbour; freedom, as well as law and order, never flourished of themselves, but always had to be forced through against public opinion. The historic achievement of the Habsburg dynasty was to accomplish this feat for so long. Neither England nor America ever understood this, just as they failed to understand the crucial political significance of the integration of the western Slavs into a Catholic empire.

And the West understood even less the nature of the social strife that went on in Austria. The liberal bourgeoisie which still ruled unchallenged in France, England and America had been squeezed out of the Austrian Parliament. In addition to the national parties and the Social Democrats, a specifically Austrian party had been formed, which called itself 'Christian Socialist'.

The leader of the Christian Socialists, Dr Karl Lueger, had begun his career as a lawyer in the same law office that my father then ran jointly

with Dr Obermayer, but then went at an early stage into politics. His main political idea was to snatch away from the rising Social Democrats their two strongest slogans — anti-capitalism and nationalisation —, attach them to his party and popularise them. His rallying cry resounded against foreign capital — especially against the English — and against the Jews. For the first time, ancient anti-Semitism was openly made the basis for a political programme, and this proved decisive in its success. The coalition of peasants, petty tradesmen and lower clergy in Lueger's party was then something new; it has since proved the model for many similar parties, especially in France and Italy. While elsewhere the political conflict was one between capital and labour, in Austria the chief struggle was between industrial workers on the one hand and the alliance of peasants and petty tradesmen on the other. Since both Christian Socialists and Socialists were hostile to the entrepreneurial class, the fight against capitalism in Austria oddly enough took second place to that between agriculture and industry, between small tradesmen and industrial workers. And there is another unusual phenomenon in this context: the power balance between the two parties, the Christian Socialists and the Social Democrats, still has not altered in more than half a century, through an era in which more happened to Austria than otherwise in ten generations.

The Social Democrats in Austria were the largest Marxist party outside Germany, and the centre of doctrinal strife; their leader, Victor Adler, had been in close touch with Engels. The party was still young, full of radicalism and idealism, and a good part of the young intelligentsia belonged to the movement, including many wealthy men who donated their fortunes to the party. The Socialists were even then the strongest group in Austria; while in England and America there was not yet one single representative of this movement in the legislature.

Liberalism was strong in commerce, among the senior civil service and in the Law Faculty, but without support among the voters. The liberals worked with Catholic conservatives to establish social reforms, including a far-reaching social security system that was more comprehensive than that introduced in America under Franklin D. Roosevelt forty years later. Both civil servants and judges were of an intellectual and moral excellence unequalled either then or subsequently in any other country. To inspire respect rather than fear was the guiding principle; the Austro-Hungarian empire was more successful in that than any other country except Switzerland. Force was used only quite exceptionally, and then with the greatest moderation: all were aware of the shaky foundations on which we stood, and the premonition of an approaching catastrophe had penetrated deep

into the Government and the growing intellectual class. Those two old rabble-rousing cries, anti-Semitism and communism, had been elevated to the rank of prime party slogans; almost all feared where these and indeed nationalism itself would lead.

My father was at that time counsel in a number of political criminal trials that caused a great sensation: he represented individuals who had been attacked by demagogues in actions for criminal libel, in which the juries mostly acquitted the defendants despite the falsity of their slanders, while the appellate courts overturned the acquittals and allowed justice to prevail. On the evening of one of his greatest trial successes, my father said to me: 'This Empire is quite different from the rest of the world. Imagine the Emperor and his Government gone for even one year, and the nationalities would tear each other to pieces. The Government is the fence that separates the zoo of wild animals from the outside world, and nowhere else are there so many and such dangerous political beasts as we have.'

There was no exaggeration in these words; they represented the shrewd diagnosis of an experienced attorney, and they impressed me deeply. Unlike my contemporaries, I was free from that adulation of the masses then beginning its domination of political thought.

Contemporary currents brought with them great dangers for Austria, which were recognised by many people; but few then understood one factor that today so many are beginning to appreciate, namely that the Monarchy was not some historical relic, but the sole possible institutional framework for holding eight nationalities together on Europe's most dangerous frontier. Those who expressed this view were universally unpopular, were considered pushy, socially ambitious, or simply reactionary — that most damning of appellations in an age obsessed with notions of progress. I personally was spared such attacks, since I supported the introduction of universal suffrage that the Emperor forced through at the time, and since I made my political views quite clear to my university colleagues. But many of them expressed their astonishment, either politely or with irony, that a modern young man should be so passionately devoted to a form of government that seemed to them obsolete, rather in the way one might now stare at a twenty-year old at the wheel of a Rolls-Royce. Since I did not aspire to any career in government service, and numbered leading personalities of radical views among my friends, my attitude evoked even more astonishment — it was quite unique among my colleagues.

For the young people held against the Habsburg ruling house precisely those two qualities that were its greatest achievement: its lack of aggressiveness and its non-partisan attitude. Austria was the only great power

that for centuries had not engaged in a war of aggression; but that was deemed evidence of weakness and decadence rather than good sense. The Emperor identified himself with none of the parties, but stood above them; it was in that very period that he pushed through universal suffrage against the strongest resistance. The Holy Roman Empire had combined the unifying principle of equality under the law for all subjects of the Emperor with Christian teaching; thanks to the continuity of the Habsburgs' reign, which had lasted for more than 600 years, much of this spirit was still alive in the country, without its cause being recognised. One may hold all sorts of opinions about monarchy in general — but in Vienna, on that volcano, it was the only possible form of government, which could not be replaced by any other.

No more than 300 metres separated the University from the Parliament building on the Vienna Ringstrasse; if the young people fought almost daily at the University, the conflicts of the Deputies were of equal violence, and were battled with a fanatical passion unknown in other countries. If you went only a hundred steps further on from Parliament, you could see every day — and usually more often — a carriage drawn by two horses drive out of the Hofburg. In it sat the old Emperor and his equally elderly adjutant, and they would set out for Schönbrunn at an easy trot, always at the same hour, and always down the same street. There was no security escort ahead of or behind the carriage, no policeman sat in the vehicle itself; any assassin would have had an easy job. But nobody took the opportunity. The leaders of our modern great empires are driven rapidly in bullet-proof cars, protected by countless bodyguards. Aristotle thus defined the difference between a monarch and a tyrant: the monarch protects his people, the tyrant has to protect himself from them.

Every ideology that was later to cause the world untold grief for a half-century and more was seething in Vienna during my student years: the struggle of various nationalities; Hitlerism, which was then called Pan-Germanism; Communist Marxism; the new heathenism in the guise of the conflict against Rome, and anti-Semitism. Political science was for us less an academic subject than simply the life that went on around us.

Right after leaving the Gymnasium I had written a paper on corporations in Austria, and in it outlined the transition from pure speculation to investment. The little booklet aroused a certain interest: in Italy a young professor, Luigi Einaudi, later to become the country's President, gave the work a searching critique. At the University Karl Menger, the leading economist, summoned me and talked to me about its contents and a number of questions arising from it. I described to him the evolution of my

thesis: the disproportion between a great empire and its limited financial capabilities in Spain under Charles V, and the then dependence of the state on individual private fortunes — to the modern trend in which private fortunes are totally dependent on the state.

As I finished by saying 'What does the greatest individual fortune mean today, compared with the state's budget?', Menger asked me 'How old are you?'

'Not quite eighteen,' I answered.

'When and how have you learned all this?'

'In my father's library, during my Gymnasium years.'

'Would you like to be my assistant?'

'I've just enrolled at the University.'

'Never mind, you can be my assistant only unofficially as far as they are concerned, but I am working on a sociological study, and that will interest you rather more than the formal course of studies. You think in terms of the big picture, and that's what is needed for this project.'

The three Menger brothers occupied an unusual position in Viennese political and academic life. Max was leader of the German liberal bourgeoisie; Karl was the outstanding economist; and Anton, who officially taught civil procedure, was the legal authority for the state of the future, the man who compiled the legislative code of the future Communist state. On his own, and without any political support, he wrote a passionate, slashing criticism of the new draft Civil Code of the German Empire, and thus compelled its revision in more socially responsible ways, a literary success that I admired enormously. His brother Karl, on the other hand, the creator of the theory of marginal utility, was the most scathing critic of economic socialism, and had utterly destroyed the labour theory of value that had prevailed until then.

Two centuries before, John Locke had established the natural law of property through his doctrine of the value of labour, which was in fact scholastic: English liberalism followed. The socialism of the nineteenth century sought, precisely by means of this same doctrine, to abolish property. And now, after a seemingly successful battle over the consistency of the labour theory of value, the entire doctrine was finished intellectually: no serious scholar dared thereafter to attempt its revival. But political life refuses to recognise scholarly findings.

Karl Menger wrote little, but each of his works was highly thought of. He and Anton Menger had assembled unusually comprehensive and carefully collected libraries; that of Karl went ultimately to the University of Tokyo and Anton's went to Moscow, where it was lost to serious research.

In my first two university years, I had to work hard: law studies in the mornings, and my work as Menger's assistant in the afternoons. Sociology was then a new science, and the intellectual current of the times threatened to strangle it in economics. Together with Menger I worked on dividing the project into sub-headings, and listed a series of chapters in my Gabelsberg shorthand that I can scarcely read today: 'To what extent is Christianity a reality, a legal fiction, or a social fiction? Examine: Latin America, North America, Byzantium, Russia, the Continent, international law and Christianity. The sociology of ruling and dependent peoples. The sociology of nomads and exiles (Jews, Armenians).' These are a few examples, fragments culled from my notes. In addition I collected material, both substantive and bibliographical, for Menger's lectures in his final two years as Professor.

In the autumn of 1901, Menger and I had a lengthy conversation in which he said that he was not well, and had the feeling that the project would be too much for his physical strength: he could therefore no longer commit himself to keeping me as his assistant. He added that sociology was work for the end of a lifetime, not the beginning; his first volume would appear only years hence, and I should thereby lose the best time of my life. He advised me to qualify as a university lecturer within three years. Moreover, his colleague Philippovich just happened to be looking for a senior research assistant for his three-volume textbook, and that would be a fruitful occupation. Immediately after this discussion Philippovich invited me to his office and offered me the position; that was an unusual distinction, since I had just entered the third year at the University and was thus only beginning my official study of political science. Philippovich's textbook was then and for the next two decades considered the best work on economics in the German language, and indeed in the opinion of Professor Seligman — in the *Encyclopaedia of Social Science* — the best bar none.

Vienna University was in those years the foremost academic institution for the study of economics: Karl Menger, the leading theoretician of macro-economics, and after him his great students Böhm-Bawerck and Wieser; Philippovich, the master of objective summary; Inama-Sternegg, the first economic historian — all these represented a unique collaboration of great personalities. The seminar discussions were on a high level, since among the students of my class were such unusual talents as Schumpeter, Pribram, Mises, Otto Bauer, Lederer and Hilferding. Not one of these men was to end his life in Austria.

The most interesting seminar was Inama-Sternegg's in the winter term

of 1901 on the business cycle and depressions. I was critical of Juglar's theory on the regularity of business cycles: in that long era of peace, optimism held sway, and only moderate fluctuations in the economy were anticipated; depressions belonged to the past. I investigated the question of the inevitability of depressions over longer periods, and won the seminar prize, a modest 50 kroner. However, mine was decidedly a minority view; although even the Socialists were somewhat uncertain — after all, the matter concerned one of the central elements of their doctrine! The stability of both the economy and of currencies seemed to most optimists of the time to be forever secure. How often in my later life have I again had to defend the thesis of major depressions and their inevitability, even in Socialist states, where they merely take another form.

Of all my colleagues, I was closest to Joseph Schumpeter and Otto Bauer, of whom one belonged to the extreme Right and the other the extreme Left. Both came from the same milieu, and were the only sons of manufacturers from the Sudetenland: neither Schumpeter's pronounced aristocratic attitude nor Bauer's proletarianism had any roots in their family backgrounds. In normal times each would have gone on to manage his father's business, but particularly in our turbulent age the most talented of the bourgeoisie were unable to remain in the centre. Attempts to explain this phenomenon in materialistic terms were quite useless: the choice of direction lay in individual character. What linked me to both these friends was the deep respect we shared for the importance of the problems themselves: it was our very freedom from all narrow-mindedness that made objective discussions possible — but only up to a certain point. Schumpeter and Bauer were both close friends of mine, but never of each other; they showed mutual tolerance and respect, until in 1919 they were both members of the same government, at which point they became deadly enemies.

The character of each was totally different. For Schumpeter, politics was a game like chess; he observed the political struggle as a chess master might, who criticises the moves of an amateur player with complete lack of partisanship; he was pleased by the successful moves of his most extreme opponent. There was something of the snob in him, but it never interfered with his scholarly thoroughness and his honesty. In the profusion of his ideas, he was sometimes contradictory, but never banal. His favourite game was to clarify for his interlocutors what the real issue of a conversation was; and that in most cases so nonplussed the other party as to leave him speechless. Most conversations ended on a conciliatory note; but when he showed his opponent how to play his conversational cards, and then

added ironically that he, Schumpeter, would not have chosen such a gambit, he could be extremely irritating to one's self-esteem. Fanatics of all persuasions thought him a cynic, and he for his part considered them absurd, showing his contempt openly; such an attitude cost him many a defeat throughout his life.

Otto Bauer was a profound and gloomy thinker, a problem even to himself. He had studied philosophy with enthusiasm, and was well aware that the Hegelian dialectic was dead. In solitary labours he struggled despairingly to liberate Marx's thought from the clutches of the dialectic; but, even when he failed in that endeavour, he defended Marxist dogma uncompromisingly against outsiders and sought in comprehensive and unusually interesting research studies to modernise it. I at first thought this dry, humourless, matter-of-fact man incapable of real enthusiasm, but was to learn otherwise. Bauer and his father once invited me to a meeting of the three of us, in which the father urged his son to enter the family business, offering him at the same time the freedom to go on expressing his political faith quite openly. With expressions of the most heartfelt love for his father, Otto Bauer rejected the offer as impossible; and then, as if in justification, began to speak in passionate effusions unusual for him about the ideal state of the future, as if it were to come to pass the next morning.

The ideal state of the future meant for young Socialists of that time what Paradise meant for the early Christians, and therein lay the enormous attraction of socialism for broad masses of people, and for the intelligentsia too, who began to find the sober ordinariness of peace boring. With statesmanlike shrewdness, Karl Marx had carefully avoided personal involvement in the question of building the state of the future: he left that to his junior colleagues. That gave rich nourishment to their imaginations, and compensated them for the silence decreed for them by Party dogma on doctrinal issues. Russian Bolshevism did not strengthen socialism, as the world today believes: it brought 'Paradise' on earth, and thus destroyed both dreams and hope. How terrible the disappointment must have been for those believers permitted to enter that Paradise. 'The twentieth century, this dream of a new era for which the nineteenth century struggled with such high hopes, is crueller, more wicked and more cynical than any period in the past. Our age is an age of lies.' Thus later wrote the man who contributed more than any other to the introduction of the 'state of the future', Otto Bauer's close friend Leon Trotsky.

It was just during my time as a student that the falsity of the materialist conception of history propagated by the monomaniacs of the class war was most vividly demonstrated in Austria: the nationalities question proved

itself stronger than issues of class. The attempt to dismiss it as a bourgeois affair failed, for even the workers began to desert international organisations, and to split up along national lines. In his studies on nationalism, which rank among the best even today, Bauer termed the nation a community of blood and of common destiny — no bourgeois could have taken a position further from materialism. Oddly enough, this thesis laid down the guidelines for Djughashvili-Stalin, who was among Bauer's students a few years later.

In an Austrian monarchy, Schumpeter could have set limits to socialism, Bauer to nationalism, and thus the two could have mutually maintained their balance. Both were destroyed by the demolition of Austria: Bauer, after a botched revolution, ended in exile; and Schumpeter failed as Finance Minister and banker in the Republic. To be sure, he then worked his way up again in German and American universities, but his life seemed to him in the final analysis a failure. He rejected both socialism and the welfare state utterly, not from liberalism but from conservatism: he harshly criticised the weaknesses of the bourgeoisie, who had failed in the brief span when they exercised power to use it appropriately. And then in his old age he was to see the social experiment, which he considered worthless, repeated; he foresaw its failure, predicted a victory for the Communists in the last weeks of his life, and died in disgust.

Since I rejected the labour theory of value, the dictatorship of the proletariat seemed to me the start of a long epoch of tyranny; and tampering with the historical structure of the state I considered criminally foolhardy.

If I thus took my stand a good distance from socialism, personal relations with socialists might well have been considered impossible, especially because of their fanaticism and their strict exclusivity. But I threw all my energies into the task of drawing the working class into government, in order to bring that rising class into co-responsibility. At that time a wave of prosperity, almost unbroken for more than a decade, was apparent in all of Europe: the workers were improving their economic position, and there was no reason to force the granting of political rights by means of revolution. There is no point in discussing dogma with true believers, and I always avoided such discussions with socialists. But I often asked them, just for a couple of hours, to throw away their canonical texts, and I undertook to do the same with mine. That almost always helped.

At that time bourgeois liberalism had been pushed out of Parliament, but it still retained a strong position in universities and the civil service. Attacked on all sides, liberalism maintained itself with remarkable strength

through all the chaos of the next fifty years: and even today Austrian scholars are the leading representatives of economic liberalism in the major American universities — offspring of a state in whose parliament there is not a single liberal member. The defence of their views comes more easily to them than most, for they and their own teachers in Austria have been doing battle with the same opponents for more than five decades.

When I was in my second year at the University, my mother died. In order to help our father somewhat through his terrible loss, we three children became closer to him. He was pleased with the considerable artistic successes of my two sisters, but sought to oppose my penchant for politics. 'Not a profession for gentlemen,' he said.

But everything around me was politics: it was involved in the law world, in the economy, even in philosophy. In Philippovich's seminar we had a series of papers read on the growing limitations to free competition, and their effects on the market; in my paper I called attention to the undermining of the foundations of our economy, without our having quite seen what was going on.

From 1902 and 1903 on, ever stronger disturbances became evident among the Slavic nationalities in the Austro-Hungarian Empire. On the Pacific coast of Russia, there was growing tension with a Japan that in a surprisingly short time had adopted European customs, defeated China, and appeared ready to take up arms against Russian expansion through Manchuria. The Poles were on the alert against Russia, and their nationalist leader, Pilsudski, was subsidised by the Austrian Government. The Czechs sympathised with Russia, which at the time was undergoing a strong industrial expansion, massively supported by French financial aid.

We had a seminar with Inama-Sternegg on the development of East Asia. Socialists like Emil Lederer and Rudolf Hilferding, along with the Polish students, burned with the desire to attack Tsarism. Juraschek presented surprising statistics on the industrial potential of Manchuria, and then Inama himself gave the final paper: certainly Japan had achieved great things in a very short time, but in almost four centuries no European state had been defeated by an Eastern power, and in the Russo-Japanese conflict we were dealing with the largest European state. One had only to compare the raw materials of Russia and Japan, their finances, their currencies. Undoubtedly, Russia was suffering from internal difficulties, but would these surface in the middle of war? Were they not far more likely to crop up at the end of a conflict? Could one seriously assume that Japan, a small island state, would take such reckless risks, and quite on its own, since English assistance would only be available *sub rosa*? Inama could not believe

it, and almost everyone shared his view. But on the night of 8 and 9 February 1904 the Japanese, without a declaration of war, attacked the Russian fleet in Port Arthur and destroyed it.

The news arrived in Vienna after midnight. Towards 2.00 a.m., if I recall correctly, Moritz Benedikt, publisher of the leading Vienna newspaper, the *Neue Freie Presse*, — I had met him through Professor Menger — rang to ask my opinion of the events. I answered briefly: ninety years of peace had come to an end, now the era of wars and revolutions was upon us. Benedikt thereupon asked me to expand my views in a more comprehensive form on the telephone, and to my astonishment I found them next day reproduced in print. As far as I know, that was the sole editorial comment on the events to appear that morning. No other newspaper could so quickly have readjusted its editorial page; the article was quoted widely, and since Benedikt, with a rare generosity, praised my authorship, I was from then on swamped with journalistic assignments at high fees, which made it possible for me to make a vocational choice without concern for financial considerations.

Two conclusions emerged from the Japanese victory: if it had been possible to leap in one generation from feudalism to a modern economy on the European model, then the phenomenon was not unique as so many, particularly of the Marxist persuasion, believed; it was just a successful reorientation of a trading economy, reproducible by any nation. How had the Japanese developed their war economy so rapidly? They had not gone through the stage of free competition to monopoly: they had instead jumped straight into monopoly from feudalism. And if the Japanese had now become direct competitors of the West, did the superiority of the Europeans lie in their working class, or in fact far more among the entrepreneurs? Was not the European worker, compared with his Japanese counterpart, almost a capitalist — or at least a part of European capitalism? Was not that same European worker far closer to the European employer than he was to an East Asian proletarian? Many among the socialists felt the truth in this reflection, but few cared to admit it.

But there was tremendous ferment among the socialist and Polish students. If the small island empire of Japan could fling itself with reckless courage on that enemy of freedom, the Russian colossus, why had Austria remained on the sidelines? Could a better opportunity ever have offered itself to Austria? There were bitter words against the old grandpa at the helm of state; and all sorts of oddly assorted people began to carry on like imperialists. I was hardly ever again in my life to see such heated passion: it very nearly infected even the cool-headed. But the old Emperor's

government took no notice of the young upstarts. A European great power had been attacked by barbarians: it would have been odious to exploit such a situation.

I had to wrench myself forcibly back to my studies, and deliberately close my ears to the exciting news pouring in from the outside world. In the course of my examinations, I wrote a critique of the Austrian tax on shares, especially the double taxation of the corporation and its shareholders. The paper caused a number of resignations from the Government, and I received my doctorate '*summis auspiciis illustrissimi imperatoris Francisci Josephi*' on 13 July 1904.

Since my sister Paula, after a brilliant guest appearance, wished to join the German theatre in Strasbourg, and my sister Ella accompanied her, my father decided, just before his seventieth birthday, to give up his law practice and join them. It would have been difficult for me to remain alone in Vienna, and I therefore decided to go for one year to the University of Berlin before qualifying as a university lecturer in Vienna. However, I had to put off my journey till the end of the year because my father fell ill.

During this period, the head of the Austrian branch of the Krupp family offered a substantial prize through the University of Vienna for the best paper on the theme 'The Common Interest in a Protective Tariff'; papers were to be submitted anonymously. The idea was to justify a protectionist system in which all branches of the economy from raw materials to finished products would be covered by a general protective tariff that would redound to the benefit of agriculture, industry and labour. Such a notion reflected views then held by German and Austrian heavy industry; and it was hoped that the prize paper would provide the long-needed draft programme for the universal protective tariff. In my paper, I decisively rejected the whole notion, which seemed to me inimical to all economic interests, and thoroughly documented my views. I won the prize, but my paper was not published, since it directly opposed the views of the donor. When my name became known, certain older industrialists shook their heads, saying I had missed a great opportunity; I for my part had always considered opportunistic scholarship close to prostitution.

Toward the end of 1904 I went to Berlin. Economics was taught there by Schmoller, Adolf Wagner, Sering and Bortkiewicz. I soon became friendly with Sering and Bortkiewicz, a friendship that lasted for years; I was also in close personal contact with the great constitutional law professor Gierke, and with Eduard Meyer, Professor of Ancient History. Schmoller was a constitutional historian, without a deep understanding of theory. He knew his way around in German political life, and successfully

led the Association for Social Policy (*Verein für Sozialpolitik*) in directions that were to be followed by England three decades, and by America five decades, later; he was also shrewd in appraising the capabilities and limitations of leading personalities in German public life.

Germany was in the midst of an unprecedented economic upswing: in Berlin, one suburb after another grew with unbelievable rapidity from open fields. The development of the city was faster even than that of New York; houses were well-constructed and plentiful, food was cheaper than in any other big city, employment possibilities abounded — and social antagonisms had thus diminished in intensity. The German Social Democrats, then the strongest political party in the world, far less theoretical than their Austrian fellows, aimed at becoming capable of governing; and in Berlin there was little trace of the revolutionary currents that were just becoming visible in neighbouring Russia. Germany was well-off and content as no other country was at that time. Compared with the moderation in the socialist ranks, the bitterness of the political struggle arising from the antagonism of agricultural and industrial interests was even more noteworthy. The German Emperor was personally in the centre of the fray.

That was astonishing to an Austrian, for in our country Franz Joseph stood far above parties. The great tradition of the Holy Roman Empire had remained alive in Vienna, but was absent from the new German empire, which was a remarkable combination of outward Prussian servility and inner self-depreciation. For the élite among the middle class, Kaiser Wilhelm was a *parvenu* or a journalist — the one appellation seemed odd for the grandson of Wilhelm I and of Victoria; the other was a compliment rather than a reproach.

Practically all Germans, with the exception of big industry, were sympathetic to the Japanese; King Edward VII, fearing the consequences of this trend, had just ended England's long tradition of hostility to France by concluding the Entente Cordiale — but Kaiser Wilhelm personally took Russia's side. He worked towards a German-Russian-French coalition, but his real motives were unclear. Was it a counterstroke against his English uncle, an impulse of imperial solidarity, or fear of the 'yellow peril'?

The financial position of Russia interested me more than German internal questions. Russia had contracted loans in enormous amounts from its ally, France, and it was difficult to understand how it could continue to make payments of interest and principal during so costly a war, fought at such a vast distance from home. The well-known journalist

Georg Bernhard, who had heard of my work, asked me to write articles for his periodical *Plutus*, which he then published anonymously under the sensational title 'Russia's Bankruptcy'. My basic notion was that even in peacetime Russia could not produce sufficient exports fast enough out of the proceeds of foreign loans to service its debts, and was therefore compelled to pay interest from the proceeds of new borrowing — and this situation had only been made worse by the war. I said that reserving foodstuffs such as grain and sugarbeet for export would only exacerbate social tensions and make the internal situation more difficult. The wide circulation of my series of articles and the pamphlet that was published summarising them helped *Plutus* out of its precarious financial position, and Bernhard thanked me for that with unusual loyalty over the next thirty years: whenever I was in Berlin, he put himself at my disposal, and supported all my projects with great enthusiasm.

Later he was the leader among Berlin journalists and among the publicists for the League of Nations. He would have welcomed a political career, but since he could not achieve that, he became a consultant to those in power — to the Crown Prince in the First World War, and to Stresemann at the time of Locarno. He died under Hitler.

At that time, in the winter of 1904-5, and for some time thereafter, Bernhard enjoyed the closest confidence of the Chief of the General Staff, General von Schlieffen, and he shared with me the views of this leading military figure, whom I never met personally. Schlieffen was displeased with, not to say contemptuous of, the Kaiser's foreign policy notions: in view of France's isolation, he thought the moment for a pre-emptive strike was uniquely favourable, and since it had to come in any event, he thought it weakness or cowardice to throw away such an opportunity. Bernhard managed to put Schlieffen's view about so adroitly that its author was found out.

Schlieffen's ideas made me very reflective: how strange it all was! The end-result of the policy adopted by the most conservative General Staff coincided with the aims of the revolutionary Russian socialists. I wrote Bernhard a short memorandum, to be used discreetly in the appropriate quarters: if Russia's weakness were now to be exploited, would that not plunge us into chaos that would be dangerous for all Europe? That view made an impression on those for whom it was intended.

In September 1905 I attended the meeting of the Association for Social Policy in Mannheim, one of the most interesting and exciting of their sessions. The principal item on the agenda was the issue of the closed shop. The leader of the Ruhr industrialists, Kierdorf, spoke against it in

the measured style of the captain of industry who is aware of his great success, and doesn't wish to be troubled by outsiders meddling in his private business. His speech was read in the tone of a company president at a stockholder's meeting, who is absolutely sure of his facts and is quite indifferent to the opinion of his audience. The young economists in the hall listened with growing indignation. When the founder of the national social party, Pastor Naumann, then spoke for the closed shop in a brilliant and passionate speech, each sentence was greeted with noisy applause, which escalated to the point of wild enthusiasm. In the excitement of the moment, even Max Weber let himself get carried away, liekling from the audience with harsh criticism of the independent workers. Schmoller firmly rejected Naumann's speech as demagogic, but said he would resign his chairmanship of the Association if such scenes were ever repeated.

The young members of the middle class were then much closer to socialism, and conservatism seemed to them the chief enemy; this had been the case since 1848, and even Bismarck — appearances to the contrary notwithstanding — had not changed much in that regard. The realists also went along with the enthusiasts among the liberals: they both expected the trade unions to achieve the breakthrough of Marxism into social democracy.

In Vienna, big industry had represented the common interests of employers and workers — in Berlin, such solidarity was espoused by the left liberals, in opposition to the larger group of employers. When I dined with Max Weber in a large group on the eve of the session in Mannheim, I discussed this difference. Cooperation between employers and unions could be established on a permanent basis in England and America, I felt, but only temporarily in Germany and Austria. Also, the trend toward concentration in the labour market would only accelerate and spread monopolistic trends among the employers. Weber stayed with me till midnight, long after the others had gone, and that was the beginning of a personal friendship from which a close working relationship in an entirely different field was to emerge ten years later.

That night I travelled the short distance further to Strasbourg, to visit my father and sisters. I met Professor Knapp in the train, and with the brash enthusiasm of youth said that I thought academic discussion of social policy was now over: social problems could only be resolved in the political arena.

My sister Paula acted with great success at the Strasbourg Municipal Theatre in the seasons of 1904 and 1905-6. The Germans were making great efforts to win over the Alsace population, and both University and

theatre were on a high level. But the Alsatians refused to be won over. They spoke a pure German with an accent that Gottfried von Strassburg, the poet who wrote *Tristan*, could have understood better than many a contemporary High German. The names of streets — such as 'Where the fox preached to the geese' — and of families themselves often had an elemental old German character; it was precisely in these circles that the resistance to the German occupation was especially strong.

One day, for example, we found one of our provision merchants in tears. 'Why are you crying, Madame Schlagdenhaufen?' we asked. 'Oh, the disgrace! The disgrace, my daughter is marrying a Kraut!' My sisters took advantage of their double immunity from all this, as artists and as Viennese, and included both national groups in their social circle. I remember with pleasure from that period the Alsatian poet Stosskopf who was a devoted friend to both my sisters.

After a short stay in Strasbourg, I returned to Berlin. But before the winter term was over, I received an inquiry from Philippovich, asking if I would be interested in joining the Anglo-Österreichische Bank in Vienna as Assistant to the President. If my answer were positive, I was to set off immediately for Vienna. I left that same evening.

3. The Anglobank, 1906-1909

The Anglobank had been established in Austria by interests in the City of London. After very substantial initial successes in loan business, it had suffered large losses in the panic of 1873, and since then had confined its activities to a modest volume of business in English documentary credits. At the beginning of 1906, control of the bank had been acquired by Karl Morawitz, at the head of a syndicate that included the English financier Sir Ernest Cassel; an Austrian, Gustav Springer; and Ignaz Petschek, owner of coal interests in north Bohemia — and I was to serve the new management as Assistant to the President.

Karl Morawitz had amassed his fortune in Paris, in collaboration with Baron Maurice de Hirsch, known because of his financial activities in the Ottoman Empire as 'Türkenhirsch'. Turkey was at that time the sick man of Europe, and for a long time nobody dared to finance its needs; there were not even any rail links to Constantinople, its capital. Baron de Hirsch brought in capital by issuing a lottery loan with high prizes — 'securities for financial idiots', as he put it — but since financial idiots are in a majority, the issue had a great success. The proceeds of this transaction were used to construct railways through the Balkans linking Turkey with the rest of Europe; Morawitz was deeply involved in this activity, and had then retired to private life in Vienna. After years of retirement, he emerged to shake the sleeping Anglobank awake. A man of unusual energy and enterprise, he would transact his arbitrage business at 6.00 in the morning; at 8.00 station himself by the lift to greet later arrivals by saying 'Have you had your fill of sleeping?'; take his lunch in the bank; and then fling at employees hurrying home on the stroke of 5.00 the ironic 'Playing it safe, eh?' He knew every member of the bank staff, and if he observed even a faint spark of talent, he would develop that man and take a personal interest in him; his manservant, for instance, later became a managing director of the Oesterreichische Kreditanstalt.

When I entered his office early one March morning in 1906, he had been President of the bank for just three weeks. He received me with the question:

'What bank did you work in?'

'None.'

'I see. Well, what am I supposed to do with you?'

'I did not apply for this job, and can return right now to the place I came from.'

'Is there anything you can do for me, in fact?'

'I am used to giving more to people I know than I get from them, and would feel ashamed of myself if the opposite were the case.'

Morawitz observed me for some time. 'All well and good, but with those principles you'd be better off as a cardinal than a banker. Now, go into the next room, read the incoming letters, and screen my visitors!'

One week later, Morawitz was compelled by illness to be away from the office for a few days. In his absence, I dealt as a matter of course with his correspondence. Among his letters was a confidential communication from the chief executives of the Kreditanstalt and the Bodenkreditanstalt, Blum and Thausig, reporting that the Austrian Government expected all the major banks to participate in a forthcoming loan for Russia, together with French and German banks: thus the solidarity of the European continent, at a time when Russia was badly shaken, would be demonstrated. Both Blum and Thausig felt that the banks would have to participate, and asked Morawitz's opinion.

I replied that my chief was absent for a few days through illness; but that a series of questions arose from the Russian budgetary situation, and they would have to be clarified before a financial transaction of the magnitude envisaged could be undertaken. I then listed the questions.

On his return, Morawitz was beside himself with anger at my high-handedness, and called his fellow-executives together: they, for understandable personal reasons, backed him to the hilt, which only made him angrier. As I awaited dismissal, Morawitz picked up the telephone to repudiate my letter to Blum; but after the first few words, Blum appeared to be giving him a detailed answer, and Morawitz calmed down. He ended the telephone conversation and turned to me: 'You won't believe this, but there are people who are even more dumb than you!' Then he turned to the assembled executives and said 'Blum's just told me that he rang Fischel, the chief executive of Mendelssohns in Berlin, the head of the German consortium, to pass on those questions about the Russians. Fischel thought them very important and sent them on to the French syndicate.' Morawitz did not say a word in recognition of my role — but that was his way.

Participation in the Russian loan was to cause grave problems for the Anglobank. The London committee members were furious at this action in support of Russia, and threatened immediate resignation, which would have seriously damaged our acceptance business and endangered the bank's standing. Our London committee consisted officially of two partners in London merchant banks of standing, and unofficially included Sir Ernest Cassel and several of his friends, including Joseph Chamberlain.

Faced with a summons to come to London, the members of the Vienna executive committee hesitated, fearing certain defeat. Morawitz turned impatiently to me: 'You've never been to London? Now let's see what you can do. Say to the Englishmen that our government pressured us into the loan for the sake of European solidarity, and we had to agree; you can say that it was my illness at the time that prevented our getting London's agreement; just keep them from leaping overboard. How you even begin, God only knows.'

In London, Lord Hillingdon, Chairman of the English committee, let me wait for three days before deigning to send me any word. On the fourth day, I received a note signed by his secretary bidding me to call on Sir Ernest Cassel. The usual polite formulas were omitted, which in the formal England of that time struck me as particularly pointed.

At Cassel's office I met the members of the London executive board and several representatives of the shareholders; I knew nobody, and the reception was frosty. I had hardly begun my prescribed formula about the pressure from the Austrian Government when Lord Hillingdon interrupted me: 'What do we care for the solidarity of the Continent? You have helped our deadly enemy, Russia, which is in conflict with our one friend, Japan. You didn't put us in the picture, because you knew very well that we would have opposed the loan to the utmost. We do not wish to remain associated with Anglobank a day longer.' And turning to Cassel, he added: 'Mr Morawitz does not consider it necessary to appear himself, but sends us this young man as an expression of his low regard for us.'

That irritated me very much. From my briefcase I took out my book on Russia's bankruptcy, as well as the memorandum based on it that I had sent to the Kreditanstalt, and gave the book to Sir Ernest Cassel and the memorandum to Lord Hillingdon, with the remark: 'You will understand four things from this: the strength of the pressure from the Austrian Government, the necessity of our participation, the impossibility of informing you in advance, and the reason why a young nobody has been sent to you.'

The last words caused a change in the atmosphere. Lord Hillingdon excused himself emphatically and asked me to explain what I had detailed in the memorandum.

'As you will see,' I said, 'we were convinced of the fundamental weakness of Russia; the loan was not a business matter, but a political necessity. An English bank in Vienna such as ours was the least of all in a position to oppose the loan, if we did not wish to put our very existence in jeopardy. And precisely because we had to participate, we could not give

you advance notice: we had to make it possible for you in your turn to explain to your government if necessary that you had not been informed. We consciously assumed the burden of your displeasure, rather than risk your being at the receiving end of the same from your own government.'

The Englishmen sat there smoking, said not a word, and looked at me occasionally with obviously friendly expressions. That lasted at least five minutes — but for me, then unused to English ways, it seemed an eternity. Then Cassel, who had meanwhile leafed through my book, asked me when I was returning to Vienna. When I answered 'tomorrow', he asked me to prolong my stay for a day and dine with him the next evening at his home.

That evening I did not go to the theatre, to which I had been invited, but sat in my small hotel room near Blackfriars Bridge and pondered for a long while those words 'Russia, our deadly enemy'. Old memories from my time at the Gymnasium came to me, and I recalled how my schoolmates had divided into Russophiles and Anglophiles, Easterners and Westerners. If anyone then had told me that I would live to see England and Russia allied in a war against Japan, I would have considered him a lunatic.

The next morning I went to Cambridge to see the economist Alfred Marshall, and that evening presented myself to Cassel, who said: 'You did well yesterday. At first I thought you were acting on the instructions of my old friend Morawitz, but I spoke to him today on the telephone, and he didn't know anything about it. I have given your book to a certain person, who is very much interested in it.'

Since at that moment a man came in whom Cassel introduced as Joseph Chamberlain, I thought he was the person alluded to. We were just the three of us to dinner; the two men kept asking questions that were as interesting as they were difficult, and let me do the talking. When in answer to a question about my studies, I mentioned the prize essay I had written, Chamberlain's interest increased, and he wanted to know all about the theory of a common interest linking all economic groups protected by a general tariff. Then we got on to the Russo-Japanese War, and to my extreme astonishment Chamberlain asked: 'Do you think the Germans will ever again have so favourable an opportunity to have a reckoning with the Russians? What is the meaning of the phrase 'Continental solidarity' that the Kaiser is promoting? England, America, Germany, Austria and Japan do have interests in common — that is solidarity. The Germans are good at complicated things, but the simple matters that everyone understands elude them.'

I was struck by the unusual frankness of his way of addressing a young foreigner whom he was meeting for the first time. I was even more

surprised by the substantive matters I had heard. What a strange coincidence it was that the Russian revolutionaries, the Chief of the German General Staff and Joseph Chamberlain all spoke the same language: all of them found the passivity of the German-Austrian alliance *vis-à-vis* Russia incomprehensible. If three so totally different circles came to the same conclusion, might they not perhaps be right? Had an opportunity really been missed that was not going to recur? Did it make any sense at all for the two Empires of Austria and Germany to make loans to Russia? I began to regret my own success.

For I must openly admit that the 'yellow peril' seemed to me then pure fantasy, and 'European solidarity' as empty a phrase as it appeared to the English. Looking back now, I have to note that Wilhelm II appears to have been the first 'European', long before those who coined the expression, and long before the planners of the European Community who met at Strasbourg. What made Wilhelm at the time ridiculous seems today almost like foresight; although to be sure only over the long term, and not for the immediate future. The German and Austrian Emperors had everything on their side at that time; they could have brought Russia and France to their knees with the tacit approval of the English and Americans. That they failed to do so was to prove their own undoing ten years later. They can legitimately be criticised by their own peoples for that decision; but not by those they saved at the time.

However, I was so much attracted by the notion of winning an English alliance for Austria and Germany that I thought about it all night. I wanted to see Cassel again, but how should a young man unauthorised by anyone broach such questions?

The next afternoon I returned to Vienna. To my utter amazement, Morawitz awaited me on my arrival at the Westbahnhof. He greeted me in his ironic fashion with the words: 'For once, you did something right, I wouldn't have thought it of you. We'll have supper together — I hope no girl friend is expecting you — Cassel spoke to me, but I couldn't understand a word he said except that the English group will stay on our Board.'

We ate in his house on the Schwarzenbergplatz, just the two of us. For a long time there was silence. His face cupped in his left hand, Morawitz gazed intently at me, then suddenly said: 'What kind of a book was it you gave the English people?'

'Oh, a quite superficial pamphlet on the inevitability of Russian bankruptcy.'

'How does one get a copy? Who is the author?'

'I am,' I answered.

'Are you mad?' cried Morawitz.

'I wrote the book in Berlin.'

'And I knew nothing about it! Do you imagine I would have asked you to join the bank if I had any idea about that? You're the most dangerous man I ever met. While I am participating in a Russian loan operation, my representative gives out his book on Russian bankruptcy, and Cassel is so fascinated by it that he passes it on to the King himself — a splendid mess altogether! In London they'll consider me a madman!'

'Let me just explain what actually happened in London.'

I recounted the entire episode, and ended by saying that I would now leave the bank. 'I suppose to go and join Cassel,' Morawitz added.

'I had no thought of that.'

'Don't try to pull the wool over my eyes! He himself asked me if I'd be willing to hand you over to him, and like a fool I said no.'

'He didn't mention anything to me, and I would not accept an offer in any case. This evening has proved to me that I can't get along with a boss. I'm simply not cut out for that.'

'All right, let's be serious for a change,' said Morawitz. 'I've been in business for over forty years, and you for just three months. I cannot put a young man of twenty-four on the Board, or make you a Managing Director, without risking a mass resignation of all my executives. Stay at the bank as Assistant to the President, and I'll make up out of my own pocket the full difference between your salary and that of a senior Managing Director. You will be nobody's subordinate — officially, of course, you'll report to me, but only for the form; because for you I won't be the President, but your friend.'

I accepted this unsolicited offer. The Anglobank made great strides. The banks of the time undertook all industrial financing in the Monarchy, and banking activity afforded multiple insights into the economy as a whole.

The bank was soon linked in close relationships with coal mining, breweries, the textile and sugar industries in the Sudetenland, the petroleum industry in Galicia, milling in Hungary, factories producing military stores in Vienna, insurance companies and shipping lines in Trieste. Outside the Monarchy, the bank financed American tobacco purchases in Macedonia and participated in the syndicates for financing the Eastern Railway and the Baghdad Railway. I learned a great deal, especially in syndicate meetings, and in my travels throughout the Monarchy to establish or supervise branches of the bank.

Alfred von Gwinner, Director of the Deutsche Bank in Berlin, came to

Vienna on one occasion to attend a meeting of the Orientbahn (Eastern Railway) syndicate, of which he was the chairman. During the discussions, the Vienna Stock Exchange quotations were brought in. Gwinner glanced at them and said, 'Those fools, look how the Orientbahn shares are rising — and we've seldom had a worse year.' Gwinner had hardly left the meeting when the Austrian syndicate members issued orders to sell portions of their Orientbahn shareholdings. A few months later came the meeting to discuss the year's results, at which it transpired that profits had substantially increased, and that the outlook for the company was optimistic; we also learned that the shares flung on the market by the Austrian syndicate members had been snapped up by the Deutsche Bank. Morawitz could not understand my indignation.

'Serves us right', he said, 'if we fall for a trick like that.'

'But that's defrauding one's partners!'

'Don't be such a child. Doesn't a hunter get more of a kick out of shooting a wise old bear than a young rabbit? Can't you understand that?'

'No, I'll never understand that. It's not only unethical, it's stupid.'

'Why?'

'Because it destroys the mutual trust of the whole group. Moreover, all businessmen today have to reckon with a hostile climate of opinion: if we want to survive, we had better observe the highest standard of trustworthiness and honourable dealings with one another.'

'You may well be right. As you know, I myself always make sure that my business associates and shareholders share in my profits — but I'm alone in that practice. Our industrialists exploit their inside information to cheat their own shareholders at the appropriate opportunity. That's merely routine in Berlin and Paris, but especially here in Vienna, and in Budapest. Maybe they'll all get their come-uppance for that sort of thing some day. But do the crowd we deal with really deserve better? In one out of ten cases, a client suffers a loss thanks to my advice, and he'll hold it against me for the rest of his life; in the nine cases in which clients make money, they simply forget who gave them the tip in the first place.'

Badische Anilinfabrik in Ludwigshafen, one of the key companies in the German chemical industry, came to us with a proposal for financing a factory to produce nitrogen by a new process, in Norway, near Notodden, a place not far from the coast where large reserves of hydro-power were available at a low price. We proposed to associate French banks with this business in view of the capital resources of the Paris market and the political rapprochement of the time between Austria and France. Morawitz came with me to Paris for the preliminary discussion that was to decide whether

or not we were going to participate. At the meeting, in the offices of the Banque de Paris et des Pays-Bas, the Managing Director of the Badische Anilinfabrik began reading a very long memorandum in halting French. He had only reached the tenth page when the Managing Director of the Banque de Paris, Thors, interrupted him and asked nervously: 'How many more pages do you have there?'

'150.'

'All of it chemistry?'

'Yes.'

'For God's sake, who can put up with that? I don't understand a word of it!'

There was an embarrassed silence, and then Thors continued: 'How much do you need for the factory?'

'Sixty million francs.'

'Look, the banks will take half if you people put up the other half.'

'Done.'

Thors got up and ended the meeting.

'What's upsetting you now?' Morawitz asked, laughing as he saw my expression when we went out to lunch in the Café de Paris across from the bank.

'That terribly slapdash way of doing business,' I replied.

'Rubbish! The German could have told us right at the beginning what he wanted. The only important thing is that he was willing to put up money to back his own opinion of the project: his money has double value, because it isn't as easy for him to get that sum together as it is for the banks, and because he bears full responsibility for his investment. If we go into partnership with him, who can reproach us if anything should go wrong?'

I conceded he was right, and reflected for some time on the incomparable advantages of the private enterprise system in allocating productive resources. How much more successfully industrialists or agricultural interests with their own capital, responsible to their own shareholders, can make appropriate choices among new inventions, processes or technologies than the officials and technocrats of a government-run economy.

In the next two days, I had an interesting opportunity to observe the real atmosphere between the Germans and the French. The Badische Anilinfabrik transaction had been launched under official auspices, as an expression of 'the solidarity of the European Continent', but there was little solidarity in the social intercourse between Frenchmen and Germans. The French felt the punctilious politeness of the Germans as arrogant

condescension; moreover, they not only gave the Germans no credit for their neutrality in the Russo-Japanese conflict, but now resented having to share their Russian allies with the Germans. The German industrialists for their part were irritated by the local custom that decreed no business talk during the sacred ritual of lunch: business was what they had come to Paris to discuss, and everything else was a waste of time. At that time, and on numerous subsequent occasions, I saw how the sincere efforts of both governments for a rapprochement were sabotaged by a part of the upper class.

In 1907 I spent almost half the year in Paris, looking after the interests of Morawitz and the Anglobank, and in close contact with Dorizon of the Société Générale, Rostand of the Comptoir d'Escompte, and Arthur Spitzer. The Paris capital market was the leading source of finance for the European continent and for Latin America; a substantial number of the leading private bankers were of foreign, mostly German, origin. The huge credits to Russia — its government, industry and banks — represented the most important business on the Paris market. The Russian Ministry of Finance worked with extraordinary cleverness: part of the proceeds of each loan was retained for purposes of manipulating the Paris money market: the day before an issue, interest rates were pushed strongly downward in order to ensure easier terms. Thus arose the remarkable result that the most substantial debtor was able to influence the capital markets of the creditor — with the creditor's own money. The highly sophisticated technique by which this operation was accomplished has been forgotten, and is quite unknown to governments today.

The Russian representative in Paris, Marc Raffalovitch, directed all these financial matters with great skill, especially in their more delicate aspects. One morning in the spring of 1907 he appeared unannounced at my apartment in Rue Clément Marot, in order to 'put me in the picture'. He tried to suggest to me that I write a new book on Russian finances, which, without crudely repudiating the old pamphlet would nonetheless reflect the improvement in Russia's standing. I had to concede, he said, that now after the conclusion of peace and the crushing of the revolution of 1905, the whole situation could certainly be seen more optimistically. He added that he would put all the information necessary for such a book at my disposal. Finally, his government, which was very much interested in the book, might also contemplate giving the Anglobank a position on the Vienna market for Russian loans comparable to that held by Mendelssohn in Berlin; he authorised me to transmit that bit of news to his friend Morawitz.

I pondered for a moment whether I had the right to press my pessimism about Russia's future on Morawitz and the bank, and decided to let Vienna decide whether or not to accept the invitation. I explained meanwhile to Raffalovitch the reasons that precluded my writing an optimistic version of my book. He sat there with an ironic smile, hardly listening, and abruptly said, looking round the modestly furnished room, 'Is this the sort of place for a man like you?'

I answered, also with a smile, 'This is how I protect myself from the reproach of being a *parvenu*, one that's made all too readily against people like us; especially when one is young as well. I'll transmit your offer to Vienna.'

In my report to Vienna, I refused to revise my opinion; if the bank wanted to go after this business, someone else should carry on the negotiations with Raffalovitch. I added that this approach might be a feeler put out by the Russians in an attempt to make financial contact with England via the somewhat circuitous route of a part-English bank in Vienna. As far as I was concerned, I wished to have nothing to do with it, because I could foresee a bad ending.

'Ending? Death is the end of everything,' Morawitz replied grumpily, 'and if that's the way you look at things you'll never do any business. In the next three years, the French will take all Russian loans, because they have to, and no banker has to think beyond that period.'

'I am of the opposite opinion,' I said, 'but don't take any notice of it.'

Two days later, Morawitz telephoned: 'You have more luck than brains. The executive committee was unanimously for going after the Russian business, but our government intimated we'd better not.'

After my return to Vienna at the end of 1907, I took on, in addition to syndicate business, the supervision of lending policy at our branches. The hardest task of the banks in Central and Eastern Europe was to prevent themselves from being locked into long-term loans. There was a strong demand for bank credit, because the development of the economy and of rapidly growing armaments required more capital than was available. Moreover, it was difficult in 1907 to finance enterprises by issuing shares, because the Vienna Stock Exchange, in reaction to the American panic — which had started with the Westinghouse crash, and resulted in temporary 100% rates for call loans — was unable to take new share issues. Overcoming considerable resistance at our branches, I put an end to the long-established practice of paying off one loan out of the proceeds of the next. As long as I was active in the bank, we had not one loss from bad loans.

But elsewhere in Austrian industry there were several larger bankruptcies

in 1907 and 1908: they took place primarily in enterprises with young chief executives who had studied in America and tried to apply American methods back in Austria. The belief in advertising, and the love of change for its own sake that characterised the Americans, were totally lacking in Austria, as in all of Europe with the exception of North Germany. When they married, middle-class housewives received furnishings of a quality that was meant to make them last a lifetime, especially with the careful upkeep then devoted to the household. Clothes one wore for hunting, or shoes, were only really precious when they had become old. Thrift — usually with good reason — was in our very blood; luxuries were very much looked down upon throughout the middle class. And the peasants took their shoes off in bad weather in order to preserve them. Both industry and the merchant class lived far below their real financial circumstances. Assimilating a new invention or a modern process took as many years in Austria as it did months in America. Whoever failed to perceive these differences simply went under.

In addition to my banking activities, I worked evenings on scholarly pursuits. I was alas unable to continue the studies in philosophy of science that I had begun in my first university year in Mach's extraordinary lectures, since nobody dared continue them after Boltzmann had collapsed in the attempt. As I had done formerly in my student years, I frequented Sigmund Freud's home, and often participated there in discussions among his closest circle. He was a master of penetrating insights and the most refined and intellectualised wit. As is the case with those who shed light on hitherto obscure areas of knowledge, he was something of an obsessive; but he could also be amused in the most subtle fashion by contemplating the foibles of his students and even of himself. He was not responsible personally for the distortion of individual illuminating insights into a whole system of thought; nor for the many nonsensical aspects of present-day psychoanalysis.

Vienna at that time was celebrated in operetta and travel literature as the 'city of love'. Arthur Schnitzler had created the prototype of the 'süßes Mädel', the sweet and available young girl, and had in his *La Ronde* (*Reigen*) expanded the literary possibilities of this theme to the utmost. Weininger, my fellow-participant in philosophy lectures, had tried in his *Sex and Character* to analyse the psychology of women, and had been destroyed in the attempt. And now Freud extended the ideas of his colleague Breuer — who suffered perpetual migraine headaches — into the sexual sphere. The Viennese were uncomfortable with all that: they did not readily take to analysing the natural and obvious. The Viennese

loved without regrets and without complexes; the Oedipus complex — a meaningless concept, since it is well-known that Oedipus himself was quite free of it — seemed to them as normal human beings totally alien. They thought it absurd that an entire theory of life and love should now be erected on the seven French words: 'on revient toujours à ses premiers amours' — one always returns to one's first loves.

Freud was at that time as under-rated as he is over-rated today. Like many another brilliant mind, he needed someone close to him who out of every ten ideas would have thrown out five, changed four, and left only one unaltered. Thus, for example, on several seminar evenings we discussed the notion that women wear their outer garments as a message to other women, but their underclothes for men. I said that this hardly applied to working-class or peasant women; that in any event it wasn't very significant; and that the whole discussion was one more appropriate to the coffee-house than the university — a phrase that was held against me long afterwards. But the one out of ten of Freud's ideas that could remain unchanged was often a very great one. In the late 1930s I met Freud, by then seriously ill, in London, and when I tried to cheer him up he said 'My friend, one mustn't try to outlive one's body.'

I found Freud very disappointing; I was very wary of any extremes. For example, economics seemed to me only part of public policy, and to see it as the prime concern of government I considered the great mistake of the past two generations. Accepting class conflict as the foundation of public policy also seemed to me totally one-sided. I tried, using individual psychology as my point of departure, to investigate mass psychology and take it further than the Italian thinkers of the sixteenth and seventeenth centuries had managed; at the very start of that effort I encountered another obsessive, Karl Marx. How fascinating is the one-sidedness of genius, and how devastating have been the results of such one-sidedness in its two most successful examples, Karl Marx and Sigmund Freud.

Continuing my work for Professor Philippovich, I worked on the sections of his book concerned with banks and securities markets in economic policy, and also occasionally supervised seminar projects. I made the effort in that context to depoliticise two fundamental economic questions: the system of agricultural land tenure, and the question of monopolies and free competition.

In the first half of the nineteenth century, several leading English economists had tried to extend the capitalist system into agriculture: according to their ideas, small farmers would disappear with increasing prosperity, and be replaced by large leased farms run like factories.

Theodor Bernhardi, a Russian State Councillor, opposed this development in a book that appeared in 1849, which rigorously examined the basis of both small scale and large agricultural land tenure. While this important work remained unknown outside a very limited academic circle, the theory of English liberalism exerted the strongest influence on socialism and Karl Marx himself. Both liberalism and socialist thought shared a common optimism about new industrial developments, and completely misjudged the unique nature of English agricultural development. The enclosure movement in England that followed the Reformation was imitated nowhere else; the peasant liberation of the eighteenth century in Prussia and Austria attracted for the most part independent smallholders. The adoption of English agricultural doctrines cost European liberalism in Germany and Austria the support of the farmers, who formed their own parties based on their economic interests. Official liberalism nonetheless maintained its adherence to classical doctrines, even though there was some opposition even within liberal ranks.

It was just because all these issues were so emotional that Philippovich and I thought it necessary to discuss them in purely economic terms, and take the political poison out of the controversy. At just that time, Stolypin, the Russian Minister of the Interior, began the great agrarian reform movement that was designed to create a class of independent smallholders: and my friend Sering enthusiastically approved of the effort. If this programme had been maintained for just another decade, Russia would for the first time have established her agriculture on a healthy basis. But the assassin that struck down Stolypin also destroyed his reform project, and thus prepared the way for Stalinism. World history offers us hardly any paradox grimmer than this: with guile and force Bolshevism carried out a new agrarian policy that precisely met the criteria laid down by those English bourgeois economists in the first half of the nineteenth century. 'Replacement of the peasants by large state-leased farms, run like factories' — that is almost identical with the *kolkhoz* system. Those who forced through this doctrine as Marxism paid no attention to the serious consequences of their acts: the ignorance of political fanatics led to the most catastrophic results for the Russian economy. The Russia of the future will have to go back to Stolypin's ideas.

Only a few of all these research papers and discussions have appeared in print — the best paper among them was that of Else Cronbach. I gave two lectures on the limits of industrialism, moderately criticising both liberal and socialist optimism. Karl Menger attended my lectures, the sole occasion when he forsook his strict retirement to return to the University.

My work on monopolies — of both production and consumption — bore some relation to the problems I have already mentioned. Particularly noteworthy was the comparison between monopoly and free competition in the case of the tobacco industry: in a monopoly situation, there was concentration in a few factories with advanced technology, direct sale to consumers through a network of small outlets, no advertising, no campaign to increase consumption, and substantial profits through price-fixing and the elimination of all middlemen; in countries where there was a free market in tobacco, there were numerous producers, a complex marketing system, considerable advertising, and a strong increase in consumption. And here came the main issue that the theory of monopolies had not yet dealt with: employment. Monopolistic economies required far fewer employees than free market systems.

If one could imagine a situation in which farmers were replaced by the industrialisation of agriculture, commercial organisations eliminated, and production and consumption monopolies made universal, how dramatically would employment be reduced! After a transitional period of full employment, difficulties of substantial proportions would appear, since such an economy would be incomparably slower to adopt new inventions or processes than would a free market economy. The socialists were passionate participants in the discussions on this basic question that I continued at the Sozialwissenschaftlicher Bildungsverein (the Social Science Education Association). Their excitement showed how they recognised the seriousness of my argument, and how it confronted them with problems. The legend of full employment in the Soviet Union masks the reality; but even in the West, including America, we lack to this day sufficiently thorough studies on employment. War and defence-related industries tend to favour plants employing comparatively few workers; in the most labour-intensive industries, such as construction, the textile industry, or commerce in the widest sense, monopoly, whether state or private, is the least appropriate form of organisation. Our attempt to take these problems out of the political arena and discuss them in an objective academic forum had a long success.

But while we were slowly extricating these contentious economic issues from the battle zone and elevating them into the sphere of rational discourse, the first bolts of political lightning that heralded the approaching terrible storm struck in the Balkans.

4. The Bosnian Crisis

Since 1906 and 1907, strong nationalist sentiments had been evident among the Muslim population in the west Macedonian and Albanian parts of the Turkish Empire — an only too understandable reaction against the increasingly aggressive nationalism of the Christians resident in those areas. The entire situation in this region was untenable over the long term: Muslim sovereignty over Christians in Europe was largely considered an anomaly in the West, and the rebellious Balkan peoples, already sufficiently stirred up, were further incited by support from several quarters. For a considerable time, English liberalism was dominant in this movement, and then was replaced by Russian Pan Slavism. During the Russo-Japanese war, Russia had abstained from activity in the area, but as soon as it was over, she devoted her main attention to the Balkans. The prestige of the Turkish Empire has sunk to new depths; the Christian powers were involved in efforts at reform in Macedonia; and the central government in Constantinople was tied hand and foot financially — it was unable even to raise tariffs without the consent of the great powers, its creditors, and such consent was seldom and then only hesitantly granted. As usual, the strongest protectionist powers defended the principle of the Open Door *vis-à-vis* the outside world. How, under these circumstances, was a Turkey that daily suffered humiliating incursions on its sovereignty to exercise authority over non-Turkish nationalities? Russia was inciting the subject peoples to revolt, and at the same time was one of the two great powers called in to advise Turkey on constitutional reform.

For a long time, the Turks had resignedly accepted one defeat after another. But then, around the turn of the century, a young generation containing a number of remarkable personalities made its appearance: it hoped to revitalise the Turkish people, and took its main ideas from the West, principally from Paris.

However understandable the rise of the Young Turks was from the Ottoman point of view, it was alarming to the Bulgars, Serbs and Greeks: they had arrogated to themselves many liberties under the regime of the passive Abdul Hamid, but now their suzerain threatened to rouse itself and actually exercise its authority. Between western Macedonia and the Adriatic Sea there is a region, very small geographically, in which more nationalities and religions than elsewhere on earth clash, or live together under a tacit truce, in mutual hostility. It was just in this unbelievably backward region, economically undeveloped and sunk in total illiteracy,

that the new Turkish nationalism was especially virulent — and the area moreover bordered on Bosnia and Herzegovina, the provinces that Austria-Hungary had occupied indefinitely following the decisions of the Congress of Berlin in 1878.

Since Polybius, we have differentiated between remote and proximate causes of war. The remote cause of the great conflict that now began lay in the hardly reconcilable clash of interests between the great powers; but it was in this desperately impoverished corner of the Balkans that the immediate occasion arose for an era of world war, that era which endangered two entire generations, and destroyed the successes of Europe built up over four centuries, and which even now, after nearly five decades, has not yet ended.

Professional historians and intelligent journalists have undertaken the most painstaking basic research, carefully combing through the official archives, as is the current method of historical investigation; but those who know how official records are written are aware of the limited value of such documentation. To what a limited extent have even the most careful accounts of the decisive pre-war period captured the entire truth. I personally experienced only a fraction of what happened in that time of historical significance for the world; but what I witnessed was from the inside, and of essential importance. After so long a time, I consider myself released from the obligation of secrecy, especially since solving the mystery of the origins of the First World War still preoccupies all cultivated people.

My position in the Anglobank gave me inside knowledge at the appropriate time — and indeed sometimes in advance — of the decisive moves in Austrian policy in the Balkans. Karl Morawitz was rightly considered, both in Vienna and in Paris, the most profound expert on Turkish finances, and the best informed individual on everything going on in Government circles and among the people as well — the latter something which only few others bothered about. He was the first to observe and take seriously the Young Turk movement; he was principally motivated in that observation by his interest in Ottoman finances, but in contrast to his Western colleagues in the financial world, he saw that the Young Turks would achieve the revitalisation of Turkey. Every Austrian, and many a French official concerned with Turkish problems, turned to him for advice. So it transpired that the project which was to open the first scene of the first act in the drama of war, the Sanjak Railway, was also brought in the first instance to Morawitz.

5. The Sanjak Railway

The Sanjak of Novi Bazar — the name sounds today like something out of the Arabian Nights. Who knows any more what Sanjak means, and where Novi Bazar is? The whole thing was in fact a fairy tale, and a very sad one: a conflict began over the construction of a railway line, which in its remoter consequences was to bring destruction to so many. Yet it was not a rich country that provoked the clash, but a desolate, almost uninhabitable little speck of land, squeezed between barren mountain ranges; and not a main rail link, but a narrow-gauge line intended to join yet another narrow-gauge line with a so-called 'main line' on which there was only one train a day.

People today might ask what this absurd toy railway had to do with world politics. In normal times, nobody outside the immediate area would have taken the slightest notice of it; yes, in normal times, but just at that point the transition to abnormal times was beginning; for, all at once, the most remote cities of the world echoed with a hue and cry over this ridiculous mini-project. It was like the first tremor of an earthquake, a disquieting sensation: if such a small matter could evoke such a furore among people in no way directly involved, then surely the era of peace in Europe had ended. With brief local exceptions, that era had lasted almost one hundred years — the longest period of peace for almost 2,000 years. And now it was all coming to an end. We could only guess what that might mean, for we ourselves had not yet seen war.

What was it all about, and how was I involved? At the Congress of Berlin in 1878, Austria-Hungary had been granted the Sanjak of Novi Bazar as an appendage to Bosnia, to be garrisoned so as to assure it of direct links to Turkey and the Aegean Sea, without having to pass through Serbia or Montenegro. For almost two decades, Austria had stationed troops in the Sanjak without troubling further about the territory. In 1906 Count Alois von Aehrenthal was appointed Foreign Minister of Austria; he had come to his new office in the Ballhausplatz from St Petersburg, where he had been Ambassador. Like so many others, he failed to understand why Austria had remained passive at the time of Russia's weakness in the Russo-Japanese war, and he wanted to retrieve the lost opportunity as soon as possible. His first scheme was a railway link through the Sanjak to complete a line from Bosnia to Salonika. Since Turkey still retained nominal suzerainty over the Sanjak of Novi Bazar, Austria made a formal application to the Turks for a railway construction concession. The

Eastern Railway Company (Orientbahngesellschaft) which owned the line from Salonika to Mitrovica, was to undertake the preliminary engineering survey and in due course the financing. Morawitz was on the board of the company, in which there were German, Austrian and French interests, and he was the man consulted in the first instance. He in his turn charged me to start looking into the questions involved — all 'top secret'.

My report was absolutely negative: neither the traffic to be expected in the Sanjak nor the needs of Bosnia itself justified the construction of the proposed railway. Bosnia's whole economy was oriented towards the Adriatic, and required the development of the excellent ports along the Dalmatian coast — I knew those areas, since my father some years previously had done legal work in connection with the financing of the great Kerka hydroelectric project — and I added that a through-line from the Croatian border to Mitrovica, the last station on the Orientbahn, would be unreasonably costly. If standard gauge were chosen, all the Bosnian lines, which were narrow-gauge, would have to be completely rebuilt, and the missing link from Banjaluka to Jaice finished at very high cost. If, on the other hand, narrow gauge were decided upon, that would require two separate transfers, and make direct goods traffic impossible. The line would never really compete with the Belgrade railway that linked Southern Hungary with the Aegean; profitability, even in the long term, was out of the question.

The Russian-French alliance had reacted to Austria-Hungary's application for a rail concession with a storm of protest unparalleled in intensity — and had in its turn made a political countermove by proposing a railway from the Danube to the Adriatic.

In the course of 1907, Morawitz gave my memorandum to Count Aehrenthal, who had come on a private visit to his apartment in the Schwarzenbergplatz. It was obvious that the Minister found the conclusions of my memorandum altogether unpalatable; he confided to Morawitz that the Austrian General Staff had recommended the withdrawal of Austrian troops from the Sanjak, in view of the growing Turkish national feeling in the region. But to give up the railway project at this point would represent a defeat with serious consequences.

Morawitz said to me: 'Aehrenthal looked deathly pale, and I was afraid he might collapse in my home at any moment. I have the impression he'd never have started with that little pimple of a railway if he'd known all this beforehand. But then our betters in the aristocracy don't know a damned thing about finance. Could you perhaps water down that memorandum just a little? Perhaps reduce the costs of the narrow-gauge line, leave out

that business about the connecting links; and then say the financing is something for future decision?’

‘I’m not the sort of man who talks out of both sides of his mouth,’ I answered.

‘Oh, come along, it’s only helping to give someone a way out, not making an enemy of him — which I, of all people, have no reason to do. But of course, you won’t even do that — that’s what I get for taking my colleagues out of the academic world.’

He took his hat, got up to leave the bank, then turned to me after a few steps and said, ‘Well, you’ve convinced me at any rate. I wouldn’t give a ha’penny for that heap of rubbish. Good-bye, Professor!’

But the whole world now began to get upset over that ‘heap of rubbish’. The Prince of Montenegro, a country with a handful of mountain inhabitants, who had married one daughter to the King of Italy and two others to Russian Grand Dukes, protested vociferously that the proposed Sanjak Railway would cut him off from links with Serbia — though how a railway could do that is something of a mystery. Cries of indignation were promptly heard from St Petersburg and Paris, as well as Rome — and even London expressed concern. Never was so much written about a proposed railway line, which would have been the first and only one in the entire region — a region practically without any roads, and which very few travellers had ever visited. How easy it was to orchestrate a chorus of protest, as long as people were prepared to pay the appropriate price — and there was apparently no lack of those. And how quick others were everywhere to chime in, not knowing what it was really all about.

The railway was never built, although Austria received the concession and had a full ten years thereafter to complete it. Moreover, in the following year, 1908, Austria voluntarily relinquished her rights to military occupation of the Sanjak. Why then all that fuss? Historians are still trying to figure it out.

I can give the answer, and it may still be of some interest today, since it concerns the eve of the great war epoch. My memorandum, with the added authority of Morawitz, had convinced Aehrenthal of the uselessness of the Sanjak Railway — which the international uproar prevented him from acknowledging in public. The Foreign Minister found a political line of strategic withdrawal in the larger context of Austria’s voluntary abdication of her rights in the Sanjak of Novi Bazar, a move that he hoped would silence any political recriminations.

If Aehrenthal had troubled beforehand to analyse the financial and military implications, the entire fateful episode would not have occurred.

In the event, even the intelligently planned retreat was no longer very helpful: the world failed to understand why Austria had first wanted to construct a railway that encountered such enormous opposition, and then a year later gave up the territory through which the line was to go. People explained it all in terms of the most sophisticated diplomacy with grand strategic aims — while the whole point was to cover a retreat with plausible gestures.

6. The Annexation of Bosnia; Meeting between Edward VII and Emperor Franz Joseph

The memorandum on the Sanjak railway and the decisive impact it had were known only to a very small circle of government officials; but the episode gave Morawitz a very strong unofficial position in foreign affairs, a development that he himself was far from welcoming. The Austrian Prime Minister, Wladimir Beck, was particularly impressed by the memorandum; Beck was a man with the profound sense of responsibility that characterised senior Austrian officials, energetic and decisive, but an enemy of all adventurism. Morawitz in his generous way had told Beck that I was the author of the memorandum, and Beck thereupon discussed with me foreign policy matters that in fact were not his primary responsibility. He spoke to me with the greatest urgency and intensity, and I could feel his skepticism about Aehrenthal's capacities. On Beck's introduction, I met two individuals who soon became my friends, Joseph B. Bärnreither and Rudolf S. Sieghart.

Bärnreither, a Deputy of the Austrian Upper House (*Herrenhaus*) and a German from Bohemia, was one of the best and last representatives of Austrian liberalism.

Although fully sensitive to the uniqueness of other nationalities, he was, in the spirit of Herder, enthusiastically eager to share with them the German culture that was so prized a possession of the German-speaking bourgeoisie — and without any attitude of superiority. He was keenly interested in the problem of Bosnia, which he knew well; he belonged to the circle close to Crown Prince Franz Ferdinand, and had more influence over the Crown Prince, it seemed to me, than any other individual. He was selfless and devoted, without personal ambitions. His goal in life was to achieve a constitutional arrangement of a kind which the like-minded Austrian-Rumanian political thinker Popovici had called 'The United States of Austria': a federation of national states with a strong central government. This state, an Austrian-Polish-Rumanian-and-South-Slavic federation, would irresistibly attract the outlying nationalities within its borders. Many of the best political minds, not only among the Poles but among the Czechs, Croats and Rumanians too, were attracted by this idea, as were some Social Democrats and to some extent Bauer. But the biggest obstacle to accomplishing this federal state was the dominant position of the Magyars in Hungary; their overlordship was incompatible with the national aspirations of the other nationalities, the Rumanians,

Slovaks and Croats. It was the Croats who in the revolutionary year 1848 had defended Vienna, just as Franz Joseph ascended the throne, against the rebellious Magyars; and then nineteen years later, when the Dual Monarchy came into being, were subjected to Magyar domination. Bärnreither was firmly convinced that this historic injustice would have to be rectified, and that some compensation could no longer be postponed.

The whole political climate of the time favoured an effort to solve this problem. The Crown possessed the ultimate weapon in the form of universal suffrage, which it had just forced through against tremendous opposition in Austria, and had also threatened to introduce in Hungary, as a counterweight to growing nationalist pretensions on the part of the Magyars. That was quite a step for a seventy-eight-year old monarch; but the Emperor could not decide to proceed further, to engage in open conflict, demolish the old Dual Monarchy, and establish a new constitutional set-up. He knew very well that he would have to satisfy the political demands of the middle class and attract the broad masses of the people to make such far-reaching changes, but he lacked the decisiveness required to carry matters through to their logical conclusion.

Bärnreither judged all these matters with a cold and rational logic, *sine ira et studio*; Crown Prince Franz Ferdinand, on the other hand, took matters personally, and made no bones about his intentions or his antipathies. These qualities would have made it difficult for him to see his plans through, especially since with his strong wilfulness he would hardly have been content to let Bärnreither, the intellectual author of his programme, be responsible for its execution. And then, every feature of the programme would have encountered Russian opposition: a Poland at peace would have attracted the Poles within the Russian orbit; a unified Rumania would have lain athwart the road to Constantinople; a unitary Southern Slavic state would have been in a position to command the exit from the Dardanelles through the Aegean Sea. Russia needed weak states along its borders, not a great confederation; but just when Russia herself was weak Austria had remained passive. The only great power that really might have been interested in Bärnreither's programme was Great Britain, which had in fact wanted to transfer full sovereignty over Bosnia to Austria at the Congress of Berlin. As long as England continued to oppose the opening of the Dardanelles, its support could have been assured; but at this time England was herself seeking a rapprochement with Russia, and in June King Edward VII met Tsar Nicholas at Reval.

The Bärnreither scheme could not therefore have been accomplished at the time, even by Franz Ferdinand, who by the way was a Russophile. But

paradoxical as it may seem, the scheme is now, and will long remain, much more practicable than it was then. The rapprochement of the West and Russia is a mere episode: what will last is the opposition of the two, and England's political successor, the United States, cannot indefinitely keep watch alone on the Bosphorus.

While the group close to Crown Prince Franz Ferdinand, functioning as a type of 'brains trust', spun its fantasies about the future in enforced inactivity on the sidelines, the other man Beck introduced to me, Sieghart, was fully engaged in public life, highly valued by Emperor Franz Joseph and cordially detested by the Crown Prince. Without any influential background or political support, he had as a young man advanced to a leading position in the Prime Minister's office, and with his clear vision and an unusually shrewd judgement of people, had subsequently become the real power broker in government, a maker of ministers. Nobody but he could have helped the Empire through its seemingly insoluble problems so flexibly and imaginatively: he even perceived possible solutions to the linguistic issue, which to this day remains a problem. But he knew that the times were inauspicious for bold experimentation. If he had been born in England, he would surely have been one of the greatest statesmen in that country; he had a genius for political timing.

The meeting at Reval between King Edward and the Tsar precipitated the revolt of the Young Turks: they feared joint action by England and Russia, the two powers whose rivalries had enabled the Ottoman Empire to survive for the past sixty years. The centres of the revolutionary movement were not far from the eastern frontier of Bosnia.

On 8 or 9 August 1908 the Austrian Prime Minister, Beck, asked to see Morawitz, and when he learned that Morawitz was away in Marienbad, he sent for me. As he told me under the seal of strictest secrecy, the annexation of Bosnia and Herzegovina was being seriously considered; he was therefore particularly anxious to have Morawitz's views as soon as possible on the likely position of the Young Turks over this issue.

I travelled overnight to Marienbad, and next morning accompanied Morawitz to drink the waters and then walk from the springs along that splendid wooded path to the garden café, Rübezahl, with its beautiful views, where we were to have breakfast. The old custom still prevailed: one had to walk uphill after taking the waters and before breakfast, and older men were not exempted from the requirement. I was beguiled out of my worried preoccupation by the wonderful forests, immaculately cared for over centuries, and by the cheerful mood of the visitors who had streamed to the famous spa from all over the world and were now feeling

better, or had at least convinced themselves that they were healthier since arriving. During the ritual walks one was meant absolutely to avoid discussing any serious matters; but even during breakfast I was unable to begin, for at the next table there was a large group of French people talking loudly and excitedly about the visit King Edward VII was going to make in the next few days to Ischl, where he was to meet Emperor Franz Joseph. King Edward's visit appeared to be the subject of the day at Marienbad; the King was just ending his own stay at the spa, and was regarded as something of a comrade by the other guests there, among whom he had circulated informally throughout his visit. As far as I was able to overhear, nobody spoke of the political significance of a meeting between Edward and Franz Joseph. European society of the time still considered Edward VII as the greatest *bon vivant*, the arbiter of elegance, and saw his visit to the Habsburg monarch as a normal act of courtesy toward the sovereign who ruled over the spa at Ischl, as well as a gesture toward a fellow-monarch who in 1908 was celebrating the sixtieth anniversary of his reign and was also to celebrate his birthday a few days later. I whispered to Morawitz, who was already showing signs of impatience, that we should try to find a quieter place.

'Trouble in the bank?' he asked in a low voice.

'No, a query from Beck.'

'That's all I needed, during my holiday.'

'It's not necessarily bad news.'

'Have you ever in your life had good news from a government?'

We walked into the nearby woods, along a path leading to the new golf course that King Edward himself, dressed in a black morning coat, had inaugurated a few days earlier by hitting the first ball.

'I only have an hour before my bath, so fire away,' said Morawitz. 'What does Beck want to know?'

'It's highly confidential: how would the Young Turks react to a possible annexation by us of Bosnia?'

'Why annexation? Who's going to take Bosnia away from us under the present set-up? And why just now, when Turkey's about to get a decent government for the first time. A sensible government in Turkey will unite all sorts of previous enemies, France doubtless among them; and then we come along with this useless notion!'

'I don't know the reasoning behind it,' I replied, 'but do you think the Turks will have a hostile reaction, or that they can be calmed down?'

'Hostile reaction? Against the ally of Germany, the only friend Turkey has and will continue to have — rubbish! The Turks have more than

enough other worries. Oh, they'll let out a scream — they have to — but they'll stomach it, especially if we help them with their critical financial problems. It'll cost us a packet! Tell Beck the Ballhausplatz had better leave that negotiation to me: if Pallavicini, our man in Istanbul, handles it, it's going to cost us far more. But what has any of this to do with Edward's visit to the Emperor?'

'I haven't heard anything about that. But if the annexation is going through soon — and Beck hinted he's in a great hurry — it would be dangerous not to tell the King anything about it during his visit.'

'You probably fear you'll be sent off to London again to smooth ruffled feathers! But joking aside, you're right about that. Tell Beck in my name too that it would be wise to put King Edward in the picture.'

I spoke next day to Beck in Vienna, and gave him the message. The senior Chief of Department at the Foreign Ministry, Count Wickenburg — the Foreign Minister, Count Aehrenthal, was in Ischl — rejected the notion of informing Edward VII as impracticable. King Edward was to meet Kaiser Wilhelm II of Germany after his visit to Emperor Franz Joseph at Ischl: to inform Edward of our annexation plan before letting our German ally know would be the grossest affront. In any event, the Council of Ministers had not yet decided definitely on annexation; and a decision would not be announced immediately.

Two days later, Franz Joseph and King Edward met at Ischl. On 14 August, Moritz Benedikt shared with me the Emperor's words on the evening after the visit: 'Today I made a powerful enemy.' I kept trying to figure out what these words might refer to; Beck and Sieghart were also in the dark. Had an alliance been suggested, or some mediation in the naval arms race with Germany? or had the annexation of Bosnia been mentioned and opposed by Edward? I was deeply stirred by the Emperor's words: Franz Joseph was not an unusually gifted man, but he had vast experience, and a world view that spanned two generations. He had summarised in six brief words the historical turning-point that had been reached: the entente between England and the Habsburg monarchy, which had lasted more than two centuries, the oldest such friendship in Europe, was at an end. That would be a misfortune for both parties; from this moment on, the danger of world war was visible, however few realised it. Austria was irreplaceable for Great Britain: she was the only great power without overseas colonies, without imperialist aspirations and without access to the great oceans, and with only one coast, on the Adriatic, which led into the Mediterranean. But at that time, that part of the Mediterranean had

particular political significance. The American Admiral Donald Francis Mahan, whose views had been so influential in the build-up of the German Fleet and who was also highly regarded in England, had referred to the strategic importance of the Adriatic and its adjacent waters of the Mediterranean. Since the naval battles of Actium and Lepanto, that theatre had always been decisive; and in a modern war the strategic situation would be identical. 'At the moment', wrote Mahan, 'the pivot of naval power is in the West. But if by some chance control of the Black Sea, which Russia now has, should lead to penetration into the Mediterranean, all the strategic factors in sea power would be changed. If there were a conflict today between East and West, and if England and France could invade the Levant without opposition, then the East would be confronting the West half-way, in the Mediterranean.' Austria's excellent Dalmatian ports lay just at that sensitive strategic point, with their hinterland and access through Bosnia. And precisely at this time England was relinquishing these highly important strongpoints and her irreplaceable Austrian ally as well. Such a development demonstrated the depth of English fear of the German threat. I considered both that threat and the fear it evoked highly exaggerated — but that was of course just what made the situation so dangerous.

And thus it really came to the same thing whether the clash between old Franz Joseph and Edward had been over the annexation issue or over the question of German armaments. If the argument had been over the Bosnian matter, that showed how serious the whole position now was; but if, as now seemed more likely, the Bosnian question had never even been mentioned, what an insult it would be to King Edward if annexation were to come shortly after his meeting with the Emperor; and the affront would be doubly wounding if Wilhelm II in his meeting with King Edward said nothing in his turn about Bosnia. But how could Wilhelm say anything about the Austrian plan since he himself did not know of it? — yet who in the entire world would believe that he had not known?

In my letter to Morawitz, I predicted that there would be a positive decision for the annexation of Bosnia, and added that keeping it secret would create distrust on the part of both King Edward and Kaiser Wilhelm. I added that there would now be lasting tensions between England and Austria; those tensions would in their turn create a very serious situation for the Anglobank.

Morawitz came on the telephone: 'You'd better go straight away to Cassel, who's in Switzerland.'

'But my lips are sealed about the Bosnia matter.'

'I'll give him notice of your arrival from here. You can intimate that I'm concerned about the Turkish question.'

At the time, the mere mention of the names Russia and Turkey would cause anyone in the world of finance to sit up and take notice: there were vast claims outstanding against both countries.

7. With Sir Ernest Cassel on the Riederfurka

The conversation with Cassel was extremely delicate, because I was sworn to secrecy about Bosnia, and was also unable to indicate to him that I had some knowledge of what had transpired at the Ischl meeting between King Edward and Franz Joseph. Basically, I was to try and get more out of him than he would like to say, or indeed than he could say. Just because he was on such exceptionally close terms with King Edward, he would have to evade political questions, especially from a foreigner; and although he was better disposed toward me than his usually cold nature permitted, I would be unable nevertheless to transgress the bounds of discretion.

The Lötschberg railway was then under construction, so I travelled through Lausanne to Brig, which looked like a construction site. The next morning I went on by horse-drawn carriage to Mörel, where I loaded my bags on a little mule, refused the second mule that had been reserved for me, and started climbing the path, especially steep at its beginning, to the Riederfurka. The climb lasted a good five hours; it was clear that uninvited guests were hardly likely to undergo such an ordeal. For Sir Ernest it was just that distance from common folk that gave the place its greatest charm; and when the local villages wanted to build a road up the mountain to thank him for his benefactions among them, he said he would leave the Riederfurka if they did. How lovely the remoteness of the Walliser region was then; ski lifts and buses have alas put an end to that. There is a commanding view over the Aletsch glacier, and Cassel had a path built through the mountain forest on the Rieder peak, with its vast panorama of the Walliser ridges.

Since I had left Brig at 5.00 in the morning, I arrived just in time for lunch. Nothing in the choice menu reflected the simple tastes of Cassel himself, or the extreme difficulty of provisioning a household at that altitude. Cassel found my non-smoking tiresome: he liked to offer his guests at the conclusion of a meal cigars which — as I understood from connoisseurs — were the finest and best-preserved in the world. Since we were not alone, our business discussion took place only the next morning.

'What is worrying Morawitz about Turkey?' Cassel asked when we started our talk.

'The rapprochement of Russia and England, whose opposition has hitherto enabled Turkey to breathe freely. That is encouraging the Balkan nationalities in their restlessness.'

'The meeting of the Tsar and King Edward at Reval has nothing to do

with Turkey, at least directly. It is just a response to Germany's naval armaments programme.'

'If the move is directed against Germany, then it affects Turkey also,' I rejoined.

'Our Liberals believe that the Young Turks will ally themselves with England and France.'

'Morawitz is of the opposite opinion,' I said. 'He feels the Young Turks will continue Sultan Abdul Hamid's foreign policy.'

'Why?'

'Because their only friend in the world is Germany.'

'And will they let the Germans build the Bagdad Railway?'

'Certainly. The French have bowed out of the project, and the English are not interested in building it.'

'You can tell Morawitz I concede that he's right. What else?'

'Emperor Franz Joseph, according to a confidential but highly reliable source, is supposed to have said in the evening after his talk with King Edward that he had made himself a powerful enemy. What might that mean?'

'Of course, I know nothing about it, but I can imagine what the reference may have been. We in England have opened our Empire and our colonies to all, and the Germans have made good use of that. They built themselves the strongest army, and we said nothing about it. But now they are building a vast fleet, and that strikes close to home. Against whom can that fleet be aimed? Only against England, which has given not the slightest cause for hostility. Edward fears the German people, and he fears his nephew the Kaiser even more. He has put an end to all our traditional antipathies: first with France, then with Russia; Italy must also join England, and Austria was last in the queue. If you are correctly informed, Austria was the sole power to let us down.'

'And does Edward want war?' I asked.

'Only if the naval threat cannot be dealt with some other way. He is nervous, because his health is not good, and he doesn't think much of his son. He believes he can bring Germany round by political means, and I think he could do it, but he is alone. Therefore I regret the outcome of the Ischl meeting.' Cassel added: 'And then there is the Bagdad Railway business, and the fear of Germany's designs on Persia and India.'

'But that's no reason for conflict, that's the strongest chance of a compromise!' I said that in a loud and excited voice, which must have sounded alien to Cassel, with his cool, measured manner and his experience of London ways.

He looked at me with some surprise. 'How do you mean?' he asked.

'The Bagdad Railway will open up a large colonial territory for Germany, an area that can only be defended by land. That creates the basis for a compromise on the naval issue.'

'The Bagdad Railway therefore as a link between Germany and England?'

'Certainly. In Asia Minor, Syria and Mesopotamia the Germans have enough work to do for a whole generation.'

'Is that your idea?'

'Yes.'

'Well', he said, 'it has much to recommend it. I find it regrettable that the French left the Bagdad syndicate at the time — the sole occasion on which Arthur Spitzer disappointed me — but nothing is harder than getting rid of political prejudices once they've taken root.'

'The political difficulties may appear insurmountable, but a compromise has to be reached. The other possibility, war between England and France on the one hand, and Germany and Austria on the other, is too appalling: it would destroy everything we want to build, it must somehow be prevented.'

'Who can prevent it?' he asked.

'You know better than I who that might be in England. As for Germany, I'll take it on myself.'

'Don't you rather over-estimate yourself, young man?'

'I hope not.'

Sir Ernest swept me with a look that seemed to say 'And who are you, anyway?'. As his next question was when I proposed to return that afternoon, it seemed clear that he had had quite enough of me. 'Right after lunch' was my answer. Cassel was silent until we reached the villa, and I reckoned my personal relationship with him was over. He had other guests, and had planned to undertake an excursion with them that afternoon. To my great surprise, he leaned over when lunch began, and said to me 'How do you propose to exert influence on Germany from Vienna?'

'I plan to leave Vienna in a year, and to attain a position in Germany from which I can carry out my programme,' I answered.

Cassel turned to the other guests and asked to be excused from the afternoon excursion, since he wanted to accompany me part of the way down the mountain.

I remember the lunchtime conversation because of a remark that for some time impaled a nickname on me. An English guest, a professor at Oxford, who had joined us from an inn in the neighbourhood, was

speaking of the high degree of truth in Muslim fatalism. We might all do well to accept such fatalism, he said, but nonetheless retain our inner optimism. 'Oh, like a dolphin swimming under the *Mauretania*', I shot back, to general laughter in which Sir Ernest joined, the only time I ever saw him laugh. Without ever knowing who had repeated this story in Vienna, I was for some time known as 'the dolphin under the *Mauretania*'.

'Do you really want to leave Vienna?' Cassel asked me as we descended the mountain. 'You're throwing away a great deal, Morawitz wants to groom you as his successor.'

'If my plans in Berlin don't work out, the Anglo-Austrian Bank also has no future.'

'What do you want to do in Berlin?'

'Large-scale international finance with a political background.'

'Berlin is less suited to that than London or Paris. German industry is constantly outgrowing its capital, and Germany is beginning to close itself off from foreign sources of capital.'

'I want to be active primarily in the political sphere, and I can only work for my own side.'

As soon as I said that, I could have bitten my tongue off, because it could certainly have been considered tactless *vis-à-vis* Sir Ernest. He understood, however, and said, 'Yes, times have changed.' He was doubtless thinking of the time when he had left Germany for London.

'But why do you prefer Berlin?' he asked.

'Because it is only from there that tension over the naval arms race can be reduced.'

'Where would you prefer to invest funds nowadays, in Berlin or in London?'

'If my plan should fail, in neither of them. They will then destroy each other.'

'Then where would you invest?'

'In America or here.'

'Here?' Cassel asked in astonishment, 'I've been coming to Switzerland for years, but have never seen this little Alpine country as anything other than a summer resort.'

He remained standing and waved his alpenstock toward the mountain peaks. 'You're original,' he said, 'but not very agreeable. Give my regards to Morawitz. Good-bye.'

A few seconds later he called out to me, 'And stay in touch. Before you go to Berlin, I'll give you a letter to my friend Ballin.'

I walked down to the Rhône valley. Mules with their drivers came

toward me, sheep grazed on the hillsides, everything breathed the deepest peace.

*Kümmert mich das Los der Schlachten
Mich der Zwist der Könige?
Schuldlos trieb ich meine Lämmer
Auf des Berges stiller Höh.**

Was not the small country better off than the great power? Must every individual take part in all the great affairs of the world?

* Shall I be troubled by the battle's outcome, the strife of kings? Innocent, I herd my sheep up the mountain's silent heights.

8. The Decision to Leave Vienna

Soon after my return I informed Morawitz of my intention to leave the Anglobank and go to Berlin. He refused to understand my reasoning. For him high finance was the most interesting and honourable profession that existed, an absolutely desirable end in itself, and an appropriate goal for anyone who had worked his way up to such a position. The idea of being in the banking business purely as a means of securing financial independence for other pursuits struck him as sacrilege. And then to seek involvement in the quarrel of two governments — for that was how he saw it — seemed to him nonsensical. He said I was neither so naive nor so arrogant as to count on success at the beginning of such an enterprise.

The link I had in mind between financial business and political influence was an unfortunate idea, he thought. Public opinion scorned the businessman who purported to be working for the public good; such motives could only be attributed to the politician, although that breed, whatever they pretended to the contrary, usually looked first to their own interests — and were the corrupting element in relation to businessmen. Moreover, Morawitz could hardly imagine in what way I might act as an intermediary: if I attained some official position in Berlin, I should lose all credibility in England, and *vice versa*. And the intermediary without high position would find it hard to compel attention and win the respect of both sides. Did I really, he asked finally, want to renounce money and status?

I felt he had been deeply wounded by my decision, and could well understand why. He had taken me up as a young man, and raised me to a high position in the face of opposition from envious colleagues among the bank's executives. To exchange such a position for something as uncertain as I contemplated seemed to him akin to selling the bank itself short. He was proud of his own accomplishment: he had taken over the bank only four years previously when he was nearly sixty, had devoted at least twelve hours a day to its affairs — something rare in a man who by present reckoning possessed a fortune worth several hundred million Swiss francs. In that period he had doubled the real value of the Anglobank's shares. Only a few more years under his leadership, and the bank would be one of the leaders among the prime Austrian banks: and now his heir-presumptive wanted to drop it all to go chasing phantoms!

'You and Cassel have reinforced each other's fears,' he said. 'England and Germany are not going to tear each other's hair out over the unknown Bosnians. War between those two — ridiculous! What either of them

would lose in one day of war would pay for all of Bosnia. Sleep on it a few nights, and then let's talk about it again.'

However, when the annexation of Bosnia was announced at the beginning of October 1908 and howls of rage resounded from the West, he became thoughtful.

'I'm afraid you're right,' Morawitz admitted. 'This will be serious, and unfortunately we've given them a pretext they will seize only too eagerly. What would you advise me to do now?'

'Liquidate the bank, slowly and inconspicuously.'

'Just now, when the boom's beginning here?'

'This is not the start of an economic upswing, but a war boom.'

'Oh, you're always wetting your pants! Do you really think war is unavoidable?'

'No, but very hard to avoid.'

'That's to say, only if the big genius here goes to Berlin, our new Noah who can prevent war. Otherwise we'll all be swept away in the deluge.'

'I know it sounds like brazen presumption — but yes, I feel certain of it.' I said these words in a soft voice unusual for me.

'Could be,' said Morawitz, not in his usual ironic tone, but visibly moved. 'You seem to have a nose for events that are about to happen. Well, I can't tie you down, but do me a favour, stay another year, so that I can decide for myself if I want slowly to liquidate the bank.'

I agreed to stay on those terms.

9. The Crisis in Economic Theory, 1909

In 1909 the Association for Social Policy (*Verein für Sozialpolitik*) held its annual meeting in Vienna to discuss the topics 'Productivity' and 'The Value of Currency'. At the meeting diametrically opposed views were expressed on one side by Philippovich and Max Weber and on the other by Wieser and Knapp. There had hardly ever been an exchange of views on that scale between economists of such standing; and never had the results in so critical a time been so catastrophic. For Max Weber rejected the notion of productivity, and Knapp that of inherent currency values.

Max Weber opposed the introduction of moral value-judgements into economics — but at the time that was not the issue; when an economy was gearing itself for war production, the issue of guns or butter was far from academic. Knapp for his part denied any notion of inherent value in relation to currencies: he said that money after all circulates from one person to another, and anyone could simply pass it on to others.

Five years before the outbreak of world war, two of the greatest scholars, to whom the world of learning owes a great deal, had given the state *carte blanche* for unlimited war production and creation of currency: previously, the notions of productivity and the gold standard had set limits to government action. Both Weber and Knapp were unaware of the consequences of their doctrines, and cannot be held responsible for the economic disaster that followed. But they had unintentionally deprived economic theory of all influence at the most crucially important moment. It is strange how often the best minds misunderstand the simplest things in their own areas of expertise; and then how their flaws in judgement are pushed to the point of absurdity.

From the moment the *Verein's* meeting ended supporters of the gold standard were considered, both in Germany and in Austria, to be medieval, superstitious idiots, crouched forever in a pathetic defensive position. At the beginning of the eighteenth century the theory of inflation followed an era of wars; this time the theory preceded war.

But I repeat: neither of these two individuals, scholars of the highest standing and character, thought about war, nor did anyone else mention it at the meeting. I suspect I was the only person present who considered it. And many, if they had been asked about war at that time, would have answered 'What has that to do with productivity or the value of currencies?'

10. Parting from Vienna, 1909

Leaving the Anglobank meant parting from the city of my birth the significance of such a parting is something we usually realise only much later in life. As the last of the family to leave Vienna, I visited my mother's grave. Throughout my life I always had many acquaintances and colleagues, but few with whom I was on familiar terms, and even fewer whom I regarded as friends. And two of these I was about to leave behind. One farewell message read: 'May you be mistaken in all your predictions for the future. Those are the wishes of your best friend — Morawitz.' The other farewell that caused me sorrow was from a dear woman friend, who had brought much joy into my life.

Many colleagues came to bid me good-bye. For two evenings, Karl Renner, who was eleven years older than I, came to me for a private briefing on what a statesman should know about economics; he was a man who would have been appointed Minister of the Interior in the Habsburg Monarchy, had the times not been so confused.

Hospitality to foreigners is not a widespread virtue; a cordial reception in foreign countries was in former centuries more the exception than the rule. In many times and many places the foreigner was easily deprived of his freedom, or had to pay a heavy ransom in order to leave a country again. It represented considerable progress when the foreigner could move about freely; and yet another forward step when he was admitted to full participation in the host-country's life. But even in the two most civilised cities in Western culture, Athens and Florence, there remained substantial distinctions between natives and foreigners. Even the greatest Athenians — Themistocles, Aristotle, Pericles, Alcibiades or Plato — were often reminded of their recent or more remote foreign origins; and Florence thrust its greatest citizen, Dante, into exile. Even though that exile was in a place which spoke Italian, nobody ever felt and wrote more feelingly about the humiliations of being an alien in a foreign land than Dante. The Middle High German expression for emigration was '*ins Elend gehen*'; literally, to go into misery.

It was quite different, however, in the eighteenth and especially the nineteenth centuries. Freedom to cross frontiers, to settle down, to exercise one's profession, freedom also to leave a country with all one's possessions — all these had for several generations been taken very much for granted, and seemed secure for all time. All limitations on migration seemed to us then, along with expressions such as 'hostage' or 'exile', to belong to a remote past that would never recur.

What we then, in 1909, saw as eternally established lasted for just five more years: then a new night of barbarism burst on the world in all its fury. How often, and among what a variety of groups, have my own foreign origins been thrown in my face by little men. I have always chosen to ignore such reactions with the contempt they deserve, but I soon drew the appropriate conclusion: that I should remain in the background in all political activities, and only at the most critical moments, and then temporarily, step into the limelight.

11. The Plan for Détente between England and Germany: Berlin, 1910–1914

I felt it was necessary for me to know Berlin better than during my first stay, and I also had to secure myself a position there. For those reasons I initially refrained from any financial activities and limited myself to academic pursuits. The German Government had established at that time the excellent Hochschule für staatswissenschaftliche Fortbildung (Institute for Advanced Studies in Social Science) to give senior civil servants and judges an opportunity, after years of practical experience, to acquaint themselves with the latest findings of scholarship and deepen their understanding of theory. I lectured there, along with my chief colleague, the economist Herkner, from 7 to 9 in the morning: one hour's lecture and then an hour of very thorough discussion. That brought me a series of offers from leading German universities, all of which I declined. I gave a series of evening lectures at the Berliner Handelshochschule (Berlin Institute for World Trade), the first such institution in Germany, on capital and money markets; the President of the 'Merchant Elders' (*Ältesten der Kaufmannschaft*), Kaemp, regularly attended these lectures. In addition, I had the assignment of introducing young civil servants at the Government offices in Potsdam to social science.

I invited the more gifted members of these three groups to dine together once a week in the old Berlin restaurant, Hupka: there we freely and informally discussed all sorts of economic and political questions. Word of these meetings spread fast, and soon some of the most intelligent officials of the Foreign Ministry joined us. I felt a distinct difference from Vienna: the Viennese officials were better at theory, but their Berlin counterparts were stronger on organisation and follow-through. I had hardly begun to suggest a topic before the eager contenders were grappling with the issue of how it should be carried out. When I began to feel more secure, I would take the most important events of the week, and ask what each participant would have done had he been in charge of the government in question. The subjects and answers that came up in these meetings were widely discussed in political and government circles.

Berlin was at that time nationalist, whereas Vienna had many nationalities to contend with and was therefore international in outlook. It was said that there were no arrogant Viennese and no modest Berliners, but that was not quite correct. The Berliners, like present-day New Yorkers, had come up in the world too rapidly, and representatives of Berlin

business made their often cocky impression abroad out of an inner feeling of insecurity. There was a type of officer and civil servant with a cheekily arrogant manner. But the members of my symposium were without exception serious, admittedly self-confident but without any inflated idea of themselves. Of course, the Catholic Austrian considered power itself an evil — an idea that Lord Acton took over from this source — while many Prussians saw power as the very basis of their state.

The veneration of Frederick the Great and the cult of Prussianism were widespread among the Berlin lower middle class, and pride in the position of a Reserve officer was something unique to the German upper bourgeoisie. Many uniforms were to be seen, and much was heard of organisations promoting colonial and naval enterprise. But no serious person thought about a war of aggression, let alone plans for world conquest — except for those individuals whose job it was to prepare for all eventualities. Later one often heard the assertion that the slogan 'first Alsace, then Europe, then the entire world!' was circulating in Germany, but in fact that quotation comes from Heinrich Heine! For the generation around the turn of the century Bismarck had made clear enough the notion of political 'satiety' and had himself stigmatised the annexation of Lorraine as a mistake. Through my close contact with Albert Ballin, chief executive of the Hamburg-America Line and friend of Sir Ernest Cassel, who was consulted more often than any other private individual by the Kaiser, I came to know how sharply shipping and maritime interests reacted to any provocation from England. Interest in colonial activities was confined to quite narrow groups, and the amount of capital invested in such enterprises was moderate. Max M. Warburg, the energetic Hamburg banker, often complained to me of the tepid interest that Pacific Ocean colonial ventures evoked. Among overseas enterprises, only Shantung and the Baghdad Railway had serious importance: in the case of Shantung, Germany proceeded in agreement with England, France and Japan. The Baghdad Railway project was the only one that carried a political risk. After long discussions with Holtzendorff, the brother of the Admiral of that name, I saw a clear misunderstanding between Germany and England on that other critical issue, naval armaments. Germany feared a pre-emptive strike, advocated by Admiral Mahan at that time as classical war doctrine; such a strike would have destroyed at one blow both Germany's colonies and her trade that had grown so rapidly.

There was a remark bandied about the London diplomatic circuit that the Kaiser is said to have made while a guest at an English naval review to a German standing beside him: 'When we get home, let's build

ourselves a fleet and sink all Grandmamma's little tin cans!' If the Kaiser really said anything like that, it was so extremely tactless and wild that it could not be taken seriously. I never believed it happened. But King Edward himself apparently thought the report genuine. His death in May 1910 eased the situation somewhat, since it eliminated at least that personal and family animosity.

I considered that the tensions between the British and German empires were not insuperable, and that the solution was easier than I had originally thought. England feared the naval attack that Germany never intended: if therefore Germany acknowledged England's naval supremacy by agreeing to a treaty regulating its naval armaments in relation to England, that would overcome the problem. Treaties in those days were still believed in and observed. I asked Ballin if he would take soundings along these lines, and a positive response came back with a speed that surprised me.

The Baghdad Railway irritated England because of the potential danger to India, which in reality nobody in Germany intended. How would it then be if the railway were to end at Baghdad, and Germany give up its concession from there to the Persian Gulf in favour of England?

The first attempt to achieve this solution failed. Within the Deutsche Bank, the leader of the Baghdad Railway syndicate, the junior Managing Director, Karl Helfferich, was rudely dismissive. Himself an economist, he saw in me a rival who wanted to get involved in a highly important matter that concerned nobody but senior executives of the Deutsche Bank. Who gave me the right to have such ideas, and what did I want anyway? Helfferich's senior colleague von Gwinner, who knew me from Vienna, was no less negative, but calmer about it. I said to him: 'How are you going to build even the Taunus part of the line with the tight money market we're seeing at the moment? Isn't the line you're committed to build unprofitable enough? Do you also have to build the biggest money-loser on the whole railway at the additional cost of alienating London?'

He answered with a certain irony: 'Money is not quite as scarce as you think. But if someone were to help us financially with the further construction of the railroad, there might be a good deal to discuss with him — with that individual alone, and with no one else! But', he concluded, laughing, 'you can search for such a person all over the world without finding him.'

I knew where I could find the necessary finance — in a place where nobody dreamed it would be. And I had heard what I needed to know.

12. The Naval Armaments Programme, 1911-1912

In the summer of 1911 I again visited Cassel. I found him very grave.

'The situation is beginning to be critical,' he said to me. 'We are no longer seeing just a conflict of governments; a sort of national hatred is now growing. There was nothing like that when I first came to England: the English opened their doors to everybody and all sorts of people made full use of the privilege. But what came out of all that? The English executive is already putting on his hat by mid-day on Friday, impatient in case he should miss his game of golf, and returns to the office only on Monday afternoon. The German clerk works all day Friday, Saturday, Sunday and Monday, and after a few years he's the boss and the Englishman is out of the door. And in addition there's that constant dispute about the fleet, and it's getting worse every day. Ballin told me you have a good idea about that. Tell me!'

I explained my programme. Not too many people know how to listen, and even fewer manage to do so in such a way that they silently influence the one who is talking. My sister Paula acting in that unique play by Strindberg presented the role of the silent person with such consummate artistry that the audience failed to pay attention to the actors with speaking parts.

When Cassel really listened, he did so with such power that I never felt its like again. He drew everything out of me, strengthened my confidence, and brought complete clarity to my thinking. For the first time since I knew him, that cold scepticism was gone from his eyes.

'Who is to carry out the programme? We are leaderless here.'

'You yourself,' I answered.

'I have never been involved with politics. But I have little influence now, with King Edward gone.'

'You must do it, nobody else is trusted by both sides as you are.'

'I shall have to think it over. Can you come back in the autumn?'

'Certainly.'

'Then you must bring me the absolute certainty that the Kaiser agrees to British naval supremacy.'

I returned to Berlin, clarified the situation, and in the late autumn came back to London. Cassel discussed the plan with Sir Edward Grey and Lord Haldane, respectively the Foreign Secretary and Secretary for War. These two were linked by a close friendship that also represented political unity.

Afterwards, Cassel also discussed it with Lloyd George and Churchill. Grey expressed willingness to come to Germany himself if Cassel's negotiations should go well.

Cassel went to Berlin in early 1912. He was very cordially received by the Kaiser and the Government, except for one point. The most important item in the plan, which sceptics in England had considered unacceptable, namely the permanent recognition by Germany of English naval superiority, with a limitation on new naval construction and the establishment of a quota for respective fleet strengths — all that was accepted with surprising alacrity, and Cassel put that down to my preparatory work.

The entire plan would have gone through without a hitch had the Germans not suddenly added a demand that England should commit itself to remain neutral in the event of a war between the Franco-Russian coalition and Germany. The Kaiser had not so much as hinted at this subject in his first talk with Cassel. To this day I do not know who was the source of this ill-fated demand; it is precisely in these cases that official papers tell us nothing about the true author of an idea.

The best that could now be expected was a period of rapprochement through practical cooperation; to demand more in the present circumstances would have been clumsy and foredoomed to failure. If at that time Germany had had an intelligent head of government the entire difficulty could have been quickly overcome. But the German Chancellor Bethmann-Hollweg was a bureaucratic type of astonishing maladroitness, and quite bereft of any subtlety. He did not understand that this demand was unacceptable to England at that moment, but that through practical cooperation over a period of years sufficient trust would be created to make a neutrality treaty superfluous. I myself was prevented from taking any steps, since I was forbidden to reveal my authorship of the naval plan. Thus it was that my conception appeared to the Germans an English notion, whereas in reality it was a compromise between the two positions.

In the circumstances, Cassel decided to retrieve what had mutually been agreed: that is, to save the naval plan without adding the neutrality clause. Because that clause was omitted, Grey gave up his intention of going to Germany, and sent his close friend Lord Haldane in his place. The result of the Haldane mission is well-known: the naval treaty between Germany and England led to more than two years of close cooperation, securing the preservation of peace even in the critical period of the Balkan wars. With hindsight that may seem of secondary importance, but if it was possible for the Anglo-German entente to keep the rest of the world at peace during two successive Balkan conflicts, it did not seem unreasonable to regard the understanding as a lasting guarantee of peace.

13. Austria-Hungary's Acquisition of the Eastern Railway, 1913

After the prime cause of Anglo-German conflict had been removed through the conclusion of the naval treaty, I turned to the solution of the Baghdad Railway problem. In order to secure myself a position from which to deal with this matter, I had to assure the financing for further construction of the railway, something that was hard to manage in the prevailing tight markets. The path I chose had the advantage of originality: I therefore followed it on my own.

Of all the great powers, Austria was the only one that had never in its long history aspired to acquire a colonial empire. The greater part of the Dual Monarchy was separated from any ocean by long distances: access to the high seas was restricted to the south and east, where there was an outlet to two branches of the Mediterranean, the Adriatic and the Aegean Seas. The only existing access to those regions, as I had already pointed out in the draft of the Sanjak Railway scheme, lay through the Belgrade-Salonika rail link. The stretch from the southern frontier of Serbia to Salonika belonged to the Eastern Railway Company (Gesellschaft der Orientbahnen), which was managed by an international syndicate under German leadership that was mostly identical with the Baghdad Railway consortium. The Eastern Railway was unimportant from the standpoint of revenues, but it was of the highest political value to Austria, particularly after the ending of the Balkan wars. I acquired an option on the majority shareholding of the Eastern Railway and then sold it to the Austro-Hungarian Government. Only Morawitz and Sieghart were my partners in this transaction. The purchase of a railway by two governments was somewhat unusual, but it was carried out within a fortnight. Although the enterprise was many times more important than the Sanjak Railway had been in its time, the entire operation was managed in such secrecy that there was no political opposition from any quarter. The proceeds of the purchase price paid by the Austrian Government were thereupon made available for the further construction of the Baghdad Railway.

I had avoided all personal publicity throughout the Eastern Railway matter, and even refused a seat on the Board of Directors to avoid the public eye. I was more concerned with influencing the Baghdad Railway syndicate to define spheres of interest *vis-à-vis* England, limiting the German zone to Baghdad and leaving the line from there to the Persian Gulf to Great Britain, than I was with the considerable personal gain that

accrued to me through this transaction. After the success of the Eastern Railway, I was able more easily to put across my idea of defining spheres of interest to both the Deutsche Bank and the Reich Government. Only Helfferich continued to be obstructive, not only on political grounds, but because he did not want to give up any rail concession without compensation. He himself was outstandingly talented in routine work and quick comprehension and presentation of a situation, but was incapable of seeing the big picture.

At that time, both the German Foreign Ministry and the British Foreign Office had one thing in common: illiteracy in economics. Historians today regard that era as epitomising the primacy of economics — but in both Berlin and London there was little of that to be felt in Government departments. Here and there an isolated old official without any business experience would be dealing with economic matters, while the departmental directors in proud ignorance kept themselves carefully aloof from such things. My being on good terms with senior officials helped get around that sort of difficulty, but still a good deal of patience was required.

14. The offer of a Mission to China; The Loans of 1913 and 1914

At the beginning of 1913, I was asked if I would undertake the reorganisation of the Chinese monetary system under the aegis of the seven great powers — England, America, Germany, Austria, France, Italy and Japan. I declined with thanks, and recommended Arnold, Managing Director of the Reichsbank, whom I deliberately wished to support. Arnold accepted the assignment with considerably more limited authority than I was to have been granted. The Chinese mentality was not understood then either in Europe or America: Europe was at the pinnacle of world power, full of confidence in the present and future, and Europeans found the Chinese amusing for their rejection of paper money and their practice of weighing metallic currency on scales. People presumed that the Chinese were five generations behind us — in reality they were a generation ahead of Europe. Under the Mongol emperors they had experienced a boom in which paper billions were issued to finance military conquests and vast public works, only to go through the bitter deflationary consequences — and the impression of all this had lasted through many subsequent centuries. In other times, a mission to China such as this would have tempted me, but I was then preoccupied with more urgent problems.

Agreement on naval matters between England and Germany led to a détente that had a favourable effect on money markets from the third quarter of 1913 onwards. Much as I had tried to keep out of the limelight, my participation as a source of ideas in these intergovernmental negotiations had become known or rumoured, and my advice was frequently sought in large-scale government financings. First came a proposal for a consolidation loan for the City of Budapest. The initiative for the Budapest loan came from Simon Krausz, a Budapest private banker and a remarkably interesting personality. The son of a corporal in the Austrian Army, completely self-taught, full of ideas, impulsive, with the high forehead of a thinker and the sensitive face of an artist, he was the opposite — both in appearance and in his cast of mind — to what people ordinarily think a banker should be. He was unusually successful in speculative investments, was extremely generous with his money, and helped writers, musicians, painters and sculptors unstintingly. His friends could rely on him: a few years earlier, when Istvan Tisza, Hungary's great

statesman, had been politically ostracised and had to campaign as sole representative of his party without any political or financial backing, Krausz went to Tisza's constituency to manage his campaign, which was widely thought to be hopeless. Tisza was returned, and became head of the Government. Krausz was thereafter Tisza's right-hand man, however unlikely that seemed, considering the deep contrast between the stern Calvinist Tisza and Krausz's life-affirming gypsy temperament. I spent only a few days in Hungary in my entire life — first in connection with preparations for the Budapest loan, and five years later while returning from Bucharest. On both occasions I experienced truly distinguished hospitality of a kind I was never again to see elsewhere.

The City of Budapest did not enjoy a first-class financial standing abroad, and its outstanding bonds were quoted at depressed prices. The Mayor, Barczy, came with Krausz to call on me. I studied the budget carefully, found the administration good and revenues increasing, but financing deplorable. The Mayor requested 30 million Marks.

'That is not possible,' I replied. 'Who would buy your bonds considering the present level of Budapest loans on the market? But I can most likely arrange for an issue of 150 million Marks, in one large-scale borrowing that would consolidate all your outstanding debt and give you resources for new development.'

It took some time before Barczy understood the proposed transaction. At the negotiations in Berlin he made an eccentric impression: one day in his suite at the Hotel Kaiserhof, when the talks between me and my banking group and Barczy had been very heated, he sat down at the piano and began to play, very softly, Hungarian folk melodies, gypsy songs, as only a Hungarian can play that kind of music. The German bankers listened speechless: a Mayor who improvises on the piano during loan negotiations seemed to them a creature out of some fairy-tale. Thirty-three years later there was a comparable sensation when Harry Truman sat down at the piano during the Potsdam Conference.

A 150 million Mark loan corresponded to a present-day* equivalent of at least 500 million Swiss francs — a large amount for a Hungarian municipality, especially at a time when money markets were strained as one of the consequences of the Balkan wars. The German banking syndicate hesitated. Then a coincidence came to my aid with decisive effect.

A London brokerage house had sponsored a small bond issue for the Hungarian city of Debreczin, with complete lack of success; the syndicate

*In 1955. The equivalent in 1986 would be 1,000 million.

had been compelled to take up almost the entire issue. Just that day, I happened to be in London, and at an evening gathering at the home of Sir Ernest Cassel the unsuccessful loan was discussed with considerable disapproval. People simply could not understand how such obscure credits could be marketed at this time. One of those present went so far as to declare that if he so much as heard a name like 'Debreczin' he felt himself defrauded. Thereupon I intervened, talked about the extraordinary growth of Budapest, of its underdeveloped financial base, of the necessity for cooperation between Germany and England. As I ended, I glanced at the old gentlemen around the table, and had the impression that I had bored and alienated them with my speech, which by London standards was too long, too enthusiastic and too didactic. But to my great surprise matters turned out differently.

The next day I lunched alone with Cassel. We sat in the middle of a vast room, and the servants had to traverse a long path to and from the table. During the meal, a little girl emerged from a grandiose door, slowly made her way across the large expanse, kissed her beaming grandfather and then pattered out. The contrast between the vast and magnificent room and the delicate little child delighted me. Cassel looked at his granddaughter until the doors closed, and said, 'She does look lovely and healthy, doesn't she?', as if this issue were a great preoccupation of his. But immediately, as if embarrassed at having betrayed family feelings, he turned to business matters.

'I have informed J.P. Morgan', he said, 'of the forthcoming Budapest issue. He declares his willingness to participate. How much of the loan will you give him? I'd advise you not to make it too much — even if New York is in, the present market will not absorb more than a million pounds of a loan that is foreign to both New York and London.' I immediately agreed to Morgan's participating in the amount of a million pounds sterling.

When the news of Morgan's participation became known, the Dresdner Bank, along with German, Swiss and Dutch banks all joined in. Nonetheless, the unfavourable market required us to postpone the issue, but when it was launched in the spring of 1914 it was a resounding success. The continent took 130 million Marks, England and America 20; the European tranche was heavily over-subscribed, the Anglo-American share not quite fully covered, so that the balance of this tranche was taken up also on the continent. That was a measure of the difference in placing power among various markets for European investments. The Budapest loan was the last great continental private loan before the World War. One of the

younger managing directors of the Dresdner Bank, Hjalmar Schacht, had contributed decisively to the excellent outcome of this transaction. He considerably outshone his fellow-directors, all sons of rich fathers or mere time-servers; Schacht seemed to me even then the only really outstanding personality, aside from Carl Fürstenberg, in the whole of German banking.

15. June and July 1914

Despite the unfavourable constellation of world politics, I had come close to achieving my goal. I helped to expedite the Baghdad Railway negotiations in London, and in June 1914 the Anglo-German treaty was signed that traced out respective spheres of interest, with Baghdad as the dividing point. Thus my original idea was carried out, and now it seemed that six years of acute anxiety had come to an end.

The great success of the Budapest loan brought me two other large-scale government transactions, both from the political danger zone. Bulgaria had fought two wars and been roundly defeated in the second; the Bulgarian Government sought me out and, together with the Diskonto-Gesellschaft, I formed a German-American tobacco consortium that floated a loan secured on the tobacco export monopoly. At the same time, the joint Austro-Hungarian Finance Ministry turned to me with the request to undertake the issue of a loan for the province of Bosnia, with the joint guarantee of Austria and Hungary. Bosnia, the very centre of Europe's crisis — who would dare get involved in that part of the world? And yet I was able to convince the consortium that had achieved such a success for Budapest to join in this business too — the Dresdner Bank was the lead bank for the syndicate — and when I had associated the Morgan houses, along with Morgan Grenfell, I was certain that peace in Europe was secure.

My optimism alas lasted only a short while. On 24 June the Bosnian loan agreement was signed. On the night of 28/29 June, towards 3.00 a.m., Simon Krausz rang me from Budapest — I can still hear his voice — and informed me of the assassination of Archduke Franz Ferdinand. He added 'Does that mean war?' and I, without any hesitation, said yes. If I had not been torn out of sleep so suddenly by the terrible news, I might have formulated my answer more carefully. Simon Krausz immediately telephoned the dread report to business friends in Paris and London, adding 'Somary believes that means world war.' I was reproached by a number of important people for that — and they would have been quite right to do so if I had made my remarks with any inkling that they were to be broadcast to others.

Even if my sense of impending war had been less strong, the moment was as inauspicious as it could be for both loans that I was trying to negotiate: for Bulgaria, but especially for Bosnia. The very same day, I informed both the Diskonto-Gesellschaft and the Dresdner Bank of my intention to break off the negotiations, but to my surprise the executives of

both banks, each independently of the other, declared themselves ready to proceed. They asked me to wait a few more days, until the immediate crisis had passed.

Preliminary work on the Bulgarian loan had already been concluded, and with the cooperation of German and American experts an export monopoly for tobacco had been worked out and signed provisionally by the Bulgarian Prime Minister. On 14 July 1914 the Bulgarian delegation came to Berlin, and at the Diskonto-Gesellschaft I and Salomonsohn, senior partner of the bank, presented them with the loan agreement for signature. Instead of signing as agreed, the delegates raised last-minute objections to the tobacco export monopoly feature, whereupon I rose and informed the delegation in a few words that negotiations were definitively at an end. Quite aside from the bad faith of such a withdrawal at the last moment, it was unthinkable to issue an unsecured loan for Bulgaria, which had just emerged from two wars, the second and far more decisive of which had represented a defeat. For understandable other reasons, the collapse of negotiations was welcome to me.

On the night of 15-16 July I was telephoned from Vienna — these dead of night telephone calls that month reflected the prevailing crisis mood — this time it was the Chief of the President's Secretariat of the Bodenkreditanstalt, Dr Max Garr, informing me on behalf of Sieghart, the Governor, that the Bulgarian delegation had interrupted their return trip to Sofia in Vienna, and were returning that night to Berlin. A leading functionary of the Austrian Foreign Ministry was accompanying them, and Sieghart requested me, on behalf of the Foreign Ministry, to resume loan negotiations with the Bulgarians. Since I could not tell them the true reasons why the negotiations had been broken off in the first place, I simply answered briefly that the whole matter seemed to me to have been settled.

On the morning of 16 July I was asked to come immediately to the office of State Secretary von Jagow in the Foreign Ministry, a man I had not previously met. In the waiting room was Salomonsohn, and I told him rapidly that I would refuse to conclude a piece of business under political pressure that I felt inadvisable on grounds of financial security. If the Bulgarians had transmuted a business matter into a political affair, then the financing was something for the German and Austrian Governments, not for bankers.

We were ushered into von Jagow's office. Throughout the world there had been so much talk about German imperialism, and people had readily imagined the German Foreign Minister as a man in the mould of a Bismarck.

How astonished these people would have been to see Herr von Jagow, a man of delicate, almost feminine appearance, timid and over-polite, with a little dog playing at his feet. He said that if difficulties had arisen in the Bulgarian loan issue they must by all means be overcome. I replied that the loan had been structured on the basis of the tobacco export monopoly, and that up till three days previously the Bulgarian government agreed to that. A loan without such security would be irresponsible. The Bulgarians must have the loan for the sake of more important issues, von Jagow insisted. I then expressed my regrets, but repeated that, as far as I was concerned, a loan without the tobacco export monopoly was out of the question. With that I bowed and took my leave. Salomonsohn stayed behind, rang me later and called my attitude unusually rude, and then said he would negotiate further, on some other basis. I gave him full liberty to do whatever he chose, but reiterated that for me the matter was closed.

On 21 July, Morgan Grenfell inquired from London of the Dresdner Bank why the Bosnian loan had not yet been issued: the summer holiday season was at hand. I told the bank to reply that political concerns were causing delay in the issue, whereupon the immediate answer came that such concerns were totally unfounded. A day later Mackenzie, the Berlin representative of *The Times* of London, called to say good-bye to me and my sisters, and asked me to look after the household furnishings he was leaving behind. He said, 'The people in the Foreign Ministry are behaving as if they intend to repudiate our treaties.' He took leave in a way that suggested he did not expect ever to see us again.

I then reported to Under-Secretary Zimmermann at the Foreign Ministry: when he heard that Mackenzie was on the point of leaving Berlin, Zimmermann said, laughing in his crude way, 'Oh, he's an alarmist. Prince Heinrich [the Kaiser's brother] has just come back from England, where the King assured him that England is not thinking of joining the war.'

Zimmermann had surely not lied, which would have been alien to his character. Doubtless the King too had spoken in good faith to his cousin, but I was uncertain how much insight the King could have into the situation. I had seen six years before how little informed more capable rulers had been; the information available to insiders, and precisely the most highly placed among them, is all too often misleading. I relied more on the judgment of *The Times* than that of the King. On behalf of those friends whose assets I was managing, I converted bank deposits and securities into gold and invested it in Switzerland and Norway. A few days later the war broke out.

16. Could the First World War have been Avoided?

Have I over-estimated the significance of my attempts to remove some of the grounds for conflict between England and Germany, or ascribed to myself a role that I never had? There are those who might take this view, especially considering how anonymous were my activities. The avoidance of any personal publicity, maintaining the utmost confidentiality during as well as after the conclusion of negotiations — these were even more the professional hallmark of the private banker than of the diplomat. What emerged concerning my activities later was revealed without my intervention and against my will.

My plan for removing all possible causes of war by reconciling conflicts among England, Germany and Austria had completely succeeded; and that the keystone in this effort was accomplished only in June 1914 seemed to me at the time, and may well seem to the world in later years, truly tragic; for there were only fourteen days between the signing of the Baghdad Railway agreement and the assassination of the Archduke at Sarajevo. Without that assassination the large-scale catastrophe could have been averted, since all causes of the Anglo-German conflict had been eliminated. Such an assertion should not be thought of as personal presumption; among those now living, nobody is more entitled to that assertion than I. For I had contributed the ideas and preliminary work that led to a defusing of the situation, and had succeeded in achieving agreement on the most apparently complex points in contention. Those who believe in nemesis as the Greeks did may assume that the conflict would have broken out anyway. But with my full knowledge of the circumstances and the chief actors in the drama, I believe this view totally unjustified — even more so than at the time, when I disputed Sir Ernest Cassel's notion that war would necessarily result from German economic pre-eminence. In the early summer of 1914, Europe had entered a new era of successful Anglo-German cooperation. An infamous conspiracy destroyed the hopes enshrined in that development, and ushered in a period of wars whose end, even after four decades, cannot be predicted.

The events of those weeks in 1914 were the most important in history since the French Revolution. They determined the fate of those then living, and the immediately following generation, and their effects have spread much further than that. The decisions taken in the month of July 1914 were more meaningful than any such in decades; and since such

tremendous consequences for man's fate flowed from this one month's events, it is not surprising that the debate over whether the war could have been averted is not yet dead. The debate is known generally as the war-guilt controversy, and since the archives of Berlin, St Petersburg and Vienna were later opened by enemies of the regimes of 1914, historians — at least those of the losing sides in the World War — soon had an apparently complete record at their disposal. Comparable documentation was not available for London and Paris, but even in those two cities there was vast material available. No previous conflict in history has been nearly as amply documented as this one. But anyone who believes that comprehensive documentation is sufficient to present, let alone evaluate, this crucial period is mistaken. How much ignorance, conscious distortion, personal hatred and intrigue are faithfully recorded in the archives — and the most important evidence, individual reflections and confidential talks are, of course, totally absent from the record. Moreover, objective judgements are rare exceptions in the discussion of a war that was wellnigh universal, and fought with such bitter propaganda.

Even in reading the few neutral and carefully documented presentations of the immediate causes of the war, I am mainly forced to the conclusion, based on my own acquaintance with the statesmen of the time and the real issues, that it simply was not so; that things in reality were quite different.

As I mentioned before, immediately after the assassination at Sarajevo I was in contact, through Krausz and to some degree directly with Count Tisza, the Austrian Foreign Minister, and I strongly supported him in his stand against war. But what sort of compensation and assurances for the future could have been given to Austria-Hungary? I wrestled nightly with possible solutions, but without result. Tisza's notion of solemnly waiving any attempt to annex Serbia, but of occupying Belgrade temporarily, should have been carried out right after the assassination, but it would have offered no guarantees for the future, and would not have prevented the conflagration. The only complete guarantee for the future would have been the immediate annexation of Serbia and the integration of Yugoslavia within the Dual Monarchy — but there were three reasons why that was not feasible: a lack of military preparedness, the resistance of Russia, and the profound aversion of the Germans and Magyars to increasing the Slavic population within the empire. The sole champion of this 'trilateralism', the union of all Southern Slavs, had just been struck down by the Serbs, who strove toward the same goal — but under their own leadership. The Austrians could not develop any real programme, because in fact they wanted nothing as compensation for the crime. But the dynasty had to

press a claim for compensation nonetheless, and on that point public opinion within the Empire was unanimous. But how was it possible to find a formula for compensation that was tolerable to Russia and her aroused Pan-Slavic feeling? Only five years before, Russia had undergone defeat in a similar question thanks to German intervention; a fresh humiliation would have been insupportable to Tsarism in its threatened political situation. But, again, how could there be appropriate amends for the assassination without the humiliation of Serbia and without arousing resentment in Russia? That was the decisive question, and nobody had the answer to it.

In a consistent development of my previous line of thinking throughout the previous six years, I advocated the closest cooperation between England and Germany with the exclusion of the other powers, and when just after Sarajevo Tisza asked for the possible solution, the formula for salvation, I sent him that message. Despite his anglophilia, he rejected the concept: any intervention by Germany would be taken amiss in Vienna, and it was useless to hope for results from an English *démarche* in Serbia, since Serbia had no outlet to the sea and was thus impervious to English naval pressure. I considered both arguments unsound; a joint recommendation of an Anglo-German investigatory commission would have compelled compliance by Serbia, which would not have dared oppose the public opinion of Europe — still at that time a force to be reckoned with. But after the assassination it was no longer possible to put across political ideas in my style, as a free agent: the situation was too tense, mistrust was universal, and I risked compromising friends. Karl Morawitz, my best friend in Vienna, had died in January 1914: the luck he had enjoyed all his life — except in his family — also spared him from having to experience the ruinous era we were entering.

Mackenzie of *The Times*, for his part, was convinced of a refusal in London: Sir Edward Grey had never been on the continent and would feel nothing positive about the conclusions of a half-English commission on the Balkan situation. Since I had always set a high value on the judgement of *Times* correspondents, I did not dare to send my ideas on to Cassel. They were nonetheless correct, and could have saved the situation; but the necessary statesmanship did not exist in Berlin and London.

Grey's celebrated last-minute proposal for the convening of a conference at ambassadorial level was in no sense a substitute for my plan. Especially in the period after the First World War, and in America until only recently, there were many who expected miracles from open diplomacy, from conferences and international organisations. How often have we heard that

the war of 1914 could have been avoided had there been a United Nations or League of Nations at the time. Now that we have seen such a conception in two versions, we are cured of such optimism. Summit conferences have not turned out any more fortunately: the last successful one was the Berlin Conference of 1878 thanks to two great statesmen, Bismarck and Disraeli. Two years before the First World War began, a large-scale international conference had taken place in London, which had unanimously forbidden the Balkan peoples to disturb the *status quo* in relation to Turkey. On the very day that this prohibition was proclaimed, the tiny state of Montenegro, in full awareness of the edict, began hostilities against Turkey. How did it dare to embark on such a course? Russia, one of the signatories of the London agreement, had already given a quiet signal to the Balkan Slavs to ignore its terms.

An international conference in 1914 might have achieved at least that result; it was hardly to be expected that even agreement on paper could have been reached. The Western powers had no idea of the real issues; they are only now beginning to understand the concept of satellite states, and of the satellites of Russia, which pre-date the Revolution. The West also failed to understand the notion of partisan warfare; it erroneously assumed that small nations were unaffected by imperialist guile, and instinctively took the part of other smaller nations. But in 1914 the situation represented the planned undermining of a civilised empire, that of Austria-Hungary, by a Russian satellite, and the assassination at Sarajevo was a typical partisan operation.

Imagine that an American on a peacetime visit to the Aleutian Islands is attacked and killed by grenades thrown by a group of Chinese Communists. The Government in Washington, demanding compensation, is instead referred to an international conference in which Russia and China are to participate; or it is given the choice of taking its claims to an investigatory body convened by the Peking regime. And if Washington should refuse to be satisfied with these choices, she is branded the aggressor, or is addressed with Grey's honest but naive indignation, asserting that the injured state's participation in the investigation of such an assassination represents an intolerable breach of the attacker state's sovereignty.

There is an immeasurably deep chasm between a liberal and a satellite state. That was understood then in neither London, Paris nor Washington; it has been learned only since, through bitter experience, and then the notion of a satellite state was taken to be a consequence of Communism, which is only a half-truth. Austria had confronted this problem

forty years before, but had been misunderstood and isolated in her struggle; it became clear to the West only after an entire generation had passed that Austria filled the pivotal role of defending European civilisation on its most endangered eastern frontier. An international conference with many participants offered no solution; only a meeting limited to the two least affected powers — England and Germany — could have averted the danger. But sheer ignorance of the true situation prevented that solution too, and with it any possibility of avoiding the war.

It was only too clear to me what all that meant, since with that failure my entire structure of Anglo-German cooperation collapsed just as it had been successfully completed; and the impact of its collapse enabled me to evaluate accurately the far-reaching effects of the understanding that had been attained.

There has been a good deal of nonsense talked about imperialism or even plans for world conquest in the pre-World War period. The agreement of June 1914 on the Baghdad Railway acquits both England and Germany of such charges. Austria for her part wanted only the *status quo*. No individual power, with the exception of France and her desire for the restoration of Alsace, had any territorial ambitions.

17. The First World War; My German Mission to Belgium

On 1 August 1914 the hundred-year peace ended and the era of war, which is still going on, began. *Domine, salva nos; perimus; impera et fac, Deus, tranquillitatem.*

In the preceding week I had wound up all my business and academic affairs in order to fulfil my military obligations in Austria. On 1 August I called on Gustav Schmoller to say good-bye, and found the old man in deep depression, a vivid contrast to the loud jubilation that filled the street outside. His hitherto almost courtier-like reserve had disappeared, and he spoke to me with unrestrained frankness, perhaps because he knew my own deep sense of resignation.

'How can we win this war? After all, we have no leadership!'

I was disconcerted and remained silent, because I never dreamed such harsh judgements could have been uttered by a man who stood so close to the Government and whose entire being was devoted to compromise.

I failed at that time to appreciate the tremendous amount of knowledge, supervision, responsibility and wisdom that are required for the launching, successful prosecution and conclusion of a great war. Two world wars have taught us much about all those elements. In neither conflict have I seen one individual who was truly equal to the task at hand. Was that a reflection of the difficulty of the problems or the inadequacy of our time? More important than the technical forces available in war is personality: where only mediocrity is available, war is merely adventure.

I travelled to Vienna overnight on 1-2 August. While Berlin was intoxicated by war fever, Vienna was calm. Nobody was celebrating, and even the usual irrepressible Viennese gaiety had disappeared. Very few anticipated anything but trouble and sorrow from the war.

The only individual who had wanted to expand the Empire into the Balkans had been killed; neither the Government nor the people wanted anything to do with such plans. All accepted the situation and did their duty, but aware of the senselessness of a war. The world war had developed out of a punitive expedition against a small state, and now threatened an Empire that had been built over centuries, and was irreplaceable for all its subjects, without exception. The Emperor was eighty-four years old, the Crown Prince had been assassinated, and the successor to the throne was an unknown. A great empire had hardly ever entered a war under more difficult circumstances. I wrote to my father, 'One can sum up the

present mood with the three words "resignation without hope".' A similar report could have been made of Russia in 1914; and twenty-five years later of France and Italy. But for young people facing their military call-up, the atmosphere was oppressive.

In the midst of the general pessimism, I found one remarkable exception. The Bosnian loan with the joint guarantee of Austria and Hungary could not be issued on the basis originally planned; but the proposal was still under discussion. From Berlin I had already given my views to the joint Finance Ministry dealing with the Bosnia issue; and on the second day of my stay in Vienna I sought out the Minister.

Herr von Bilinski was a leading member of the so-called 'Poland Club', the most powerful party of the Austrian parliament, because it determined the composition of the parliamentary majority. The Poles sometimes voted with the Germans against the Czechs and on occasion with the Czechs against the Germans; the Monarchy had only three general Ministers — for Foreign Affairs, War and Finance — and these, together with the Austrian and Hungarian Prime Ministers, formed the Crown Council under the Emperor's authority. Bilinski was a determined foe of any change in the *status quo* of the South Slav territories. He had access to the Emperor, and used his influence to strengthen Polish interests. As much as ten years before, he had used this influence to introduce measures for the financial support of Pilsudski, who at that time was subsidised by Vienna; and later Bilinski was instrumental in founding the Polish Legion.

My talk with Bilinski, originally scheduled to last an hour, instead lasted four. He tried to convince me not to break off negotiations with the American partners in the Bosnia loan syndicate. I replied that American participation was more valuable for prestige than for their placing power; but that in any event American banks would not join in a loan to any of the belligerent states. Bilinski rejoined that American attitudes would change after the first victories by Austria-Hungary: Russia was over-rated, he said, and the Russian empire was in complete political decay; the Poles would rise as one man against their Russian overlords.

Just as Bilinski said these words, the Chief of Department of the Ministry, Kuh-Chrobak, entered with the news that England had declared war. Bilinski had an unpleasant surprise: he had twice assured the Emperor, who himself predicted precisely this outcome, that it would not happen. Bilinski said that an alliance with Russia was a folly that England would one day regret; but that the outcome of the war would not be affected by the alliance. He went on to predict that Russia would lose the war, and that Poland would arise as a free country. His prophecy was

indeed to be fulfilled, but rather differently from the way he had dreamed — and for a very short time.

On 5 August my sister Ella telephoned from Berlin to report that Havenstein, President of the Reichsbank, had urgently asked if I was willing to take on co-directorship of the Bank Department that had been established for occupied Belgium. Von Lumm, Executive Director of the Reichsbank, was to take over the public leadership; I was to be Chief of Staff and run the actual business of the bank, with the assistance of leading bankers and bank directors who would be seconded to me. I was to be given *ex-officio* German citizenship and the rank of Major. I turned down the offer of German citizenship, since changing citizenship from that of the country of my birth was out of the question for me. But the very next day, I heard from Berlin that taking on German citizenship would not be required, and that the agreement of the Austrian authorities had been assured. Simultaneously, Wickenburg, Chief of Department in the Foreign Ministry, rang on instructions from the Foreign Minister, Berchtold, to say that further refusal would be deemed an affront, and that there was no reason for it, because appointment to so responsible a position was deemed a quite unusual honour in Germany. I accepted but without enthusiasm.

This was my first war mission, and fate decreed that it was to be the first of several I was to undertake, in a number of different countries. I consistently refused for the sake of any mission to assume the citizenship of the country that requested my services, for it was precisely in such a position that I wished to maintain my complete independence; for the same reason I refused absolutely to wear any uniform. My missions were therefore in every respect extraordinary: in none of them could I aspire to permanent office, and I was exposed from time to time to attacks from nationalists. I did not complain, because I considered complete personal independence to have a value above that of any mere public success: it enabled me to express my opinions honestly, and to draw the appropriate conclusions when my ideas could not be carried out. Each of my positions was offered me, none sought by me.

Despite my personal reserve, I had for some time in Vienna been addressed by my Christian name Felix by persons far beyond my immediate circle of friends. The colleagues I was to meet in Brussels appended the humorous 'Don' to my forename, because of my staunch independence. I was therefore known as 'Don Felix' by friends and many opponents as well. I have never been fond of familiarity, and at first protested against the appellation, but then after a while gave up.

On my return to Berlin, I found the city caught up in a war frenzy. The appearance and equipment of the troops reporting for duty were impressive, and I never again saw an army whose personnel marched into war so happily, indeed with jubilation. Almost all my younger students had already reported for duty with the army; only a few older people maintained an uneasy silence. I met Professor Gierke, the renowned legal scholar, in front of the Reichsbank building. He said, 'At the very thought of a war against England, my heart skips a beat. Do you remember Gudrun's song? It was his own brother he struck down.' Saying that, he shook my hand, and went into the bank in order to deliver voluntarily all the gold he and his family had: at the time, as in all developed countries, the major part of circulating coinage was in gold.

The President of the Reichsbank, Havenstein, lectured us briefly on the tasks of the bank department for territories to be occupied, emphasising the prevention of trafficking with enemy countries. Lumm agreed with him in identical terms; I took the liberty of taking the opposing view. I said that our most important task seemed to me the reconstruction of the monetary system in occupied Belgium. With the occupation and consequent cut-off of communications with the normal supply and export regions, trade with Germany would become more important; since the central bank of issue projected for the future occupied areas could hardly function yet, the entire burden of making currency available would fall on Germany if there were not an independent, provisional monetary system in Belgium.

Havenstein asked, 'You mean, the more countries we occupy the greater the strain on our currency?'

'Obviously', I replied.

'Victory would therefore mean disaster?' old Glasenapp asked ironically.

The other directors left the room and I remained behind, alone with Havenstein and Lumm.

'You are going to have a rough passage with the military people,' said Havenstein. 'They see the occupation as a vehicle for exploiting the areas occupied; but don't you go rather too far in the opposite direction?' I presented the counter-arguments as forcefully as possible.

Lumm accompanied me to the overhead railway that led to my family apartment. He was a bachelor, boisterous and cynical, a *bon vivant* and connoisseur of erotic stories, and thus the only person with the ear of the Crown Prince. He saw his assignment in Belgium as a stepping-stone to the Presidency of the Reichsbank. He seemed pleased to have a colleague

who he knew had done his homework and was interested in the matter in hand. But my manner of making suggestions frightened him.

He advised me: 'Never express an original idea in the bureaucracy. The most senior department head will steal it for himself, and if it is successful claim ownership; if you then assert that you are the author, you have made an enemy for life. But the original proponent of the idea will be saddled with complete responsibility for any failure. To put an idea through a bureaucracy without danger is a very delicate matter. In no case should you try to get more than one idea through in each year, otherwise the opposition grows too big. And you choose to pick a fight with the military, who feel themselves all-powerful, and want to plunder all of Belgium and France too!'

He added that if he were to tell the Army what I had said that morning to Havenstein, both he and I would be thrown out of our jobs, and no God could have saved us. I thanked him for advising me to be cautious, and asked him why I had been dragged into this situation, since my total independence must surely have been known. Lumm laughed and said I owed it to the English: they had been delighted by the memorandum I had once written on Chinese currency reform, the more so since they had not much use for foreign advice. Since my Chinese memorandum I had been considered the genius who knew all about bad currencies — the Germans and English knew nothing about these things since both had for much too long had strong currencies.

I said good-bye to my family and travelled by rail on 19 August to Cologne, and from there in a military car to Brussels, which had been captured shortly before. On the way through Liège, Lumm had the idea of visiting the fortress, which then was considered one of the strongest in Europe, but was taken in a few hours by one sudden attack. Dressed in his cavalry uniform, Lumm applied to the commanding General, Colleve.

'What is your regiment?' the General shouted at him. Lumm mentioned his regiment. 'That regiment is not here, go to your regiment!' ordered the General. Lumm referred to his rank and mission. 'I don't care about all that, this isn't a place for pleasure trips, don't bother me again!' the General said, and turned on his heel with his spurs jingling. In peacetime a member of the Reichsbank Board was considered somebody — here he was nothing.

We arrived in Brussels that evening. Lumm and his staff took up residence in the buildings requisitioned by the military in the Rue de la Loi, a street covered by German artillery, while the rest of the city would lie unprotected if the Belgians should break out of their positions, only 25

kilometres away. Within a short time the Palace Hotel was reopened, and I moved in there. For a few days I was the only guest — nobody else dared to stay there because it was so close to the railway station.

Belgium's foreign assets were blocked by all the belligerents — by England and France since Belgium was occupied territory and by Germany as Belgium's enemy — and the Belgian National Bank had taken its cash and note-printing machines to Antwerp. Long queues of despairing depositors stood in front of all the banks.

The military governor of Belgium, General von der Goltz, pressed for immediate assistance. Obviously, an issuing bank had to be established. At the time it was generally accepted that in order for notes to be issued the issue had to be covered or at least some credit had first to be established. I was not of that opinion, especially in emergency situations, but had to wait until Antwerp had fallen because that was where the assets of the Belgian National Bank were. But since I immediately assumed that they would have been removed before the fall of the city — an English fleet was at anchor in the Scheldt — I prepared all my plans for this eventuality.

Our task was to finance a densely populated, highly industrialised country, completely dependent on the outside world for food — and in the middle of a war.

On the day Antwerp surrendered, I travelled there accompanied by Fuchs, Director of the Reichsbank, and we arrived even before the occupying troops had marched in. There was nobody in the streets, since the inhabitants had not been informed of the capitulation and were still sheltering in the cellars of their houses. We came to the Belgian National Bank building and knocked for a long time at the locked entrance. Finally, a door was opened a crack, and a man peered out cautiously. It was Kreglinger, the Managing Director, and he was astonished to see me, whom he knew as a banker, standing there on the doorstep. I told him what had happened and he opened the door, leading me into the darkened building. He then led up from the basement one of his colleagues, old Dekinder, also a Director, whose wife had accompanied him to the Bank, saying she would protect him and die with him. I laughed and turned my pockets inside out to show that I was unarmed, although I acknowledged that I looked like a murderer since I had not shaved since my departure for Antwerp at 5.00 a.m. Despite their worries the two old people laughed with me, and Madame Dekinder expressed regret that I would not be able to shave even at that point, since Antwerp had neither hot nor cold water. The lights also were not functioning, and we took inventory of the Bank's assets by the dim light of a single candle. As expected, the assets had been removed by the English fleet.

After a survey lasting several hours, I walked through the city streets in which there was still nobody to be seen. Then the first units of the German army rode slowly into the city, uncertain of their direction. The officer at the head of the column saw me and asked the way to the barracks. I looked it up in my Baedeker travel guide, and the officer looked at me, his features frozen, and asked in French:

'You are not from here? Who are you anyway?'

'I am from the Occupation Government in Brussels,' I replied.

'Yes, but how did you get here?'

'I have the Military Governor's authority to come to Antwerp immediately after the signing of the surrender.'

Meanwhile the column had halted, and several other officers rode up to see what was happening.

'This civilian says he's here under orders from Military Government Brussels, and came this morning with two others,' my interlocutor explained to the highest-ranking officer.

'Impossible!' the officer said, looking at me with suspicion. I showed him my orders, and he excused himself.

'They never let us in the front lines know anything! But you are here alone, in the greatest danger, and should have a number of soldiers as a personal guard.'

I said I preferred to do without a guard, but claimed protection for the National Bank, which was completely without security, and then I gave the officer my Baedeker for Belgium. The incident had held up the advance guard, and with it the entire occupation of Antwerp, for a quarter of an hour.

Both Dekinders had invited me to have supper with them in the basement of the National Bank, but I preferred to go to bed hungry rather than consume part of the provisions the two old people had set aside. This visibly offended them; they told me that they had prepared for a much longer siege, that their provisions were much more plentiful than they needed, as I could see — but that water and cooking facilities were not available.

During our cold meal, the Belgian bank directors expressed their grave concern over Antwerp's situation: cut off now from the sea, what would happen to a city whose lifeblood was trade? What about their substantial claims in South America, and the assets in England? I shared their concern, and participated in the conversation as a guest, not an official of the occupying power. What I wanted to know had already emerged from my previous investigations. Late that night I slept on the mattress laid down

for me on the floor of the executive office of the Bank. At about 5.00 the next morning, there was a knock on my door, and the officer I had spoken with the previous day was there to return my Baedeker to me personally. He explained that the troops had had to advance further after only a few hours' rest.

The next day I went back to Brussels. The trip took nearly twelve hours despite the short distance, for the advancing army blocked the roads nearly everywhere. The situation was now clear to me, and I realised that the establishment of the bank of issue had to be undertaken immediately.

The organising of this institution has often been discussed: it was the first bank of issue that was created out of nothing, and yet established a currency that held its value for a considerable length of time and permitted payments within Belgium and with some foreign countries as well. The bank was set up along lines I established: it was not run by the occupation government, as so often happened in later cases, but by the Belgians themselves. That had three advantages: the officials were themselves responsible for all decisions, only they had the intimate knowledge of local conditions, and then there would be an automatic transition to Belgian control when the occupation ended.

By definition such an undertaking is a thankless task, since neither the occupation authorities nor the occupied can be satisfied with it. The Germans for their part reproached me with two complaints: the bank's structure made the temporary nature of the occupation immediately obvious, and leaving the executive authority in the hands of the Belgians would not permit the full exploitation of the bank for the purposes of the occupying power. Despite these objections, the Belgians were allowed to run the bank only under the supervision of a commissioner appointed by the military government. From the Belgian side there was great bitterness over the closing of their National Bank; but there was no other way to deal with the situation, since notes of the Belgian National Bank could have been printed abroad and introduced into the country to sabotage its economy.

Many claimed that the new bank was designed to demonstrate the theories of state money creation, and that gold coverage for the currency had been rejected on principle. Nothing was further from my mind: the bank was created in an emergency, and if I had had the luxury of choice, my proposed structure for the bank would have been quite different. Even the many detailed provisions that I introduced in setting up the bank, and which were imitated only too often thereafter, were products of necessity. I was subsequently often called the author of foreign exchange control; but

I am very much against this system, except where it is the only possible solution.

Lumm called a meeting of the top executives of the National Bank and other leading bankers, and declared that the National Bank had lost the privilege of issuing currency. The news was greeted with deepest gloom.

'What do we do now?' was the universal question.

'Establish a new bank of issue,' I answered.

'Then do it, but fast!'

'Well, that's your affair,' I shot back.

'No Belgian will undertake such a task.'

That was the final word of the Belgians when they took their leave, and the German authorities shared this view; but I stuck to my plan although it seemed hopeless. But as early as the next morning one of the Belgian bankers came to me with the request for permission to found a bank of issue. In my opinion he was unqualified for the job. That afternoon, the well-known American financier Dannie Heinemann, who devoted himself to Belgian affairs with great enthusiasm, invited me to tea with Hjalmar Schacht, and said we would meet an interesting man who was prepared to undertake the establishment of a bank of issue. At Heinemann's we found M. Francqui, who had been confidential agent to King Leopold II and later member of the Board of the Société Générale, Belgium's largest bank. I had brought my draft statute, which Francqui read through and accepted without demur. The appropriate orders were issued, and I was named government Commissioner by the military governor of Belgium. The governing Board of the new bank was composed of three nominees of the Société Générale, including Francqui and Governor Jadot, and two leading senior directors of the Belgian National Bank, Governor Lepreux and Jansen.

The establishment of the bank of issue — in contrast to all such foundations that were made later — was approved by the Belgian government in exile. The Belgians wanted Francqui to have permission to travel to Le Havre to obtain King Albert's assent to the bank, and I obtained this permission after a considerable struggle. The episode drew the fire of the extremists in the military government, who attacked me by first saying that permission for Francqui's mission was out of the question, and then characterising the whole business as a rejection of the occupation. But the government in Le Havre was the legal government of Belgium, and by getting its approval for the bank I upheld the sovereignty of law despite the war and the occupation. Very few individuals showed any understanding of that at the time; fortunately, one who did was General von der Goltz himself, but he alas was soon transferred to Mesopotamia.

But even some of the Belgians were puzzled by my attitude, most of all Francqui. He was a remarkable Walloon, much admired by his compatriots, and he amused me enormously with his brutal frankness. Originally a career non-commissioned officer in the army, he had attracted the attention of King Leopold with his enthusiasm; he had come all the way to Brussels from the Belgian Congo as a courier, and on the King asking him when he would be prepared to return with an important answer, he replied 'Immediately!' That was the beginning of his career. I have seen many uncultivated bankers in my life, but never anyone who was quite as uneducated as Francqui, or with his truly impossible manners. But he had the most acute understanding of men and affairs, and boundless energy. For him, there were no limits to personal power: he was the very essence of a conquistador, but without the occasional religious scruples of his predecessors in the sixteenth century. His character was illuminated most vividly by an incident some ten years later, when by a turn of fortune's wheel he was on the Board of the German Reichsbank. He was being driven with a colleague somewhere in the neighbourhood of Berlin, and since the chauffeur was driving at a dangerous speed, Francqui, who spoke no German, tried to get his fellow-passenger to slow the driver down. When two such attempts failed to achieve any moderation of the car's speed, Francqui took a knife out of his pocket and made a gesture as if to stab the chauffeur. That was immediately successful.

'You see,' said Francqui to his colleague, 'that's a language everyone in the world understands!'

How remarkably Francqui fitted the image of the power-mad Prussian that was disseminated by French and English propaganda, and how oddly that contrasted with the role he was now called upon to play! His favourite expression was: '*A présent, nous sommes les nègres*', which he explained by telling me that whenever something was needed in the Congo, whatever it was, the blacks were told to provide it. And now he felt himself to be in that role.

'Do you then give me the authority to treat you the way you treat your people in the Congo?' I asked him with irony.

'God forbid!' he said laughing.

Hardly had the bank of issue been established when orders came from military headquarters to assess the city of Antwerp with an indemnity of one billion Belgian francs, and without delay. The news struck like a thunderbolt; the financing of this forced contribution was to be the bank's first task. I objected with the utmost determination, saying there would be disastrous consequences if the confidence that had just been established

were to be destroyed. The first step was to bring banking and business activities back to life. An indemnity in that amount for a maritime city whose port was completely shut down was inconceivable. I added that the famous war indemnity after the Franco-Prussian War in 1871 had affected a population of forty million, without counting the colonies, and had been paid in times of peace. How then could a city with a population of only 400,000, in the middle of military occupation, pay a billion francs? Any war indemnity in such circumstances would be inflationary and would inevitably endanger the new currency. If some reparations were insisted on, 30 million Belgian francs would be the maximum possible. I added that I would rather step down than agree to any larger amount. My memorandum was sent to headquarters, and several days thereafter Governor Bissing of the new bank was ordered to present himself in Charleville.

As he reported to me after his return, he was received by the Kaiser himself in the most unpleasant manner with the greeting 'Here come the foot-draggers from Brussels!' The Governor defended himself with great energy, unshaken despite the Kaiser's interruption to say that Bissing knew nothing about finance; and finally managed to get approval of the 30 million figure. The controversy brought me many enemies. To offer one's resignation seemed to German officials of the time akin to mutiny; after all, not one single civil servant had followed Bismarck into retirement in 1890.

18. The Meeting on the War Economy in the Ministry of the Interior, 15 November 1914

The Ministry of the Interior in Berlin arranged a meeting for 15 November 1914 in which senior civil servants were to establish a programme for the direction of the war economy. The Governor of the military government in Belgium ordered Lumm and myself to travel to Berlin and attend the meeting, to which the heads of the most important military, economic and Treasury departments were summoned by State Secretary Richter.

Not much more than three months had gone by since the war began, and the severe shortcomings in German war preparations were already apparent. The military had grossly underestimated the need for matériel, as had been demonstrated even in the earliest battles, and the effects of the English maritime blockade had also not been fully appreciated. After a century of the most humane international law and the most generous liberal ideas, the world had stumbled into a war of which the full consequences became evident only very slowly. The security of private property, even enemy property, and the immunity of neutral shipping from interference were universally acknowledged fundamentals of international law. Germany, Austria, France and Russia were prepared to respect these principles and had long hesitated to touch foreign-owned assets. The breach of international law, the introduction of what we now call total war, came from England, and the great success of this new policy evoked general imitation. Neither the British nor their imitators gave any thought to the fearful consequences of this revival of piracy in place of good faith in international maritime traffic.

No European great power had stockpiled sufficient raw materials or even marshalled its foreign assets in the last year of peace. Thus the war economy was not in any sense equal to the new situation. The invitation to the meeting at the Ministry of the Interior was itself evidence of the serious position. When the military caste, especially in wartime, calls for help from civilians, and even agrees to submit to their authority, the need is most acute.

The question for discussion was that of covering our needs for raw materials, and how purchases were to be financed in gold, assuming the war should continue until the spring of 1915. The estimates presented to the meeting were frightening, and the proposals based on them both tentative and ill-conceived. After some two hours of discussion I asked for the floor. I said we had been discussing how we could manage with our

present resources until the spring of 1915; but would not the real problems only begin at that time? It was inconceivable to me that an end to hostilities in the spring of 1915 should be the official assumption for the purpose of all our calculations: since our defeat at the Marne such optimism was entirely unjustified, and could not be taken seriously by any sensible person, at least as far as the Western front was concerned.

We had repeatedly heard the statement that the war could not last longer because of economic shortages, I continued, but who could make the same assertion concerning the resources of our enemies, especially England? And if their strength should extend beyond the spring of 1915 would Germany and Austria have to lay down their arms in consequence? The previous discussion assumed that every last penny of our resources would have to be used up in the next six months. But what then? It was improbable that a way out would suddenly present itself: the question of how a war economy could be organised and financed over a period lasting several years would have to be faced and answered now. Since the external assets that could be mobilised for this effort had been sharply reduced, the war must be prosecuted with the most rigorous thrift and the tightest organisation of the economy. Civilian consumption would have to be cut back sharply, and with no delay. The situation in Germany was such that not much could be hoped for on the income side, and therefore reliance would have to be placed on the rationalisation and limitation of expenditure. A radical reduction in consumption was the most urgent priority.

My approach at that time, after two generations of a rapidly rising standard of living, was completely new and unappealing to almost all the participants in the meeting. I was the youngest present, not much over thirty years old, and the only economist; moreover an Austrian and unknown to many of the military men and civil servants in the room. No wonder that a wave of opposition arose: the military representatives said they had received orders only to consider economic affairs within a period lasting till the coming spring. The civil servants, for their part, had for over half a century heard nothing about limits on consumption, and each disputed with the other departments which one should have jurisdiction over such measures.

Was drastic action really necessary? In none of the three wars under Bismarck had any such measures been taken. Did I perhaps propose a forced reduction in food consumption? 'Certainly,' I replied.

'Are you actually suggesting we go so far as to reduce bread consumption?' one of the senior civil servants asked sarcastically.

'Bread first of all!' I countered, somewhat loudly.

Walther Rathenau then took my part, with a sharpness of tone unusual for him: 'This is a fundamental programme of the utmost necessity,' he declared, and congratulated me on having had the courage to come out with it. To the general astonishment of the participants, the Chairman of the meeting, State Secretary Richter, also agreed with me: in view of the uncertain duration of the war and threat of further shortages, comprehensive measures for limiting consumption would have to be taken without delay. He invited me to come to his office that afternoon for another meeting.

As we left, Rathenau joined me and offered me a job with his department. I refused, saying that it would be awkward for me, as an Austrian, to take over a leading position in the German war economy. My role was to formulate ideas and give the impetus for necessary measures; executing war directives through a foreigner was bound to arouse feelings of resentment. I said the same that afternoon to State Secretary Richter, to whom I outlined my ideas in detail. In the event, all my suggestions were adopted, but very much later. But that first meeting had aroused widespread antipathy towards me, since I was regarded in many circles as the originator of the bread card and the rationing system altogether.

Richter was unable to understand my refusal to join the executive of the war economy department that had to be organised. He said that my stand had the effect of excluding me from a unique career, and, that anyway my objection made no sense since I would immediately be granted German citizenship if I joined. I replied that such a solution eliminated my difficulty only in the most legalistic sense; I was in any case unsuited to the career of a civil servant (a conviction that my experience over the succeeding years has only strengthened). I said further that I had the impression I had created a good deal of uneasiness and disturbance in a roomful of men schooled in iron discipline. My character was too personal, too carried away by the matters that concerned me.

Richter reassured me, saying I had achieved a very great success in practical terms: the importance of my intervention had been acknowledged on all sides, and that was the more meaningful since I had knocked civilian and military heads together. I had not confined myself to the agenda of the meeting, but turned it on its head, which was unforgivable to the civil servants; and then I had spoken of the defeat on the Marne, which was a deadly sin in the eyes of the military, for whom the battle on the Marne had ended, officially, with a planned withdrawal.

It was news to me that describing a lost battle as a defeat was considered tactless. Since then, I have often had confirmation of this phenomenon,

most recently in Washington at the end of 1950 after the battle on the Yalu River. After Cannae, the Roman Senate announced openly to the people: 'We have lost a great battle.' There was no glossing over the facts by referring to treason, subversion, mere coincidence or the like. In my lifetime no government has had the courage to issue so clear an acknowledgement; and to venture on the exposure of military lies has been tantamount to high treason. But at that time this sort of propaganda — the effectiveness of which has always been overestimated by the official mind — was unknown to me. Throughout my life I have put myself beyond the usages of polite society, not always with favourable repercussions for the causes I chose to take up.

19. End of my Belgian Mission, November 1914 to the Spring of 1915

Following my return to Brussels, considerable difficulties arose from my policy of dealing with the Belgians through negotiations, and avoiding any threat of force. Belgium had been drawn into the war through no fault of her own, and the war seemed to me an episode that would give way eventually to a more permanent relationship in which neither side should have much to forgive the other. As an economist I felt I should try to deal with matters in a humane and long-term way. When peace was declared, Germany would need Antwerp as a port, and Antwerp would need Germany as a source of supply and an outlet for goods.

The bank of issue was working well. The costs of the occupation were covered by the normal tax revenues of the provinces, which had assented to this system. We were soon at the point where we could contemplate lifting the payments moratorium that had been declared immediately after the occupation, although views were mixed on this point among both Germans and Belgians. There was strong opposition from German industry, which feared the revival of Belgian competition, and from that faction among the Belgians who would rather have seen the entire economy come to a halt rather than permit any kind of work that could contribute to the German war effort. My solution was to lift all restrictions on Belgian civilian production, and eliminate all orders for war matériel to Belgian industry. That would have had favourable consequences for both the German and Belgian economies, and would have been politically justified as well, but the proposal to limit Belgian production to civilian goods was taken badly by the German side.

But as the war situation deteriorated, it became increasingly difficult to maintain my views. The banking department of the military government had taken over the organisation of Belgian industry; in the spring of 1915 the military authorities demanded the forced deportation of Belgian workers to Germany, where they were to be employed in German war industry. It was doubtful whether this question was within the scope of the banking department's authority, but as the leading economic department in the civil administration it could not entirely escape responsibility. Considering international arrangements, the provocative nature of this proposal and the danger of reprisals, I demanded that the banking department lodge a protest. Lumm tried to dissuade me on the grounds that we had no jurisdiction in the matter; and when I insisted again he replied in his odd way:

'Why should I start messing about with anything so dangerous, just when my Iron Cross First Class is about to be awarded?' That settled the matter for me.

I had had enough, submitted my resignation to Governor General von Bissing, and stuck to it despite his efforts to dissuade me. Von Bissing expressed the Board's thanks for my services in unusually warm terms.

The Austrian Government's representative in Belgium, Georg von Franckenstein, published in his *Diplomat of Destiny* his report of the time to the Austrian Government. Dated 9 July 1915, it read: 'Herr von Lumm's hostility toward capable individuals in the bank department staff led to extreme tension. Dr Schacht, Managing Director of the Dresdner Bank in Berlin, said to his face that he had lost any confidence in Lumm, whereupon Lumm replied with all sorts of personal accusations. Infuriated by this gratuitous rebuff to his closest colleague, Dr Somary, the most resourceful man in the department and Commissioner of the bank of issue, handed in his resignation, with the result that the German administration in Belgium abruptly lost two of its most important men. Their loss will have an unfortunate impact on the Belgian financial community and the Belgian intelligentsia.'

More than a decade later, the President of the Swiss National Bank, Bachmann, brought me greetings from Francqui. 'He must have been a close friend of yours,' said Bachmann, 'since that very rough individual spoke of you with extraordinary warmth.'

'I was his military government Commissioner in the war,' I said.

'Strange,' said Bachmann. 'He strongly urged me to take your advice in difficult questions.'

That was a belated and only partial recompense for my efforts: I had done everything to smooth the path toward German-Belgian understanding after the end of hostilities. Obviously, there had been no thanks for that in the heat of war. I was somewhat comforted by the awareness that I had never exploited the superior power of the occupier in a defeated country. My half-year in Belgium had been enough to test my effectiveness and to acquire the war experience I needed.

When I returned to Berlin I explained to the President of the Reichsbank, Havenstein, the reasons for my resignation.

'You are beginning to make a game out of this business of acquiring powerful enemies,' the old gentleman said.

'I believe that unfortunately I make friends in moments of weakness and enemies at times when I am strong,' I answered.

20. My Book *Bankpolitik*, Berlin, 1915

In the last year before the war I wrote my book on banking policy, but it was first published only in 1915. Up till that point macro-economic policy had concerned only agricultural, industrial and trade policies; I introduced banking policy for the first time into macro-economic theory. The book appeared on the threshold of the inflationary era, and attempted to encompass all the experience of the uniquely long period of peace we had just gone through. The years from 1860 to 1914 had seen a growth in banking unparalleled either before or since. None of our banking institutions of today can even begin to compare in importance with the position Morgan had in New York, the Deutsche Bank in Berlin, Rothschild in Paris and Vienna, and above all the Bank of England for the entire world. The heavy burden of government financing through banks of issue had been eliminated everywhere; most recently, the Federal Reserve system had been introduced in the United States, some five years before the war, thus freeing the dollar from its connection with the national debt, creating money on the basis of commercial paper, and regulating the market through the discount policy of the Federal Reserve. That attempt has totally failed through war. Today the true discount market has almost totally disappeared, and currency is printed on the basis of a vast national debt. Four decades of inflation have transformed the banks into creatures of the state, and have buried untold economic wisdom. If at some point the era of wars comes to an end, the entire world, including the communist countries, will have to return to the fundamental principles of banking policy.

Shortly after I returned to Berlin, the Swedish economist Knut Wicksell appeared there in the course of a tour of European capitals, and proposed the raising of the bank discount rate. Nobody took him seriously, and he complained bitterly that in the entire world only Bortkiewicz and I understood him. In purely practical terms he was undoubtedly right: once discount policy was eliminated, the deterioration of the currency that ultimately was to ruin all the belligerents began. Governments that embarked on the policy of cheapening their currencies relied on two arguments: the example of their enemies and the impossibility of financing the war in any other way. The grandiose slogan that insisted on concern for the Fatherland being more important than concern for the worth of the currency was even then repeated *ad nauseam*. And indeed, had there been a well-considered discount policy on the part of all the powers, the war could hardly have been waged for longer than two years. But would that

not have been better than continuing the conflict to the point of total exhaustion? Had America remained the one really great neutral power, it could have imposed an international discount policy, and therefore a limited war, on the rest of the world. But in America the man at the helm rejected neutrality.

Thus it was that defrauding the saver became a patriotic virtue, and remained one with short interruptions for an entire generation: inflation, that is confiscation without legal authority and without any limits, was the incubator for both Bolshevism and Hitlerism. When we began to raise our voices in warning back at the beginning we were condemned as money-obsessed, and ridiculed as hard-hearted financial types and gloomy hand-wringers. But even our most pessimistic forecasts were far exceeded by the dreadfulness of the actual consequences.

My book avoided any exaggeration of the role banks play: theories that at the time were becoming fashionable ascribed decisive importance to banks in the whole economic cycle, which is completely contradicted by the facts. Of the four theoreticians who represented this point of view, the most prominent experienced the collapse of his own bank, the second committed suicide after running through the fortune he had inherited, the third had never seen a bank in operation, and the fourth totally recanted his views. That did not prevent the wide dissemination of the deposit myth*; myths generally spread wider and last longer than knowledge of mere facts. The state alone is responsible for inflation: inflation without government, or indeed against government, is impossible.

I knew, once I had returned to Berlin, that a continuation of the war was only possible with inflation, and I therefore decided that in order to remain faithful to my principles I would stay away from any bank or financing activity throughout the war. I maintained the same position in the Second World War. I have never chosen to differentiate between theory and practice in my personal life.

The manipulation of currencies, which is actually the same thing as debasing the currency, was in those days justifiably disapproved, but the belligerent governments, with rare unanimity, claimed there was no question of inflation; they were merely issuing long-term war loans which were willingly accepted by the population. But in order to place these loans, an increasingly high margin, in the end nearly 100%, was extended to the investors, and at rates of interest that were ultimately less than those of the loans themselves. Such a process, I thought, could only happen in wartime and only once in a generation. I was wrong on both counts.

*That every loan creates a new deposit.

21. The *Mitteleuropa* Task Force, 1916

A few months after my return to Berlin, Friedrich Naumann called on me. He had just completed his book *Mitteleuropa* which was destined on publication to create an unprecedented sensation, and he shared his main ideas with me, expressing them with such deep inner warmth that I was touched. Never again have I seen a man in political life so full of religious feeling, uprightness, dedication, and the sincere desire to help his fellow-men unselfishly; or who spoke in such resonant language.

He was without fear; in his modest apartment there was his favourite quotation '*Quod is timere potest qui mortem non timet?*' (What can frighten the man who is not afraid of death?) So-called practitioners of *Realpolitik* considered that he indulged in fantasies, and was a theologian who had stumbled into politics. However, he saw things much more realistically than they did, more even than the academics who were so proud of their social science. But he had one shortcoming that limited his effectiveness: he could only give his blessing, not condemn. He was incapable of hatred, and his rare, truly Christian attitude weakened his capacity to execute policy in a time of war and whirlwind events.

I had come to know him only slightly nine years before, at the meeting of the Association for Social Policy, and wondered why he had come: he told me frankly that he was not a man of action. He saw quite clearly what should be done at any given time, but without any idea how. Naumann told me that in his search for the man who could carry out his ideas, all parties had mentioned my name as the sole individual who could bring Germans and Austrians of all political and national factions together and keep them at the job. He said that there was deep mistrust between Berlin and Vienna, and that those who were appreciated in one capital lost all credibility in the other; but that I enjoyed the confidence of both. He ended by asking me to accomplish what he could not: to breathe life into his idea of *Mitteleuropa* for he had been told that I was the man who could differentiate between the realisable and the impossible. He added that it would be possible to achieve much in wartime that in peace would seem impracticable; religious conflicts had receded, and now was the time for large-scale solutions.

'Would you take it amiss,' I interjected, 'if I said that I find in your ideas the first slow beginning of a critique of Bismarck's work?'

Naumann was taken aback. I went on to say that the opposition of German liberalism to Bismarck had been silenced by the brilliant achievement

of founding the Empire, and by its successes. But to Bismarck nationalism, about which he felt as negative as the Rhineland Metternich, was only a means to establish Prussian hegemony over the rest of Germany, and he opposed any further expansion of the Empire, for he believed that a national state had to remain within its natural frontiers. However small the number of national minorities in Germany, their proper handling would involve insoluble difficulties. Force, the sole binding element of the national state, had failed in the nineteenth century, and the Austrian experiments in the national question were inappropriate as models for the German Empire in its Bismarckian form.

But the idea of *Mitteleuropa* was not limited by the frontiers of Germany: it included Bohemia, Hungary, the South Slavs and the Poles, the whole extent of Western Christendom. If these nationalities could not be included, the whole *Mitteleuropa* concept remained an empty dream. In such a comprehensive grouping, there should be no majorities or minorities, only equal partners. I added that the problem had been easier to solve in the Middle Ages, and at the time when liberalism was still cosmopolitan — but that in our time everyone, even in the working class, was nationalistic. And then, in the economic sphere, currency and transportation problems could be solved with relative ease, but eliminating trade barriers always encounters the resistance of entrenched interests, and in any event would not mean much at a time of war-economy monopolies.

I said all that to Naumann and emphasised especially the necessity for the most extreme tact, because his book had been received much more coolly in Vienna than in North and South Germany.

'Your remarks are hard to take,' Naumann said. 'What would you advise me to do?'

'For a start, absolutely no public national appeal,' I answered. 'There must be no mass organisation, but a task force *Arbeitsausschuss* chosen with great care, whose members must come from all German parties and include some of the leading personalities in Germany and Austria. Publicity should be avoided: a brief summary, confined to major topics, should be distributed to only a few influential individuals.'

Naumann agreed to all this without reservation, although obviously he regretted having to give up the notion of making a mass appeal to all Germans.

The task force, which was set up without any formalities, included Erzberger and Rechenberg of the Centre Party, Count Westarp for the Conservatives, Schiffer of the National Liberals and Schmidt of the Social Democrats. Naumann, Jäckh and I added, from trade and industry:

Klößner, Ballin, Holtzendorf, Walther Rathenau, Rinkel, Schacht and Stinnes; from academic circles there were Schmoller and Max Weber. Military matters were covered by General Hans von Seeckt. The rapporteur was Schotte.

From Austria we appointed Bärnreither, Franz Klein, General Conrad, Karl Renner, Twardowski, Bilinski, Albert Apponyi, Schüller, Gratz and Stolper.

We divided the responsibility for reports as follows:

- (1) Military affairs: von Seeckt, von Conrad.
- (2) Trade relations: Eulenburg, Lusensky, Riedl, Schüller, with a summary to be prepared by Somary, Max Weber.
- (3) Inter-state cartel organisation: Franz Klein. Detailed matters: Koppel, of the Verein Berliner Kaufleute, Vogelstein, Stolper from Vienna.
- (4) Russian Poland: Schüller.
- (5) Rail rates: Wiedenfeld.
- (6) Ocean shipping: Ballin.
- (7) Danube shipping: Grätz (Vienna), Graumann, (Munich).
- (8) Raw materials and economic warfare: Walther Rathenau.
- (9) Currency and financial matters: Somary.
- (10) Consumer taxes: Altmann, Gerloff, Vogel (Vienna).
- (11) Transport legislation: Felix Meyer, Franz Klein.
- (12) Patents and trademarks: Bernatzik.
- (13) Social security, labour legislation, labour migration: Herkner, Philippovich.
- (14) Common civil and procedural law: Gierke, Franz Klein.

It was considered obvious at that time that every participant should freely contribute his time to such an enterprise, and expect only reimbursement for travel expenses. The only costs therefore were those for rent on the task force office, the rapporteur and the printing of publications. I undertook to cover these costs, and those of travel.

The quality of the papers presented, and the level of discussion were both high, as far as I could judge. England, France and especially America could not at the time understand the great constructive significance of our task force, whose aims were defensive. Not one of the participants thought of conquest. The work we accomplished is not without importance even today: it may again attract attention if there is a prospect of establishing supranational organisations in the eastern regions or in Europe as a whole.

The task force was entirely independent of government influence; it

included leading members of all parties in Germany and the overwhelming majority of parties in Austria and Hungary. Having representatives of the extreme Right and Left in one voluntary organisation was something quite unique. Political antagonisms had been submerged only in the first few weeks of the war, but had then come back in full force. In our task force, however, we never felt political conflicts; and even such radical opponents as the Ruhr industrialist Hugo Stinnes and the Social Democrat Schmidt never clashed — and that at a time when further to the east Bolshevism was rapidly growing. Any observer who had seen Schmidt and Stinnes sitting at the same table would have found it difficult to distinguish between them.

The task force gave me the opportunity to meet and correspond with von Seeckt, with whom I got on well, and whom I continued to see after the war. He was very much interested in the economic side of warfare, and I once had occasion to tell him that I thought universal conscription would one day lead to bankruptcy for the country; it was fortunate that rapid advances in technology and their demand for educated personnel would soon lead to military forces of quality rather than quantity. When von Seeckt later undertook the task of creating the Reichswehr under the limitations set by the Versailles treaty, he was often in touch with me. Shortly before he left for China to organise the Chinese Army under Chiang Kai-shek, he discussed with me the publication of a manual on military affairs in which I should write the economic part.

Of all the generals I have met in my life, he was the only one in whom I recognised a touch of genius. He was delighted to embrace new ideas; and although he was universally regarded as enormously arrogant, I found him in our discussions a man of down-to-earth modesty. Von Seeckt's place in military history is assured: his gift for organisation was the foundation for the astonishing successes of the German offensives in 1939 and 1940. Fate deprived him of a leading role in wartime; throughout the First World War he was overshadowed by Ludendorff, and even if he had lived till the Second he would never have been entrusted with military command by Hitler, who felt his antipathy.

Finally, if von Seeckt had held Ludendorff's command, I am convinced the U-boat war could have been avoided, for he did his job without fuss, and had a quality rare among high-ranking generals: he could listen.

22. Unlimited Submarine Warfare, 1916

After Italy entered the war, seven of the eight great powers in the world were involved: only the United States was still not in the conflict. The position of the United States determined the fate of the entire world: for the Central Powers maintaining its neutrality was a question of life and death. Was not all that obvious, especially for the side that already was outnumbered five to two? Who could doubt it with hindsight? But Berlin at the time saw things quite differently.

England had introduced the notion of total war on the high seas, by extending its blockade to all cargoes, whether or not carried in neutral-flag vessels. That was a breach of international law, but was not seriously resisted, since the West, with very few exceptions, was sympathetic to Great Britain. The claims of international law, built up over two centuries, the pride of European civilisation, fell on deaf ears. But the country that had started the war by violating Belgian neutrality was in no position to raise issues of international law.

The vast majority of Germans felt that England and America — which only protected its own rights — were perpetrating an injustice in maintaining the total blockade, without any possibility of defending the population against this weapon. Attacks against the Government and the Chancellor became more and more harsh, and the entire protest was further stirred up by the propagandists of the Admiralty. I doubted that Admiral Tirpitz, as so many assumed, had designs on the Chancellorship with his massive attacks on Bethmann-Hollweg, but he did want a free hand for action on the high seas, and stopped at nothing to achieve that aim. He was strong-willed and personally imposing to a high degree, both qualities completely lacking in the neurotic Kaiser and in Bethmann-Hollweg, who was crushed by domestic sorrows.

The struggle over the submarine warfare question continued throughout 1915 and became more acute in the last months of that year. An international dealer in grain named Weil had written a memorandum that reached the Kaiser referring to the slender English stockpile of grain in the early months of the year; submarine attacks at that season could cause hunger among the population which might prove decisive for the prosecution of the war. The Admiralty staff and its expert, Professor Hermann Levy of Heidelberg, supported this argument with numerous statistics. A part of heavy industry joined the argument on the same side, with full force, and one of its propagandists wrote in a high-sounding memorandum

the characteristic sentence, 'In Germany, nobody pays attention to anyone who does not use his power to the utmost!' In our task force on Mitteleuropa, leading parliamentarians told me that if matters went on as they were, there might well be a parliamentary majority for unlimited submarine warfare. Ballin reported to me that Weil's memorandum had made a strong impression on the Kaiser.

The situation became more dangerous every day. The Chancellor asked his deputy Helfferich to summarise the arguments against unrestricted submarine warfare, and Helfferich transmitted the request to his colleague Dr Erwin Steinitzer, a young Austrian, son of an editor of the *Neue Presse*. Steinitzer spent whole days with me, and I decisively influenced his memorandum, which then appeared with Helfferich's signature, and was to form the basis for government policy in the coming months. The memorandum was good on economic points, but weak on politics, because some of the strongest statements were eliminated by Helfferich. The memorandum was handed to the Kaiser on 29 February 1916.

Convinced of the inadequacy of Steinitzer's note, I spoke with Max Weber at the task force about the need for an immediate memorandum that would hammer away at the dangers of submarine warfare. Max Weber, who was filled with the same deep concern as I, immediately sprang into action, and that afternoon and night we drafted the memorandum (see Appendix, pp. 273-9) that was given to the Kaiser the next day through Ballin. The Kaiser received the memorandum before the decision taken on 4 March against unlimited submarine warfare that led to the immediate dismissal of Tirpitz. Whether or not our memorandum contributed to this decision I cannot say. The memorandum was sent to leaders of the political parties, at the suggestion of Under Secretary Zimmermann of the Foreign Ministry, only after 4 March — as Marianne Weber rightly asserts in her splendid biography of her husband — but the Kaiser had of course read it beforehand. As we had intended, he was shaken by the conclusion, which clearly stated that a wrong decision must mean the loss of the war and overthrow of the Monarchy. According to Ballin, he several times exclaimed 'impudence!' while reading our last paragraph. Since the Kaiser knew the expert opinion of Professor Lévy of Heidelberg, he attributed to Max Weber professional jealousy; and assumed I was playing some Austrian game. But when Ballin explained to him who we were, he was impressed, and became thoughtful.

Although the memorandum was very rapidly written, every sentence in it was consciously weighted, in awareness of the decisive turning-point in the war represented by this issue. Even today, after four decades, the most

critical scrutiny will not reveal wrong conclusions in the memorandum. One conclusion we reached is valid for the immediate present: the concept of floating loans — war loans at that time — has its limits, and then the fearful danger of inflation looms. This is a warning that America would do well to bear in mind in our own day.

Istvan Tisza, to whom I had sent a copy of the memorandum, told me that Emperor Franz Joseph had expressed a wish to see me. After the Kaiser's reported remarks, such a request was very awkward for me, since it could easily confirm the suspicion that any opposition to submarine warfare was attributable to Austrian policy aims. At my request, therefore, strict secrecy was maintained about my audience with the Emperor, and I myself have never told anyone about it.

It was strange, after walking through four or five vast empty chambers at Schönbrunn, to find the old Emperor at his desk in a modest room at the very end. He had been briefed by Tisza about my activities. Franckenstein had reported the Tirpitz affair to him, the Admiral's violent resistance to authority. The Emperor asked if I had heard about that, and when I confirmed that I had, he remarked 'So the German monarchy has become so weak, after so short a time.' He said this as if to himself, musing, without any emotion. I had prepared myself to discuss Mitteleuropa or Polish matters, but he did not raise these. He said instead that he had heard I exerted some influence on the submarine warfare discussion, and commented that that must have been difficult.

'Certainly,' I replied. 'Someone without a leading official position must be triply cautious in such questions and limit himself to quiet attempts at influence.'

'How did you arrive at your conclusions on the submarine warfare question?'

'I came to the conclusion I did because I consider the submarine warfare matter the decisive factor in the war, more important than any battle.'

'How so?'

'Because if the submarine campaign continues, America will enter the war, and then we are lost. War with America must be prevented, even at the cost of severe humiliation.'

In the rapidity of my reply I had used the word 'we', which in the presence of the venerable monarch who had been on the throne for seven decades seemed more than out of place, almost improper. I apologised, but he dismissed it with a small wave of his hand.

'Yes, even at this point we have more enemies than we can cope with. Do you believe the submarine question is now finally laid to rest, or will it come up again?'

'I am afraid it will, and if things once more come to the danger point, may I report again to Your Majesty?'

'Yes, of course. And let me know each time you are in Vienna.'

On my return to Berlin I found the atmosphere much worse than before: Tirpitz's abrupt dismissal had made him popular. Since my position in the controversy was well known, many people with whom I had previously maintained contact greeted me with open hostility. It was then that I saw for the first time in Germany faces with a civil-war expression etched on them, people whose eyes radiated hatred and with whom civilised intercourse was impossible.

In the summer of 1916 Hindenburg and Ludendorff took command of the armed forces, and the public expected extraordinary things from them. Towards the autumn and winter of 1916, the effects of the English blockade became steadily more apparent; the German population went hungry and cold, and it was natural that they were unable to understand why appropriate measures should not be unleashed against the enemy that caused such misery. Such considerations had even caused changes among those of moderate opinions.

I had observed in my own family the heavy burden of the economic situation: my father's health was undermined by cold and malnutrition. My sisters sacrificed themselves to help him, and ate almost nothing to assure him of at least one square meal a day. He became steadily weaker physically, but his spirit remained undimmed. Even on the day he died, 16 December 1916, he heard my sister in an adjoining room declaiming Dante in Italian, and whispered to her a commentary of particular insight. My father did not attain in his lifetime the success he deserved for his unusually broad and deep knowledge, his fearlessness and his steadfast character. We are aware to this day of what we owe him. My sisters repaid him for his devotion to us; however, I was too busy with other concerns, and consequently I remain very much in his debt.

In early January 1917 Erwin Steinitzer called on me in a great conflict of conscience: his chief, Helfferich, had asked him to revise his memorandum of 29 February 1916 to come to the opposite conclusion, favouring unrestricted submarine warfare.

'I doubtless remind you of Schmock in Freytag's *Journalisten*,' he said with resignation; 'I can write Left and I can write Right.'

'What, pray, has changed since February 1916?' I asked. 'Then people were maintaining submarine warfare had to be waged because Austria would otherwise collapse by the end of 1916. Well, that hasn't happened, so why re-open the question just now?'

'Because apparently we have to strike a blow this February, in order to blockade England.'

'But last February you said precisely the opposite!'

'But at that time Ludendorff was not in charge. You know what he says: we can afford war with America.'

'Is the man mad?'

'Probably, but everything is collapsing.'

He was right. The Kaiser had ordered Salomonsohn, senior partner of the Diskonto-Gesellschaft, and von Müller of the Dresdner Bank, to write a memorandum on economic matters, as representatives of the banks. Neither had understood a word of the material, but both complied and wrote in the sense required of them.

I was horrified by the terrible situation: the masses were crying for submarine warfare, but how could a country in Germany's position carry out such warfare? And in such straits people were easily asserting that Germany could also take on America. It was the sacred mission of statesmen in government, the leading thinkers and industrialists as well to enlighten the hungry masses. All of them failed to do so.

And the Kaiser? A weak man should not have one success where two victories are required: the Kaiser had so exhausted himself in the first conflict with Tirpitz that he had none of the energy required in even greater measure when the issue came up again. Franz Joseph's death was untimely; I had no personal contact with his successor.

The irresponsible decision to embark on submarine warfare guaranteed war with a colossus that even a strong Germany could never have defeated, let alone a starving and freezing country. Just at that time Rathenau asked me to take part in the Fibre Textile Association, which of all the war economy organisations was in the worst shape. It included many enterprises in the flax, hemp and jute industries, but none of these raw materials was available: there was not even material for munitions sacks.

I was quite isolated until submarine warfare proved a failure. Max Weber, in a similar situation to mine, had accepted the offer of a position at the University of Vienna, where he lectured on sociology to an eager audience of senior and younger academics. I buried myself in the task of editing the two volumes of Philippovich's book on economic policy. I had for the second time opposed the trend of the times and had for the second time lost.

Three factors led to the catastrophe of submarine warfare: the weakness of the Government, the servility of the senior civil servants and the subjugation of an entire nation to the will of a single man, a military leader.

There are individuals with great abilities for particular positions, but

without the gifts that would enable them to reach such positions — and then there are others, who are only gifted with the ability to attain high rank, but then have not the faintest idea how to cope with the demands of their offices. The then Chancellor, Bethmann-Hollweg, had all the good qualities of a senior civil servant, but as Chancellor this ponderous bureaucrat was a pathetic sight. His change of mind surprised no one, but the Kaiser's about-face had graver consequences.

Heads of state appear to be as allergic to economic matters as diplomats and professional military men — I have seen this throughout my life, even in the era that we usually claim is dominated by economic concerns beyond all others. In this one context, and in no other, there is absolutely no difference, as I was later to find out, between Presidents of republics and tyrants of various persuasions. Many, particularly diplomats, hide their disgraceful ignorance under apparent condescension and contempt. That Helfferich, the lone economist in the Government, should have changed his position on the submarine question was, however, simply unforgivable.

The upper middle class were in a better position to assess the meaning of a war with America — they had demonstrated independence of mind in the first decade of the century — but the war had made them servile, and no one dared to express a doubt when military necessity was invoked. A malign spirit possessed the military leadership and spread from there to infect the entire Government. That spirit made infinite demands, always in a dictatorial manner; nobody dared to oppose anything. That was then the first time that the German people, despite their punctilious thoroughness, fell prey to a half-fool, half-charlatan.

I told Naumann that Germany and Austria had lost the war and that under the circumstances it was senseless to continue with our task force. At his request, I did not resign from it, but no longer took part in its activities, and also informed the other members that I would no longer take part. Since I was unable to reveal my motives in withdrawing, my move aroused much puzzlement and astonishment. The Austrians were especially upset, because it seemed to them a resignation for which no reasons were openly given.

I spent the next months in complete withdrawal from the public eye. The situation did not change when in March 1917 the Russian Revolution broke out. But when the failure of the submarine campaign became apparent, many people rang me whom I had not seen for months. Suddenly prophetic gifts were ascribed to me, and my opinion on the future was avidly sought. My answers were monosyllabic and evasive, but I kept returning to thoughts of the political and financial catastrophe to come: was the first unavoidable, could the second be prevented?

I gave a report to the standing committee of the Association for Social Policy on the financing of the war. Schmoller had begged me urgently not to speak out too pessimistically. I proposed a large-scale capital contribution tax, and the measures necessary to finance it; I was concerned essentially to prevent bankruptcy and the destruction of the currency. I was later often attacked from the right for having advocated this measure, and praised from the left for the same reason, but both attack and approbation were inappropriate: the capital assets tax was advocated as a once-for-all large-scale sacrifice on the eve of political collapse in a lost war, not as a regular measure appropriate for peacetime; and the tax was only to be used because the other means of covering the costs of the war had inflationary implications that were more dangerous, and whose consequences were not fully understood at the time. Much that was said in my presentation was expressed guardedly or intimated, between the lines.

My reply to a query about the Russian currency sprang from the same concerns. The Reichsbank had at the time asked my opinion about a plan to acquire large sums of Russian roubles out of public funds. Since Russia was expected soon to leave the war, the rouble would then become a neutral currency, and could climb rapidly in value. I did not know whether this idea was linked with notions of reparations to be discussed at the peace negotiations about to begin with Russia, and I answered that the idea seemed to me senseless: the rouble was going to lose all its value. Although the query was supposed to be top secret, news of my reply had some echo in government circles, where people were amused by my prediction that the rouble would collapse — that was in 1917, and Europe had not in 125 years experienced the total destruction of a currency.

23. A Day with Ludendorff in Kreuznach, 1917

In early summer of 1917 I heard simultaneously from Rechenberg, Deputy of the Centre Party, and also from Jäckh that General Ludendorff wanted a talk with me. I had no idea of his motives and forgot the matter. Then I received from Colonel Bauer a formal invitation to Kreuznach, the military headquarters. I was informed that a compartment would be reserved for me the next evening in the overnight train, and a similar one for my return trip. A refusal was hardly possible; I simply had to guess what was wanted of me, since I really had no idea.

I was the sole passenger in the carriage of the train bound for Kreuznach, and could not find out if there was anyone in the other carriages of the train. An elderly woman was working as conductor; she had a careworn face and stood the entire night in the corridor alternately sighing and weeping. I was the only person who got off the train at Kreuznach and was immediately informed that Ludendorff would be able to receive me only in the afternoon.

As I announced myself at the appointed hour at headquarters, Colonel Bauer received me with a few questions that led me to believe that my remarks on the future of the Russian rouble had been the cause of the invitation. While Bauer was speaking the door was flung open, Ludendorff came rushing in and shouted harshly at me without a single word of greeting: 'Who are you, and what do you want here?'

I went towards the door, Colonel Bauer pulled me back and spoke softly to Ludendorff, who muttered to himself, turned half to Bauer and half to me, saying that he was not to know when he saw a strange face who it might be. I immediately realised that the whole thing was play-acting, designed to intimidate me.

'All right, all right,' said Ludendorff, 'I made no mistake with that question! What do you want anyway? You get involved in every problem, now I hear about you even in connection with Russia! Who gave you the right? Who authorised you? Who stands behind you? In whose name are you speaking?'

'In nobody's but my own.'

'That I don't believe! Are you a German citizen?'

'No.'

'But you were in the Belgian military government?'

I saw from that question that he had been well briefed.

'Yes, but I kept my original citizenship.'

'Where are you from?'

'From Austria.'

'Where in Austria?'

'From Vienna.'

'Would you people like it if some one from here interfered in every aspect of your business?' He went on: 'What mission were you assigned by Austria, and who there gives you orders?'

'Nobody appointed me to any job.'

'Well, then, who pays your bills? Who then is paying for Naumann's working group that seems to be able to mobilise all the parties? Well?'

'Myself alone. Naumann would pay his own expenses if he had the means, so I do it for him. To allow an idea to be financed by government or some organisation is to prostitute it. Naumann's ideas accord in many respects with mine — covering his expenses was naturally a gentleman's arrangement.'

'You can allow yourself such luxuries in the middle of a war? From what sources, and how?'

'I do not owe anyone explanations on the origin of my assets.'

'And this Austro-Polish merger, is that an idea you've also advocated on your own initiative? Or was this your creation to begin with? The intention was to surround us on all sides! But now we are doing in Poland what we want to do and must do, and Vienna has had to take it lying down. The Poles must be dominated, watched every minute of the day and night, otherwise they will attack us. And *we* know how to rule, not your hand-kissing people!'

'Then you are thinking in terms of a colony, a colony in the middle of Europe, and want to force the natives immediately into military service? You will really come a cropper on that one!'

'What are you talking about? If the Poles feel our fist, they won't dare to move. Prussia as lord and master of Poland — I'd gladly exchange that for all the softies south of the Main who only weaken our side! But that is naturally not your opinion.'

'No, six great powers on the enemy side seem to me enough for us. But I do not understand why you are telling me all this.'

'I understand from reliable sources that you continue to intrigue in favour of the Austro-Polish nonsense, even now, after the Austrians themselves have given up on the idea. And I ask you yet again, on whose behalf?'

'I repeat: I am firmly convinced that the notion of a Polish-Austrian

combination is the only possible solution. But it is not true that I am pushing for it. For me the whole matter is finished.'

'Because of Vienna's withdrawal?'

'No, because of the loss of the war.'

'What are you talking about? Since when have we lost the war?'

'Since America came in.'

'That's your revenge! Some substitute for the defeat over Poland!'

'God knows, I would rather have been wrong about America.'

'Rubbish, that was just an episode!'

'No, it was the decisive moment of the war.'

'Doesn't the coming collapse of Russia mean ten times more than America's coming in? The Americans won't have a real army for years!'

'No, in place of one exhausted enemy we now have a fresh, unbeatable power, and moreover the only country that could have been an intermediary in negotiating peace.'

Ludendorff did not immediately answer, and while he had stared directly at me throughout the conversation, he now gazed mutely into space. Suddenly he said:

'I would have kept away from the whole submarine business if I'd known that the revolution would break out so soon in Russia.'

'You never thought then about revolution in Russia?'

'No.'

'I had assumed just the opposite at that time.'

'Why?'

'Because I cannot imagine that anyone would take on the deadly risk of a war with America if he still had to reckon on a long-term basis with Russia. I assumed that you felt you had a free hand on the Eastern front.'

'And if that wasn't the case in fact?'

'General,' I said with great seriousness, 'I have been here for a long time, and still do not know why you summoned me.'

'You have expressed the opinion that the rouble will cease to have value. I don't understand money matters very well. What do you mean by that?'

'That the rouble will lose all buying power.'

'Why?'

'The certain outcome of war and revolution.'

'Havenstein thinks otherwise, but sent me your memorandum anyway. So you don't think that we can get much out of Russia?'

'No, transport and probably also industrial production will be too chaotic for a long time. You cannot expect much from places where railways are still needed. Limited quantities of matériel may be had,

but nothing significant in either raw materials or foodstuffs.'

'There you are misinformed. In the Caucasus, the Russians have three-quarters of all the oil on earth. We are going to take it and hold it, during the war and after, because we are advancing to the Caucasus, and there we shall win the war.'

'Will you have enough strength and time for that?'

'Yes, certainly.'

'And will the pipeline remain undamaged?'

'What is that?'

'The long oil pipe connection to the Black Sea.'

'Built by the Russians?'

'No, by a Dutch company. By the way, your estimate of the oil reserves is grossly exaggerated.'

'You just pluck out of thin air what my people here have to scramble about trying to find! Your place should be here, with me, to give me intelligence reports about the war economy in the East.'

He said 'with me' quite distinctly, without referring to Hindenburg, without mentioning what office or position he had in mind.

'Thanks, I was once in the bureaucracy, and I hope never to be again.'

'That means you don't want to cooperate because you consider it's a lost cause. If everyone said that, if I said that myself, Germany would really go under. We think otherwise, even if we are standing with our backs to the wall. And by the way a lost war would be a healthy thing for our country: they've had everything too easy for the last forty-six years. That must change. If there were a defeat, Prussia would rise again, greater than ever in its history. But now we are very far from that point. When my divisions are freed from the Eastern front, I'll crush France so completely that she will never rise and then the English and Americans can waltz around the seas as much as they like. And now, I'm giving you an order to serve!'

'I am an Austrian citizen, and anyway you would not have much joy out of me. I don't subordinate myself to authority, and I voice my objections loud and clear. They have consequences.'

I had risen; Ludendorff stood too and bade farewell formally.

It was so calming to wander about Bad Kreuznach for the five hours I still had till the departure of my train: it was the only time in those war years when I felt happy. I had come through the most serious danger for me: the possible loss of independence.

War in our times gives governments unlimited powers over individuals; if the citizen gives up all his rights, and indeed is expected also to

sacrifice his life, he is at least entitled to demand two things of his superiors: carefully considered advance planning, and the highest degree of responsibility.

The man with whom I had just spoken, and who exercised authority in Germany as nobody before had ever done, had risked war with America at a time when he was still thinking of a long war with Russia; and in such a situation he spoke of a chief theatre of operations! For him, the entry of America into the war was a mere episode.

The appeal to love of fatherland was repellent coming from a man who wanted to toss all non-Prussians out of his Germany. The very concept of 'nation' was blasphemous when mouthed by a Ludendorff.

Colonel Bauer came to the station and said that good news had just come from the Polish front: the Russians were in full retreat in East Galicia. He asked if I was not seeing things too pessimistically.

'I hope so, I fear not,' was my answer.

On the return journey to Berlin, the same conductress with her heavy sighing was in the corridor. I asked her this time what her trouble was, and she told me that her husband was at the front, and nobody comes back from there.

I wrote up my talk with Ludendorff from memory; but all its details are clear in my mind up to this day. The meeting had a short sequel. With approval from Berlin, I informed a leading Austrian official about the possibility of an occupation of the Caucasus, and the opportunities for exploiting the oilfields there. I was thanked with the reply that such an advanced penetration by the German armies was considered out of the question.

The Army did, however, get that far, and I undertook a small inspection trip at the request of the task force to look over the area: I confirmed the impossibility of exploiting the oil resources on a short-term basis.

In my time two men have determined the fate of the great German people: Ludendorff and Hitler. Both were destroyers of the first order. Was their immeasurable influence a factor of the times or of the German nation itself?

24. The Situation in the East

The Russian people and their army collapsed simultaneously; the Bolsheviks came to power with their promise of peace. They met all the demands of Ludendorff's harsh peace terms which, as a surviving witness, I can testify were opposed in vain by both the German and the Austrian Foreign Ministers, Kühlmann and Czernin. How could those two men — essentially unknown, with their aristocratic aloofness from the masses — have made their influence felt, in contrast to the famous general who had apparently forced the Russians to their knees? Remembering 1870, everyone had thought in terms of a victory in the West; since the time of Napoleon the Russians had been thought invincible. How could that country of immeasurable distances and almost unbearable winters be forced to surrender?

And now that miracle had happened; and the whole situation would have been ripe for general peace had America remained neutral, and if even one of the belligerents had had an inkling of what Bolshevism would mean. For the few of us who had taken seriously Jacob Burckhardt's and Maurice Joly's predictions and now saw them coming to pass, the ignorance shown by diplomacy at the time seemed incredible. The diplomatic despatches that have become available since confirm this view only too dramatically. On the very brink of the Revolution, for example, the French Ambassador presented a note to the imperial Russian Government requesting its support for the French demand for sovereignty over the left bank of the Rhine. And when the Revolution broke out, the ambassadors almost without exception predicted that it would only last a short time. Count Czernin, the Austrian Foreign Minister, tells us in his memoirs how proud he was at the peace negotiations in Brest-Litowsk to give back to Leon Trotsky the library that Trotsky had acquired from 'a certain Otto Bauer in Vienna'. Czernin did not even know the name of the second most important socialist in his own country. Germany and Austria were full of socialist ideas and activists, but the ruling class had no knowledge of such things and such people.

If the West had even partly understood the dangers that were brewing, they would have made some effort to achieve a peace. But instead, Justice Pollock in England wrote to his colleague Oliver Wendell Holmes in Washington that a new era of freedom was at hand in Russia; and liberals and democrats competed with each other in praise of the Soviets. Never have honourable men been more misled by their own wishful thinking.

And at the same time the generals ruling the German nation wanted to embark on vast new conquests, when their people were desperately longing for some respite from the struggle.

Despite appearances to the contrary, it was the Bolsheviks who triumphed at Brest-Litovsk. They achieved peace for the Russian people, and the price they paid for it did not matter. They counted on the power of fear; and since they maintained their regime with fear, they were able to continue building on that foundation. From then on till our own day all peace arrangements and all newly-founded regimes have been built on the same basic notion.

The long war had exhausted the strength of all the European peoples: they were all broken at the end, the Germans as well as the French, the Austrians as well as the Italians; and most of all the Russians. What did the starving *muzhik* living amid the vast expanse of Russia care who ruled over the left bank of the Rhine? He wanted only bread and peace; and in those concerns he was no different from the other people on the European continent.

There has not yet been an account written either on the Russian or on any other side that has been able to convey the whole tragedy adequately to coming generations. For example, a tremendous drama had been played out, of which the world remained in almost total ignorance; beside it Xenophon's *Anabasis* pales into insignificance. This was the withdrawal of the Czech troops who had fought on Russia's side out of Pan Slavist sympathy, across the whole extent of Russia and Siberia to the Pacific. They returned to their homeland by the longest road, their dream shattered; they saw as they went the vast gulf that now divided them from the Russian people.

Just at that time I had to go to Pilsen in Bohemia, where I had a participation, along with the Berlin banking house of Bleichröder, in the 'Urquell' brewery. I was detained for five hours at the German-Austrian frontier in Franzensbad. During the war, first passports and then visas had been introduced; and finally each trip had to be specially notified to the authorities, and my travel plans had not yet reached Franzensbad. I arrived in Pilsen after midnight, and the only porter in the station walked with me the rather long way to my hotel. The old man complained that his wife was sick with grief: one son had been killed and the other was far away. 'Where?' I asked, but he did not want to answer directly, and I guessed the boy was with the Czech Legion somewhere in Russia.

'These are hard times,' he sighed. 'You don't know who are your friends and who are your enemies, what's right and what's wrong.'

I felt little sense of Czech nationalism among the working population of the industrial city. At the brewery they were complaining about the deterioration in the quality of the beer, and in the Skoda armament factory about the shortage of raw materials. Baron Skoda himself, in contrast to many of his fellow-executives, was sanguine; he said that Czech nationalism was a middle-class phenomenon that was not shared by the peasants or workers. If the war ended in the not too distant future, the *status quo* could be maintained and the transition to a peacetime economy would be smoothly accomplished. The middle classes, he added, were split internally and had begun to fear Bolshevism.

Baron Skoda came of a highly talented Bohemian family: few combinations give better results than that between Czech and German! He was still a young man when his father died; the directors had taken over the Skoda works and then burdened the enterprise with heavy debts. Young Skoda came back from the Zürich Polytechnic Institute, threw out the directors and transformed the works into the world's most modern artillery factory. His guns were the first in Europe to be motorised, and when war came he immediately became wealthy and was awarded the highest decorations. After the war was lost, he had to transfer his enterprise almost without compensation to French interests, and he himself fled to Switzerland.

Skoda had reached the heights in only a few years, and had fallen even faster. The dignity he had lost in his success, however, he regained in the days of his misfortune. In Switzerland, he gave the authorities a far-ranging memorandum on artillery defence, and when that was rejected with unjustified criticism, he came to me laughing, and said that apparently after a defeat even experts were not taken seriously in their own fields. He therefore asked if he could help with the installation of a wine cellar in my house, and was not willing to take up any other occupation.

25. The Bucharest Peace Treaty and Count Tisza, Spring 1918

The Rumanians, like the Italians, had broken their alliance with the Central Powers and gone over to the other side, but were defeated by the armies of Mackensen and Seeckt and forced into peace negotiations. These took place in the spring of 1918 in Bucharest, and the Rothschild bank in Vienna asked me to represent their interests in Rumania at the negotiations. The Rothschilds had large timber holdings in Rumania, with long-term contracts for timber deliveries, and had built forest railways in connection with their timber leases. It was in these very forest areas, however, that the decisive battles had taken place; for several years it had been impossible to fell trees, and both the railway lines and the sawmills were destroyed. The aim was to extend the leases for a period of years, and I made certain that the appropriate clauses were inserted in the peace agreement.

The entire atmosphere in Bucharest was strange: a so-called peace of victory was being negotiated, at the same time that the general situation was rapidly deteriorating.

As I was travelling back from Bucharest to Berlin, the train stopped in Budapest, and there was Simon Krausz on the station platform. He begged me to break my journey and meet Count Istvan Tisza, who urgently wished to see me. There was a session of Parliament going on, and I was to come to the Parliament building. Tisza came out to see me at once, and told me he had heard of my views on the general situation. Although the short-term position appeared favourable to the Central Powers — the offensive in France was initially very successful — I said there was no hope of victory. The Hungarian Prime Minister's face was ashen as he heard these words, and I was afraid that this energetic and unusually self-disciplined man would actually collapse. A group of Deputies had gathered round to see what was going on. Tisza and I spoke softly; our conversation touched his very core. Although a Calvinist, he was devoted heart and soul to the Habsburg Monarchy. At the same time he was totally Magyar, and based his political stance on the constitution of 1867 that established the Dual Monarchy.

The notion of trying at this stage to get some concession from the enemy, when things appeared to be going well for the Central Powers, was hateful to him; he preferred defeat.

'I am not asking you for advice,' he said, 'since you think it is already too late for that. What do you predict for the future?'

'We shall have to submit to peace terms dictated by strangers who in

their ignorance will cause us long-term damage.'

'I don't expect anything from the French, and the Italians are unfortunately confused for the moment, but won't the English help us? They must, because they have no better friends in the world than us.'

'These days it is the Americans who will have the last word, and I am afraid that they will do tremendous harm and destroy what little remains intact here after the war — all with the best intentions. The Americans take every phrase literally, and are obsessed with slogans. Expect nothing from that quarter but destruction!'

Tisza accompanied me down long corridors to the exit, and put his arm on my shoulder, an unusual gesture from that tough and self-contained man.

'I shall defend my country to the last, but I have the dreadful feeling that I shall do more harm than good, and my desire to acknowledge that publicly limits my effectiveness still further.'

He repeatedly shook my hand when we parted, and stared after me with his weak eyes as I went down the stairs.

I believe I was the only real friend this austere and strong man had outside Hungary; and that in spite of my not being able to agree with his internal policies. He was one of the few statesmen I have known in my life for whom decency was a self-evident principle. The whole world regarded him as the foremost proponent of the war, but he had in fact energetically opposed it at several critical junctures, sometimes on my advice. As reproaches and attacks rained down on Tisza from all sides he had become silent, and asked me as well not to say a word in his defence. His international standing would have been quite different had the world known the truth about his views: that might have helped him personally, but damaged the prosecution of the war. And so he allowed the completely unjustified accusation of war-mongering to be laid at his door, and did not even consider it appropriate to justify himself at the end to the two assassins who came to murder him. He felt it necessary to give an accounting only to himself, and then he applied the very strictest standards.

Tisza was devoid of any vanity, and fundamentally without ambition either; he was indifferent to recognition, even to fame, and when he had to confront public opinion, he did not shirk doing so himself, and presented his ideas with a simplicity and fearlessness that reduced his opponents to silence. He never thought of his own personal interests.

The very idea of the lord, the noble, has lost its meaning in this age of automatic egalitarianism, and the present generation has no conception of what it once really stood for. Count Istvan Tisza was indeed an aristocrat, and one of the last of his kind.

26. Max Weber and Schumpeter in Vienna

On my return journey I stopped briefly in Vienna to report to the Rothschild bank on the Bucharest negotiations. Apart from that, Max Weber had asked me to be present at the discussion he was to have with Schumpeter about the succession to his chair at the University of Vienna. Weber wanted to return to Germany and he was thinking of Schumpeter as his successor, but the two men knew each other only superficially although Schumpeter had written an outstanding history of ideas to accompany Weber's handbook on social sciences. I was worried about the meeting, because a greater contrast between two personalities was hard to imagine.

Max Weber was a restless, nervous type, full of 'drive', a Huguenot with deeply-held convictions, for which he strove with every atom of his energy. He battled on without letting up, even when only minor issues were at stake. He was explosive in temperament, verging on intolerance; those who did not know him well could easily have been put off or even frightened at first meeting him. Hugo von Hofmannsthal tried to explain him by saying: 'He has the gifts of a Caesar who is unable to find a field large enough for his energies.' There was much truth in that observation: Weber was never in his life able to give his tremendous intellectual and spiritual powers full expression. He took nothing lightly.

Schumpeter on the other hand took nothing hard. He had been educated at the Vienna Theresianum, where the pupils were taught to stick to subjects, and not get personally involved. The rules of the game in every party and ideology were to be learned thoroughly, but nobody should join a party or subscribe to a dogma. And Schumpeter was a virtuoso at playing any political game, from the extreme left to the extreme right. He had worked briefly on the Socialisation Commission in Berlin, which met under the leadership of our Vienna University colleague Hilferding, who at the time led the German independent socialists, for whom the official Social Democrats were too moderate. Hilferding often told me of his astonishment at Schumpeter's radicalism; but Schumpeter was not radical at all, he merely followed through to the appropriate conclusions, given the premises. He felt that if socialism were to be introduced at the end of the war, it should be in a consistent way.

We met in the Café Landmann opposite the University. Ludo Hartmann, a historian of the Classical world and son-in-law of Mommsen, accompanied Weber, and I came with Schumpeter. I took no notes of our

conversation, but can recall the elements of it that impressed me most strongly. The talk turned to the Russian Revolution, and Schumpeter expressed satisfaction that socialism was no longer an abstract theoretical notion, but would now be tested in the real world. Weber said with some heat that communism at the Russian stage of development was a crime — he knew the language and followed Russian affairs closely. He added that developments in Russia would lead to unheard-of human misery and end in a terrible catastrophe.

'That may well be,' said Schumpeter, 'but it would be a good laboratory to test our theories.'

'A laboratory heaped with human corpses!' Weber rejoined.

'Every anatomy classroom is the same thing,' Schumpeter shot back.

To change the subject, I commented that the war had altered the direction of social developments that would otherwise have gone quite differently. Weber agreed, but unfortunately chose Great Britain as his example, referring to its swing away from Liberalism. But Schumpeter disputed this view. Weber became more vehement and raised his voice, as Schumpeter for his part became more sarcastic and lowered his. All around us the café customers stopped their card games and listened eagerly, until the point when Weber sprang to his feet and rushed out into the Ringstrasse, crying 'This is intolerable!' Hartmann followed with Weber's hat, and vainly tried to calm him down. Schumpeter, who had remained behind with me, only smiled and said 'How can someone carry on like that in a coffee house!'

I felt unhappy about the incident. Here were two individuals of rare gifts, who were not far apart in their fundamental views on the economy, and in their deep intellectual seriousness. But it was the curse of the German and Austrian haute bourgeoisie that its all too few original personalities, if they ever met at all, immediately became deadly enemies. They all had too much temperament to compromise on issues.

Both Weber and Schumpeter were failures in their native land, Austria; they only found success abroad. Yet they had something in common: outside their own country they felt themselves in exile.

27. Austrian Mission to Bern and Vienna, November 1918–January 1919

The collapse of all the fronts held by the Central Powers came faster than had been expected by the Allies. It was no longer possible to organise resistance behind the front lines. Walter Rathenau appealed in vain for a stand in defence of Germany, but nobody paid any attention. In Hamburg, which was thoroughly infected with communism, my friend Albert Ballin, who alone had given the Kaiser honest advice, committed suicide. There was chaos in the Habsburg monarchy after President Wilson had opened the Pandora's box of nationalism. In Austria itself, that is in Vienna and its small surrounding Alpine state, a coalition government had been formed with Renner as Chancellor, Seipel, Otto Bauer as Foreign Minister and Schumpeter as Finance Minister. On 11 November 1918 the armistice was signed in France and the next day the new Austrian Government requested me to go to Bern to conduct extremely urgent negotiations for the supply of foodstuffs. I was to be accompanied by a delegation of experts and to bring the negotiations to a satisfactory conclusion as quickly as possible.

However, I refused the invitation, as I knew nothing about the food situation in Vienna: I had left Austria nearly ten years before, and had taken no part in its political life.

Otto Bauer telephoned me from Vienna: he and Seipel appealed to me to go to Bern. They heard from reliable sources that the Allies were going to accuse Austria of responsibility for the war, but the English knew how much I had done personally to maintain peace. The food situation was catastrophic, and success in the negotiations could only be assured, they said, if I joined them. They added that the other delegates, with one exception who had good contacts in France, were local figures — and the members of the Government itself could not leave Vienna because of the dangerous situation there.

I then agreed with a heavy heart, but on three conditions: I was to be the actual, and not merely the nominal head of the delegation; no talks should take place without my express authorisation; and my activity should be limited to a three-month period. All these conditions were accepted.

In those days there was only one rail connection to Switzerland: a night train to Munich with a connection in Lindau, where one arrived at midnight and was supposed to spend the night. The crush of people at the

connecting station was unbelievable. Six hours before our scheduled start, I was escorted to the waiting train through a side entrance. The ice-cold carriage soon became so full that we ceased to feel the cold. The corridors were full of soldiers who had come back from the Ukraine. They looked better and were more cheerful than those who had been on the home front. I heard repeated expressions of joy that the war was over, and the conviction that such a war could never happen again.

We stopped for four hours in Leipzig because our engine gave out; and in this, the largest railway station in Europe, there was not one other serviceable locomotive. We finally arrived in Munich hours late, and missed our connection. The next morning we set off again, and came in the late evening to Lindau, arriving finally in Bern the next day, the fourth after our departure from Berlin. In Bern I was informed that nobody from the Allied side had turned up. The waiting period was painful.

I knew only a few people in Bern, and did not want to contact them in the delicate political circumstances. The city's surroundings, usually so attractive, gave no pleasure in the rain and fog of November. The Bellevue Hotel was filled to the rafters with diplomats and with spies of both sexes; the staff themselves were suspected of being in the pay of one or the other side. People whispered in the public rooms, and the former belligerents were strictly separated, even at mealtimes. I buried myself in preparatory work on my book on economic policy, for which I found a good deal of interesting material in the University library. One day my typed manuscript disappeared from my locked hotel room, and I had to reconstruct my work from notes and memory — quietly amused that the spy who stole it could hardly have been compensated for his efforts.

Daily we received urgent demands to hurry up, because hunger in Vienna was increasing. But if I had let myself be influenced by those calls, the whole position would have been lost. Austria was the last fragment of a once-great empire, all the responsibility for the war was laid at its door, and we were about to urge that it should get priority for the most urgent material assistance! Furthermore, the world in those days took a purely commercial view of international relations and was not prepared to contemplate one-way foreign aid transactions.

In my view, the Allies would exploit Austria's plight to the full, and I therefore told Vienna I would reject any such attempt by claiming that my authority did not extend to political issues. The other delegates were no less aware of this danger, but Seipel too rang me with a warning: 'Don't go too far with your resistance, because our situation is getting worse every day.' We cabled the Allies constantly, supported by the Swiss, but nothing moved them.

Finally, towards Christmas, the Hoover Commission arrived, led by the Americans Gregory and Dr Taylor, with the Englishman William Beveridge, Haguénin from France, (whom I knew well as a Professor of French literature in Berlin), and two Italians.

Matters of procedure were extremely important, since this was the first occasion for substantive negotiations since the Armistice. Our meeting was to take place in the American Legation. The delegation from Vienna was to wait for an hour in a room from which all the chairs had been removed. Then chairs were to have been brought in, but only for the Allied delegation and the American Minister, while we were to stand and wait to hear our fate, separated from the Allies by a barrier.

That is the way it actually happened the next day. We stood for a long while in front of a barrier. Then chairs were brought in behind the partition, and almost simultaneously the American Minister and the Allied delegation walked in and sat down, whereupon a sort of punishment sermon was read out to us. In my reply I remarked that if the intention had been to humiliate us, which I had to conclude was the case from the manner of our reception, we were quite impervious to it. After all, what did the treatment we were given personally compare with the terrible humiliation represented by our having to beg our daily bread from those who had been our enemies so short a time before?

These words made an impression on the Americans. Their Minister protested energetically against any notion of humiliating our delegation. An elderly gentleman, who was a personal friend of Hoover's as I later learned, sat near the Minister. On hearing my statement, he rose, and handed me his chair over the barrier. The Minister immediately ordered chairs for all of us, and opened the barrier in order to sit with us. The other Allies followed his example after a certain hesitation — it had all happened too quickly for them. The incident taught me to appreciate the remarkable generosity and warmth of Americans, which go a long way to compensate for the political damage they do. We struggled for five hard days. The English demanded all the Danube shipping, the Italians what was left of our gold reserves, and the French a prohibition on any *Anschluss* with Germany. The Americans demanded nothing and simply gave what we needed. With their fraternal help I was able to organise the inspection trip of the Allied Commission to Vienna without making any political concessions.

I felt real satisfaction in fighting single-handed in this struggle for our existence. When no concession can be made, one simply has to draw strength from one's own inner resources. The whole affair was difficult

not because of the men who represented the other side — decent, and to some degree cultivated, with much human understanding — but because of their governments. The three European powers, England, France and Italy, were unable in that situation to do more than mouth old slogans. The Americans, by comparison, were like angels. They were helpful but their political simplicity often made them destructive. The accusation of war guilt was constantly thrown at us; I naturally refrained from answering it by referring to my personal efforts at avoiding war.

One day, while drafting a document, one of the Vienna delegates had said 'That is our interpretation', whereupon Monsieur Haguénin, who knew German perfectly, interjected 'Well, it is not our interpretation, and ours is that of the winning side.' He then laughed and interpreted the exchange to his colleagues. The following day, when one of the Allied delegates again raised the war guilt issue, I said to him 'On the day when Archduke Franz Ferdinand murdered an innocent Serbian youth and thereby wickedly unleashed world war . . .', and everyone stared at me in astonishment. I continued, 'You see, gentlemen, how quickly I have learned the winning side's interpretation.' Never again during the negotiations or the trip to Vienna was the war guilt issue raised in my presence.

But our entire trip from Switzerland to Vienna, which would have been so ordinary in peacetime, was so fraught with difficulties that it took the greatest effort to overcome them. Even before we arrived in Vienna, the Allied commissioners could plainly see the scale of the misery around us. Not one train passed us from the Swiss frontier to Vienna, and when we arrived in Buchs on the last evening of 1918 we had to wait two days at a local inn until coal was brought from France to fuel our locomotive. We then had to provide our own food, for none was available for the trip, which was to last two more nights. No train was to be seen anywhere, and the masses of people who stood at each station begging desperately for a ride made an unforgettable impression of wretchedness.

Only two months before, this same Austria had equipped and sent millions of soldiers into the field, and had maintained a front that stretched from the Caucasus to Italy and France — and now it was incapable of providing coal for one locomotive. The incredible intensity of war calls for levels of action that far exceed our normal strength. When the end comes, the collapse of both material and spiritual energies is total. After the tightest discipline comes total chaos. We have often heard descriptions of 'Black Fridays', those abrupt crashes on stock markets when boom gives way to bust; the change from war to peace is an incomparably greater shock. After the First World War, all the consequences in political and

social terms were immediately felt, and nobody could avoid them; after the Second, we had rather more experience of such shocks.

When the Commission had arrived back in Vienna it was comparatively easy to start aid deliveries to Austria almost at once. I was amused by the attitude of some of the Allies to the socialists in Vienna: they had approved of their revolutionary stance against the Emperor and royalty generally, but thereafter preferred not to deal with them, just as the Germans preferred to have no dealings with the Soviets after helping Lenin to take power. People forget that you must accept the consequences when you help someone into the saddle. Vienna, a city of two million inhabitants, had been abruptly cut off from the hinterland with which it had been intimately linked for centuries, and the new frontiers to the north and east were only an hour's drive from the capital. The entire population was on the brink of starvation: there was no time for political wrangling, and the greatest speed was imperative.

Fortunately, the Americans had sent competent people with a high sense of responsibility to Vienna. In contrast to many delegations who came there later and sat about idly, these delegates worked fast and well. For this Herbert Hoover himself deserves the chief credit; what he accomplished then for Vienna and the rest of starving Eastern Europe was never fully appreciated, either by those he saved or by the Americans themselves. May history accord him a fuller measure of justice than that granted him by his contemporaries.

The revolution in Vienna was merely a copy of the others in Europe: since each of the other countries had its revolution, the same thing had to happen in Austria, although there of all places it was completely meaningless. The mob had thrown out the leaders who would gladly have moderated events had they only been able to do so. My mission ended with the receipt of three long letters of thanks from Renner, Seipel and Bauer.

28. Banking in Zürich, 1919-1926

When I came through Zürich from Bern in December 1918, Dr Arthur Reitler met me at the station. Born in Austria, with an Austrian wife who was the daughter of a respected bank executive, he had as a young man been appointed one of the senior executives of the Banca Commerciale Italiana. He had left this post at the outbreak of the war to study economics in Zürich under Professor Bachmann, President of the Swiss National Bank. Reitler had done his doctoral thesis on an aspect of my book on banking policy, and therefore wanted to meet me.

In 1917 Reitler had joined the private banking firm of Blankart & Cie., Zürich, then a limited liability partnership. Reitler was a partner in the firm, and the other was Jacques Blankart-Schrafl, son of the founder of the Banca della Svizzera Italiana in Lugano. Reitler had breathed life into the somewhat sleepy firm through transactions with the Austrian Postal Savings Bank, but he intended to leave the bank within a short time and retire to private life. He had become accustomed to other business circles, and found little to occupy him in Blankart & Cie. beyond what he brought in himself. Moreover, the atmosphere at that time in Zürich was unpleasant in several ways: one met arrogant boors, mostly war profiteers, who strutted about as if they had won the war, in contrast to those Swiss who welcomed starving children into their homes, and identified more strongly with foreigners the more they appreciated their distress.

I called on Reitler the next day at his apartment in the Voltastrasse, and had a talk with him about the bank and Switzerland; we became lifelong friends. I considered Switzerland the most important financial centre of Europe because it had maintained its financial stability, although surrounded by larger countries all to a greater or less degree affected by the war. I was attracted by the notion of a private banking firm with a small number of well-trained employees, and appreciated the fact that the bank had little more than its good name to recommend it. Starting from small beginnings has always appealed to me; I thought initially in terms of a silent participation, but in any event intended to join the Board, along with Louis Dapples. I deferred my final decision until after my planned trip to Vienna; and Reitler made his decision dependent on mine.

In Vienna I found the Rothschild bank in a state of complete helplessness: all its German assets appeared to be lost, its French, English and American assets had been sequestered; and there was no news of any of those assets in Austria outside Vienna. Even those foreign assets or

securities left in Vienna appeared subject to possible confiscation by the Government; such a step would have undermined the very foundations of the bank, just at a time when it was more vital to the Austrian Government than ever before. The Rothschild firm was in particular danger because of its isolation: while all the other Austrian banks owed money abroad, the Rothschilds were creditors, and the other banks therefore endeavoured to pool all foreign assets and claims, including those assets left in Vienna. It is of some historical interest that this first communist proposal in Vienna was made by the joint-stock banks themselves. The Rothschild bank, spoiled by its good fortune down the years, was completely defenceless against the simultaneous appearance of so many dangers.

For the Western world, the Rothschild house was the sole factor that still made Vienna creditworthy. To dissipate the bank's assets made no sense; on the contrary, conserving those assets was an urgent financial necessity. It was, however, uphill work making the Austrian Government understand those matters, born as it was of revolution, squeezed between Budapest which had gone Bolshevik and Munich with its communist regime, and moreover cut off from the now-hostile Czechoslovakia and Yugoslavia, and in the position of having somehow to eke out an existence, however precarious. On the day before I was invited to talks with the Government, there was a demonstration in front of the parliament building organised by Hungarian communists. Their methods had already alienated the Austrian working class, but their get-up was the last straw: the Hungarian demonstrators wore shiny patent-leather shoes, which in Vienna, as everywhere else, were worn only with formal evening dress, but never in daytime on the street. That touch finished the demonstration, because all the bystanders laughed at the misconceived attempt at elegance. No matter how badly things were going for the Vienna workers, they were able to laugh. The whole affair strengthened the Government's hand.

I conceived the idea of restoring the credit of the shrunken Austrian state by concentrating the still-available assets of the Rothschild firm in a private bank to be established in Zürich. This scheme was unanimously approved by all members of the Government, and permission was given to transfer to Switzerland Rothschild assets held with the Reichsbank in Berlin and the Diskonto-Gesellschaft in Frankfurt. I was to go to Germany in order to obtain official permission for the transfer of the assets.

My trip from Vienna to Berlin through the newly-constituted state of Czechoslovakia was no pleasure: frontier formalities on both entry and departure were carried out with deliberate rigour, with the obvious intention of making any traveller give up in disgust before attempting a

re-entry. Such procedures apparently did not express the intentions of the new Czechoslovak President: but the frontier officials, subordinated to the military, wanted to exploit their limitless authority to the full.

Berlin had no coal and no food, and was torn by strikes and communist agitation. My sisters had with great effort reserved a taxi for my arrival; several minutes after we left the station it broke down, and we had to carry our cases to their apartment, a trip that took more than an hour. A day later the general strike hit the trains, the communists overturned trains that were still running, and my sister Paula escaped injury on her way to the theatre only because a few members of the excited crowd recognised her as an actress and rescued her from the tram.

The Reichsbank authorities immediately consented to the proposed transaction, and also approved having the banking firm of S. Bleichröder in Berlin and the coal magnate I. Petschek join in the transfer. I travelled to Frankfurt to fetch the remaining assets, laden down with large parcels of securities, and accompanied by two officials of the Reichsbank and the chief cashier of S. Bleichröder. In Frankfurt, however, the strike of bank employees was in full swing, and only a few executives were at their posts in the Diskonto-Gesellschaft. Bringing the Rothschild accounts up to date and sorting out their securities would have been impossibly difficult under these circumstances, so the bank directors simply handed over the entire account, including Russian railway securities and Hungarian shares that merely added to the weight of what I had to carry; and the whole lot was sealed up together.

But how was I to get to Vienna with all I now had in hand? Adjacent Bavaria was a no man's land in which the Reichswehr and the communists were fighting: the Reichswehr held the north, the communists the south. Train traffic was at a standstill. The Reichsbank officials refused to travel further under these conditions; only Berckhoff, the courageous chief cashier of Bleichröders, was willing to go on.

The Diskonto-Gesellschaft directors had managed to secure one of the few taxis left in Frankfurt by the end of the war, whose driver had enough courage for the trip; the car was so full that my companion and I had to seat ourselves on top of the parcels of securities. That is how we set off, with the executives of the Diskonto-Gesellschaft watching our departure with worried expressions. We were given one loaf of bread to sustain us on the journey, since I did not want to leave the car at any point; and we gave almost all of it to our driver.

Mischance caught up with us on the bridge over the Danube at Regensburg: our car arrived there in the late evening, and was stopped in

the middle of the bridge. The Reichswehr had just regained Regensburg from the communists, and I had driven into the middle of that chaos. The car was unloaded, Berckhoff and I were arrested, and the taxi was ordered to drive immediately back to Frankfurt. The driver was so frightened that he wanted to obey the order without even waiting for his payment. I was able only with difficulty to obtain permission to pay him. He drove away at high speed, and now I stood without transport, with my numerous heavy parcels, in the middle of the Danube bridge, surrounded by Reichswehr soldiers. Finally a captain appeared and gave the order to take me and my companion to a military prison for investigation, and to bring our parcels to Headquarters. I lodged a strong protest, saying that I must accompany the papers, and that in the event of a refusal I should hold the captain fully responsible; I called his attention to the Reichsbank seal and the meaning of any tampering with the parcels, to which the captain replied with a shrug: 'Who knows these days what the Reichsbank is anyway?' However, he then consented to have the parcels accompany us to the military prison, so my companion and I proceeded on foot through Regensburg, behind us a corporal and five soldiers, each laden with large parcels.

Once at the prison, I had to wait for interrogation in a large empty room, feeling very hungry, since our driver had taken the rest of the loaf of bread. Finally three officers appeared and asked if there was anyone in Regensburg who could vouch for me. I knew nobody, and asked if I might telephone outside Regensburg. They said I could only ring Weimar, then the Government capital. I had them telephone Ulrich Rauscher, a colleague of President Ebert, but he was not at home. My companion Berckhoff suggested sending for the manager of the Reichsbank branch in Regensburg. He was roused from bed by Reichswehr soldiers and came trembling to the prison. He of course had no idea who we were, but confirmed the authenticity of the seal, and wanted to get a report the next morning from Berlin, with which he had not been in touch for weeks due to the communist regime in Munich. But that was of no help to me.

I then asked for a telegram blank and wrote out a message to General von Seeckt, the commander of the Reichswehr, in which I requested that he order our immediate release and help in transporting us as soon as possible to the Austrian frontier. I signed it 'Yours in friendship'. Perhaps a quarter of an hour later, a colonel appeared, the telegram in his hand, and asked sharply: 'If instead of sending this telegram we put you through on the telephone, would you agree?'

'Of course! That would expedite the matter but I would have to apologise to the General for disturbing his sleep.'

'I believe you,' said the colonel, 'you and your companion may go free.'

'May we have some soldiers to carry the parcels?'

'Certainly, and you will have further news in the morning.'

He ordered the soldiers to escort us to the Hotel Grüner Kranz.

So we walked at 2.00 a.m. towards the hotel, again accompanied by five heavily laden soldiers. The hotel was locked, and when after our ringing the door was opened, the night porter was upset to see two men and five soldiers. The hotel proprietor himself came in his dressing gown and brought us into his sitting room because we needed space for the parcels and said we would forgo sleep to keep an eye on them.

The next morning the colonel called on me, excused the misunderstanding of the night before, which was natural enough under the circumstances, and promised to arrange for a special train that very morning. He could not say whether the train would be able to get us all the way to the frontier, because the Reichswehr was in control only as far as Plattling; beyond there, for a distance of about 30 kilometres, nobody was in authority, and the communists appeared still to be holding Passau. I thanked him warmly, but was understandably not altogether satisfied. I assumed at the time that von Seeckt had been telephoned, but later heard from him personally that this was not so: the mere mention of his name had apparently been enough.

Towards 11.00 several soldiers arrived, took the parcels and escorted us to the special train, which consisted of a locomotive and one carriage. The train crawled at twenty kilometres per hour. Passau had just changed hands; in the indescribable disorder nobody troubled about me or my luggage, but my companion was turned back at the Austrian frontier. An Austrian customs official helped me to load my parcels, one at a time, on to a goods train, which finally arrived in Vienna eighteen hours later.

There meanwhile the Austrian Government had sealed all the Rothschild bank's securities under the supervision of the Swiss Legation. Since the so-called Entente train had just been laid on from Vienna to Switzerland, I had reason to hope that the last leg of my adventure-filled journey would proceed smoothly. The departure from Austria, at that time via Feldkirch, went well enough, but in Buchs I had to leave the train and go with all my parcels, under escort, to the local police station, where I was subjected to the most painstakingly thorough interrogation, until in the middle of the questioning a belated order came from Bern authorising me to continue with my journey. The Entente train was

thereupon delayed further at Buchs till I and all my impedimenta were once again on board.

Under those conditions, insurance cover was unobtainable, nor had I found time in the press of events to limit my personal responsibility for all the valuables. The matter was one of confidence between individuals who simply trusted each other totally. During the journey I felt no anxiety — but when, finally, I deposited everything in the modest store-room of the Swiss National Bank in the Bahnhofstrasse in Zürich, I heaved a deep sigh of relief.

The geographic centre of Zürich is Paradeplatz, the square that lies between the railway station and the Lake of Zürich and is defined by two big banks, a grand hotel and the famous café and patisserie, Sprüngli. There is no church and no vast building, but just businesses. A few steps from Paradeplatz, on Bleicherweg, Blankart & Cie. occupied a small office on the first floor consisting of three small rooms, the largest being the cashier's department. Behind the counter, then and later, for almost his entire life, stood Jacques Blankart himself, known to all as 'Papa' Blankart. He radiated worthiness and goodwill; cynics among the clients maintained that it hurt Blankart when people did not withdraw money at his counter. Blankart was too modest a man: few realised that he had once been army commander of the Ticino region, or how exemplary was the way he kept things running within the Bank. Blankart had been schooled by his father, almost from boyhood, in all aspects of the business, and he was therefore a past master in handling routine affairs. However, entrepreneurial flair and eagerness for profits were completely alien to his nature.

Dr Arthur Reitler directed the firm's current business. It appears that the craft of banking is difficult to learn: there are countries, like France and the United States, that have never — with the exception of Jacques Coeur — produced a real banker. But in London too, although it was then the chief banking capital of the world, the greatest bankers were almost all foreigners. Private banking business could best be learned only in a handful of places in the world: Frankfurt, Mannheim and Basel, or Vienna and Prague, as well as the two port cities of Hamburg and Trieste. Reitler had his practical training at the Kreditanstalt in Trieste, and had acquired the knack of feeling which way winds were blowing as well as keeping current business well in hand. With an amazing capacity for work, he followed every transaction in all its smallest details; there were few days in which he did not personally write some thirty letters in his own hand, quite aside from his other concerns.

The bank, as then organised, seemed to me the ideal vehicle for the accomplishment of my plans: but it was not easy to integrate myself and my interests into Blankart & Cie., especially since merely acquiring shares in the limited partnership was not my idea of an appropriate participation. But by the same token, I did not want to burden myself with the responsibility for a large capital investment at a time of uncertainty immediately following the war. My preference lay rather with working intensively with a relatively small capital rather than on a larger scale with greater sums. The sums confided to me by the Vienna Rothschilds were to be invested at my discretion; I put three per cent in a deposit account, leaving the rest freely available to the beneficial owners, and I limited the fixed deposits to a term of only a few years. The deposits belonging to Bleichröder and Petschek were repaid within a year. I protected all my interests in the firm, without appearing as a partner *vis-à-vis* the public.

I also repaid my moral obligation to Austria within a short time. I gave Karl Renner both the idea and the detailed scheme for a League of Nations loan when he passed through Zürich en route to the peace negotiations. I then discussed the loan in Vienna with Seipel, and helped the issue to success by supporting the after-market. I had many bitter struggles at the time of the issue: since the Austrian Government had extended to all the Austrian banks the same discount they gave Rothschilds, but the other banks were unable to take up bonds because they had insufficient assets, the Austrian tranche of the loan, very much against my will, attracted widespread publicity and was bid up sharply. How little the world understands the real essence of banking operations! In 1919-20, when European currencies were falling and the United States was going through a sharp recession, it would have been absolute suicide to contract heavy liabilities in Swiss Francs, the only solid currency of the continent.

I regarded it as my chief task to maintain the real value, in terms of gold, of the accounts clients had entrusted to us. With that aim, I rejected the notion of investing in any continental assets or securities, with the exception of Swiss, British and Dutch assets. I maintained this policy consistently for more than thirty years, eliminating Britain in 1929 and Holland in 1938, thus limiting dealings to Switzerland and the United States. Unfortunately, in all these years, no new country has been added to my list except for Canada. I occasionally considered the notion of investment in Latin America, but for another generation it will remain a worry for bankers. There were those who mockingly called me a 'Puritan of interest rates', but I let that slide off my back, because I knew that I had maintained my clients and myself intact through more than thirty crisis-ridden years.

The Austro-Hungarian Monarchy, until the end of the war a unified customs and currency area, was divided by the peace treaties into eight different countries; the big companies in Austrian heavy industry were thus split. In order to maintain the unity of these enterprises, I undertook the exchange of their shares for those of holding companies I established in Switzerland. In each case, the agreement of governments had to be obtained. This development enabled us to avoid the industrial chaos that would otherwise have ensued as a result of the catastrophic peace terms imposed by the Treaty of St Germain.

In my dealings with the firm's personnel I experienced a curious incident: I had suggested and worked out the details of a pension scheme for the staff. To my astonishment, they rejected the draft submitted for their approval, on the grounds that a pension plan was 'un-Swiss'. The younger people did not want to be tied down to the firm, and the older ones found the whole notion strange. Not one positive vote was cast for the plan. That was a unique experience for me: the partners proposed a social security measure, and the would-be beneficiaries refused to accept it!

29. Default, or the Destruction of Currencies, 1919-1924

The First World War was financed in Germany and Austria by war loans that were discounted further by the banks of issue: by the end of the war the amount of such discounted loans had risen virtually to that of the entire nominal value of the war loans themselves, and the discount interest rates were often lower than the coupon rate on the bonds. In Vienna a number of insurance enterprises were founded to guarantee the money value of war loans. Throughout the duration of the war the whole jerrybuilt structure of illusory values was maintained by a combination of internal restrictions and censorship, especially because, after a century of stable money, the population understood nothing about inflation. When the war ended, however, and almost immediately after the defeat, everything collapsed.

At a meeting of the Society of Economists in Vienna, when the Mark was quoted at 80 to the dollar, and the Austrian Krone at 60, I urgently warned of the danger that the currency would lose all its value, and proposed immediately after the Armistice, and repeatedly thereafter, that Germany and Austria declare a state of default.

My reasoning was not understood, and the fact that a banker should make such a proposal was considered paradoxical. However, state bankruptcy is a one-time surgical intervention, while inflation is a permanent poisoning of the very bloodstream of a society. After state debts are wiped out, new financing can be undertaken immediately, while inflation means a prolonged wait until the currency has lost all value. Despite the enormous loss that state default entails, it clarifies the entire situation, and the total damage thus sustained cannot be compared with the appalling terminal stages of an inflation.

I am today more than ever convinced that my views then were correct. Much wretchedness in the intervening period could have been avoided through an immediate declaration of bankruptcy: the steady series of devaluations, the total destruction of confidence in government, the prostitution of the economy which governments so often slavishly tried to justify. The banks resisted most strongly of all, but they too would have fared better with a default, which would have allowed them to clear their balance-sheets immediately. Instead they dragged on for another decade in Berlin, Vienna and Budapest, with repeated individual collapses, until the world-wide crisis revealed the true dimensions of the situation.

As usual, when convinced of the absolute correctness of my views, I

proceeded unswervingly toward my goals, regardless of my own interests, and indeed often to their detriment; and quite unmoved by personal antagonisms. And indeed I would have seen my views adopted, had not one element been decisive against me: default must be declared by those individuals who are currently in office, and at a time when even the most stupid of those affected becomes aware of what is going on; inflation, on the other hand, can go on for years, without its victims becoming conscious of the incredible way in which they have been swindled.

In a tale from the *Thousand and One Nights*, the Shah threatens one of his courtiers with death unless he gives him an answer to what the Shah's parrot is asking. The courtier manages to plead for a year of grace before making an answer, since he then has three possibilities of escape: either he, the parrot or the Shah may die in the mean time. Statesmen, finance ministers and bankers follow the same procedure: the first two successfully, since they do not stay in office very long, while the poor bankers, to their distress, must personally pick up the pieces because they are usually at their posts beyond the period most politicians envisage.

I had especially sharp disputes with my old classmate and friend Joseph Schumpeter, then Austrian Finance Minister, on the question of inflation versus bankruptcy. He implored me to organise a consortium in Zürich, the prime currency market of the continent, to maintain the exchange rate of the Austrian Krone. I told him that was impossible: Austria's enormous state debt had to be liquidated either by a devaluation of the currency or by a total write-off. Schumpeter could not bring himself to contemplate the latter step because of its effect on the banks and the special assurances that had been linked to war loans. But later when the bank he joined after leaving the Finance Ministry collapsed, he ruefully admitted that I had been right; and added with irony that all he had left now was his mother's assets that had been left under my management. He was not alone in that position: a whole series of individuals who publicly attacked me then confided to me either their own or their family accounts.

Resistance to inflation might have been expected from two quarters: the banks and the insurance companies, for both institutions were undermined by the phenomenon. But both, just like the banks in present-day America, were so crippled by their gigantic holdings of government bonds that they had sunk to the level of mute government slaves. I tried to sound the alarm among the academics.

On my initiative, the members of the steering committee of the Association for Social Policy met in 1921 at Freiburg-im-Breisgau for a confidential meeting to study the question of inflation. Herkner, Schulze-

Gaevernitz, Diehl, Lotz and Sieveking agreed with my views. But the Reichsbank totally failed in its duty, claiming that the real discount rate could not be raised lest the price of outstanding loans be driven too low — the old rubbish of wanting to maintain a price that bears no relation to reality. Even greater difficulties were caused by the trade unions and their introduction of wages tied to the cost of living index. That had the effect of assuring for workers and farmers the same real income, which only made them indifferent to the depreciation of the currency. The expropriation of the middle and upper classes was thus even more complete and inflation went on more rapidly than before. It was distressing for me to hear the social scientists calling loudly for the maintenance and indeed extension of social security measures, without giving any thought to the fact that the entire structure was on the brink of collapse. And indeed, a few years later, the entire old age, disability and health insurance scheme that had been Bismarck's proudest social achievement, and with it the savings and hopes of an entire generation, lay in ruins, through the total destruction of the Mark itself.

My talk at Freiburg (see Appendix, pp. 279-80), given before a small group of professors of economics, may still be of some interest today; indeed perhaps even more so than thirty years ago, when it was all new and few understood the inflationary phenomenon. How often since has the same thing been repeated: cheap money is deemed meritorious, the maintenance of real wages is defended, and social security measures are expanded at a time when real capital is in fact shrinking. It was, and remains, more popular to let things go on this way than to try to stop inflation, thus receiving praise as a benefactor of humanity, and hoping somehow that someone else will pay the piper.

Unfortunately, nothing came out of the Freiburg meeting but a series of papers on economic aspects of inflation that appeared under Diehl's and my sponsorship in periodicals of the Association for Social Policy. The appearance of these papers was anyway very much delayed, and by then the Mark had collapsed entirely. I still have a memorandum that reads: 'One billion Marks (i.e. one million million Marks) = 1 Mark.' And later, when the Association for Social Policy in Stuttgart summarised the inflation issue, there was even one economist who had the presumption to defend the German inflation: what a pity that he ended his career as a herald of Hitler's advent; he might otherwise have done well on the other side of the Atlantic as an exponent of the New Deal and Fair Deal. The irresponsible optimism of this slavish follower of the government line caused economics itself to lose the repute it had acquired over a century before.

The success of the Bolsheviks grew out of Russian inflation, and from the German experience of inflation came Hitler; we are just beginning to suspect what may be expected of inflation in America. But to this day not one of the demagogues who has spread the insidious inflationary poison in the body politic has received his just deserts. Whether their betrayal of trust came from ignorance, stupidity or cowardice, whether they merely paved the way for disaster and nimbly stepped aside before it struck — all of them have been left unscathed.

30. Rapallo and the German Timber Loan, 1922

Caught up by the inflation and its consequences, I was out of touch with world events for two or three years. But in 1922, on the occasion of an international conference in Genoa, Walther Rathenau, the German Foreign Minister, and his Russian counterpart met at Rapallo and, to the astonishment of the world, reached agreement and signed a pact: the two defeated powers had joined hands.

I had been very friendly with Rathenau throughout my stay in Berlin and during the war, and we had agreed on many important issues. However, we had a significant rift at the end of the war, when Rathenau found military defeat shameful, and hoped, as Gambetta did in France in 1871, to organise national resistance against the Allies. He had spoken to me about this with great enthusiasm, not his usual style, and I had strongly advised him against the idea. I said that there were defensive and aggressive countries. The English, Spanish and Russians were defence-oriented, and the Germans, French and Americans given to the opposite strategy — traits that were the more marked when these countries were defeated: they are swept along by victory, but lose their nerve when down. And I added that in 1871 it had been Paris, not France, that was in trouble: ample food and financial resources were available in the provinces. But in 1918 Germany's entire economy lay in ruins. And then I said quite frankly to him that despite his extraordinary contributions in wartime he was not the man to inspire and lead the German people. He was thought of as too wealthy, a representative of monopolistic industry, a man of finance.

'You mean, a Jew,' he interrupted me, 'and as such I should therefore be silent. No, no, that I shall never be!' and he went away without saying good-bye.

I had wounded Rathenau to the quick, and since then had heard nothing from him, not even receiving word of his appointment as Foreign Minister of Germany. So I was all the more astonished when, one day immediately after the signing of the Rapallo pact, Blankart came to my office and whispered that Walther Rathenau was in the bank and wished to speak with me. I was just in a meeting with the Managing Director of the Czech Zivnostenska Banka, with whom I was discussing financing in Czechoslovakia, but I went out to the cashier's department and invited Rathenau to have dinner at my house.

He came that evening in his formal fashion, stretched out both hands to me and immediately asked, 'What are you doing here anyway? This is not the place for you — you must come to Berlin and take over the Finance Ministry.'

'I would not think of it,' I answered. 'I could never put through a declaration of default, because if I did I should be accused of destroying German democracy. Without such a declaration there is nothing to be done.'

'Yes, but why should we declare bankruptcy?'

I tried to explain the reasons to Rathenau, but he was as allergic to economics as are most born technocrats. He finally asked why, if default had to be declared, democracy in Germany would no longer be feasible.

'Because democracy was imported into Germany from outside,' I said, 'and will always remain a mere episode leading to dictatorship. The only lasting form of government in Germany is monarchy, but for a long time that will be unthinkable.'

'But would not dictatorship follow precisely from a declaration of bankruptcy?'

'Not at all. But from a destruction of the currency, yes, it would!'

'You are so relentless, so sure of yourself! But just for once tear yourself away from your usual mode of thinking. Doesn't the economic alliance between Russia and Germany solve a great many of Germany's problems? Russia is after all the classic exporter of raw materials, and can also buy the products we have to sell. We cannot expect much from the West, either now or later.'

'You know that I think otherwise,' I said.

'Very well, but you can rest assured that I have no intention of delivering us politically to the Russians: I intend to have them in my hand, not the other way round.' Then Rathenau said, 'I want to discuss another matter with you, but given your general views, I doubt if it would interest you.'

'What is it about?'

'The Soviet Government has granted Germany an enormous concession: the entire Tsarist timberlands along the line of the St Petersburg-Moscow railway, a vast territory with about 30,000 labourers, and enough timber to cover all of Germany's needs plus enough to export and earn pounds sterling. A German company under the leadership of Ruhr interests and Siemens is to undertake exploitation of the concession. This is the first joint large-scale project between Germany and the Soviet Union, the first attempt to break out of our mutual isolation and to establish a large private

enterprise on Russian soil. Imagine the significance of this transaction! But where shall we find the financing for it? And we need it for a long term too. That is why I thought of you: you have the courage and the confidence in your own foresight that are required to get such a transaction going.'

'Three years ago I gave a flat "no" to your colleague in the AEG company who was offering the Tsarist crown jewels for sale in agreement with the Soviet Commissar Krassin. Those were stolen goods, in what ever guise the regime chose to dress it up. Are not these forests the same thing on a large scale?'

'No, because the forests can hardly be considered private property, but state land. And in any event we are talking here about the financing of a project that will lead to higher productivity, in which Germany, Russia and England are vitally concerned. And in addition here is an attempt to establish the first private enterprise in Russia under the Soviet regime, a matter that will interest the entire world!'

'All right,' I said, 'I will finance the project, for two reasons: first, because I want to see in a concrete case how matters are really going in Russia — one can only judge a situation when one has a financial stake in it — and secondly, because I like to do business when I am the sole interest involved. But you must promise me that my name and participation will be revealed only to the immediate partners in the enterprise.'

Rathenau enthusiastically agreed. My partner Dr Reitler was at first very concerned at the speculative nature of the enterprise; and I did not even inform Blankart about it. I had full authority to act on my own, and I informed him of the affair only when the first interest payments came in: he would not have opposed it, but it would have frightened him too much. I concluded the credit with the German company that was founded by Gelsenkirchen, Deutsch Luxembourg and Siemens.

We were satisfied with the way this loan worked out, for the German company paid us regular interest when it was due, and the gold clause was faithfully upheld. The former chief executive of the timber concession from Tsarist times was re-engaged, and everything went well. But the German company found the profits meagre, since every decision had to be cleared by so many Soviet commissions and offices that the company had no flexibility to take advantage of foreign marketing opportunities; revenues remained below those of the Tsarist era. Therefore, after the expiry of the initial loan agreement, I declined to prolong the credit. The experiment had proved to me that the over-centralisation of the Soviet system made profits impossible.

Not long after the signing of the Rapallo pact, Walther Rathenau was

assassinated. Many of his admirers believed that if he had remained in a leading position he could have been a moderating influence because of his prestige with the Russians, who considered him one of the spiritual forebears of their system and respected him; and that this might have prevented the advent of Hitler. But Rathenau's notion of introducing a private enterprise element into the Soviet system was impracticable: even with the best management, profitability was simply impossible to attain.

In Rathenau Germany lost her strongest political personality. He would have had the talent required to act as an intermediary between East and West, and thus assure Germany a strong political position. But although the East trusted him, the Western powers were suspicious; thus it was a profound tragedy that he was struck down by a young German who saw him as an agent of the West. This youth, who is said to have bitterly regretted his deed later, was acting out of the conviction which had obsessed large portions of the German people since the submarine warfare campaign: that anyone who refused to howl along with the mob was somehow a traitor. Rathenau's murder was an interlude in the German tragedy between Ludendorff and Hitler, and everything that brought National Socialism to power was already plain to see in Rathenau's assassination.

31. 1922 to 1929

In 1922 Blankart & Cie. moved its offices to Stadthausquai 7, a few steps from the Bellevue bridge where the Limmat flows out of the Lake of Zürich. At about the same time I bought a small house on the Zürichberg and remodelled it with the efficient help of my two sisters. It was very comfortable and liveable, but some of my friends said it was a bachelor's house, with rooms for books and a wine cellar, but no space for wife and children. When I married a few years later, I added on to it, but after the children came it was not possible to add further. As it was then, it seemed perfect: there I was, on the hillside, free and independent for my own work, without having to spend time on purely social gatherings, which in such a serious working city as Zürich were not in any case very many. Close by the house there was a small golf course where I could play alone before breakfast; several times a week I had dinner with people who came from all over the world to this meeting place of Europe. These were not meals with an agenda, or business discussions, except in the cases where I was required to be a sort of personal arbitrator; there were a number of such evenings when the League of Nations met in Geneva.

At the time, 1923, the German inflation had reached its high point, and payment in German money was refused for deliveries of goods and services. In Mitropa, the German restaurant and sleeping-car company in which we had a participation, all money collected on board was off-loaded at each station to be given to waiting bank officials for immediate use; it was impossible to wait till the train had reached Munich from Berlin, for in the course of each day the Mark steadily lost value. I was heaped with reproaches at the time for somehow having accelerated the inflationary débâcle by my grim prophecies; and even my good friend Bachmann, President of the Swiss National Bank, advised me for my own good to keep my prognoses to myself. I was of the opposite opinion: the faster the currency lost all its value, the better; an untenable situation would then be over with, and the cure could be quickly accomplished. Nothing so eased Schacht's valuable stabilisation plan as the general recognition that half-measures were worthless, and that the whole world, regardless of political views, had to cooperate to make it work; and that recognition also made the stabilisation incomparably cheap: it was managed with a few hundred million dollars.

These catastrophic inflationary years taught me three lessons; I wrote them down at the time and they have since not only been confirmed, but have gained in meaning.

It took four centuries for the Roman currency to lose its value completely: that same point was reached in Germany and Austria in just nine years, and in Russia before that in only five years. In the earlier stages of inflation, people could not praise the expansion highly enough; now they saw the opposite side of things. All measures that were introduced against debasing the currency were mere placebos — they simply would not work where the entire country had lost all sense of value, and where those who should have protected the true worth of a currency completely failed to do so.

Moreover, an inflationary era causes the entrepreneur and the businessman to lose all respect among the larger population: the masses identify them with those who profit from inflation, and capitalism in general is harshly attacked. Sociologists may be interested to investigate just where those creatures come from who profit from an inflation. Just as in each country there is a type that becomes recognisable only in revolutionary times, so there are also creatures of inflation: the physiognomy of the insect is unmistakable. How often have I been stunned these past two years to see the same faces I saw in the Bahnhofstrasse or in Paris hotels or on the Lido thirty years ago: one tends to think that these people are immortal because they only seem to appear in inflationary times. One doesn't know where they come from, or where they disappear to.

In all countries that have gone through a total inflation, a feeling of insecurity is left that lasts for generations: never again do people trust government as they did before the inflation, and an ineradicable habit of speculation becomes widely established throughout the population. And then, at the slightest political tremor, the military come out of their barracks. No country that has had this experience can easily return to a lastingly stable currency.

As I had contributed to a solution in the last days of the Austrian inflation, I helped in the worst part of the German inflation, a time of real despair, by arranging the sole foreign loan that paved the way to an eventual re-establishment of German credit on the international markets. With the head of the Bleichröder bank, Paul von Schwabach, I arranged for the London house of Schröder to extend Germany a sterling loan, in a small amount. This was before the Dawes Loan was floated, and it could be arranged only through the collective guarantee of all German industry. That is how low the credit of Germany had sunk, a mere five years after the country had been able to put more than three hundred divisions in the field!

32. Lightning before the Storm, 1924–1927

When the Austrian and German currencies had been stabilised, superficial observers considered that the economic rehabilitation of the continent was assured. A speculative fever now began on both sides of the Atlantic, growing stronger in the years that followed. I was appalled at this development, so soon after the war and the complete collapse of the currency: the fundamental structure of the post-war economy had still not been organised, links with the East were and remained largely cut off, and the basic remaining elements of the pre-war economy were shaky as well.

Liberalism, itself the heir of an earlier period, had dominated the nineteenth century with only a few interruptions, and lasted well into the First World War. Since the first English commitment to free trade, most of Central and Western Europe had enjoyed free traffic in goods, people and capital. Total freedom of trade existed only between England and her colonies (not her Dominions); but limitations on trade in other countries were minimal and were being dismantled. The current wisdom was that of free trade; protective tariffs applied only to certain agricultural products, and were felt to be exceptional, forced through by selfish special interests to the detriment of the general community.

The First World War with its multiple trade and industrial organisations had brought many changes in the free trade system; but after the war there was at first an attempt to return to the fundamentals of the pre-war era. The first counter-blow came from America, which radically changed its previously liberal immigration policy; then all the other countries followed with more or less radical limitations on foreign residents — the first step on the descent into barbarism. Russia built restrictions on international movement into her entire system, and it would have been all the more important for the West to save free trade. For how should Europe's post-war economy have been restored if the continental countries, which had so increased in number, imposed trade restrictions on their neighbours? And indeed the new states created by the peace treaties inclined to restrictionism.

The shining exception to all this came, oddly enough, from Germany. Bismarck had advocated agrarian protectionism, but four decades later Professor Sering, at the 1924 meeting of the Association for Social Policy in Stuttgart, tabled a resolution advocating free trade, and it was signed by almost all the economists present. Sering was Germany's acknowledged authority on questions of agrarian policy, and was so considered by all the

agricultural organisations. The resolution was exceptionally important: if Germany and England had maintained free trade and then been supported in that policy by America, whose interest in agricultural exports was identical to theirs, the entire world situation would have been transformed, for at no time was free trade more important.

But there were few who paid any attention to this vital announcement — nobody in America, where there is only now some understanding of foreign developments; and hardly anybody in England and France. And yet it would have been so easy to achieve success. Just after the Locarno conference in 1926, I had discussed in detail with the chief of German trade policy, Trendelenburg, the possibility of a joint external tariff for Germany and France, which he was prepared to introduce. But the West in general did not respond.

A few years later, John Maynard Keynes came to Berlin with a speech titled 'The End of Laissez-Faire', a lot of vulgarities that the nationalists greeted with fervour, for the man who at the time of the Versailles negotiations had spoken up for Germany had great influence in Berlin. Keynes was English through and through, and his entire mind was influenced by the difficult situation his country was then going through. German protectionists since Friedrich List had always maintained that the theory of free trade was not really a doctrine with universal applicability, but simply one that accommodated England's temporary interests. And now Keynes justified these critics and shook the field of economics itself: the science of economics appeared to be merely a cover for temporary local economic policies.

I met Keynes in the Berlin apartment maintained by the Hamburg banker Carl Melchior, a partner in M.M. Warburg & Co. Keynes and Professor Sering had just had an argument about price imbalances between agriculture and industry, in which Sering propounded free-trade views and Keynes took the opposite line. The vehemence of Keynes's speech betrayed the extreme neurotic in Adler's sense who cannot discuss anything, but has to disparage others. This was all the more painful since Sering was the greatest European expert on agrarian policy, with which Keynes obviously was unfamiliar. Sering's dignified and self-assured calm contrasted all too plainly with the Englishman's pathological nervousness and trembling voice. All were relieved when Sering put an end to the painful scene by taking leave of our host. I wanted to go with him, but Melchior detained me, saying he wanted me to get to know Keynes. At first I declined, but he insisted.

Keynes asked me what I was advising my clients.

'To insulate themselves as much as possible from the coming crisis, and to avoid the markets,' I replied.

Keynes took the opposite view. 'We will not have any more crashes in our time,' he insisted, and asked me in detail for my opinions about individual companies.

'I think the market is very appealing, and prices are low,' said Keynes. 'And where is the crash coming from in any case?'

'The crash will come from the gap between appearances and reality. I have never seen such stormy weather gathering,' I said. But speculation in securities passionately interested Keynes, and despite my obvious refusal to answer, he repeatedly asked questions about which shares on continental markets were attractive purchases.

Keynes's biographer praises him for prescience about the coming crash. I could quite clearly prove the opposite. In 1928-9 I invited Keynes to debate crisis-forecasting with me at a public meeting of the Association for Social Policy in Zürich, but he declined on the grounds that his German was inadequate. Keynes, who was even then a widely praised individual, made an odd impression on me. He expressed contempt for economics as a science, and for individual economists, not excluding himself; but was obviously very proud of his talents as a speculator.

After long wars and when a great empire declines, men grasp at miraculous solutions that banish all doubts, especially when these take the form of a new monetary doctrine. At a turning point in French history, after the wars of Louis XIV, John Law had tried to save French finances by mobilising the value inherent in overseas possessions. The idea was brilliant; and if Law had been able to maintain his investments for two hundred years, he might have become the most successful financier in history through developing the American West. Alas, his scheme collapsed. Keynes tried in similar fashion to cure the ills of the British Empire at its turning-point: at a time when people were living far beyond their means, he thought the chief cause of the crisis was excessive saving! John Law ended up in exile, but his intellectual successor in the twentieth century received much better treatment: he was raised to the peerage and founded an entire school of economics. Many years later, before the end of the Second World War, Keynes sent me a confidential draft of his international clearing plan. That surprised me, because Keynes had complained to Melchior that afternoon in Berlin about my harshness to him. I felt destructive energy in him, and prefer not to hear of his supposed genius: those great destroyers Rousseau, Marx and Lenin had such gifts in far higher degree.

When at the beginning of the crisis England issued an appeal to the

world to uphold free trade, I made a speech to the association of Berlin merchants and industrialists on the necessity for making a positive response. I argued that if at that last minute Germany could say yes to such a proposal, the entire world could save something of tremendous value, the loss of which would be irreparable. German agriculture and industry both had an interest in free trade, but the onrush of the economic whirlwind frustrated all attempts to achieve that solution.

33. The Years before the Crash, 1926–1929

With the stabilisation of European currencies, an excessive optimism almost immediately replaced the earlier atmosphere of deep economic uncertainty. People forgot the appalling destruction of the war — ‘in our times that can easily be overcome,’ blathered the commentators — and they forgot Bolshevism in the East and the increasing restrictions imposed on the capitalist sector. American bank representatives raced to Germany, Austria, Hungary, Poland and Italy with loan offers; and only two years after the time when nobody would have lent Hungary a cent even at the highest interest rates, a New York banker committed suicide because his loan offer to that country had been underbid by a competitor. And English, Dutch and Swiss bankers were also in the race. From morning to night my Zürich office was besieged by brokers who were either angry or merely unhappy over my cold rejection of their tempting offers to cooperate on loan transactions. Some refused to understand me, others gazed at me with unconcealed hostility: I was spoiling their business with my publicly proclaimed pessimism. They kept looking for the reasons why I and my bank kept aloof from such apparently attractive loan business, and when they could not, they became suspicious: for they never considered that anyone who was also in the banking business could warn of coming developments, not in order to fatten his own profits, but rather to arouse the general public to the fearful dangers on the horizon.

The situation in Vienna seemed to me the most dangerous of all. There the banks had all but completely lost their capital due to the loss of Austrian territory and the inflation; and now they sought to fill the gap with short-term money that was offered to them at low interest rates. They then lent these funds at very long term to Austrian industry, which had also suffered a drastic diminution of capital. The banks were thus in a critically dangerous situation. I commented on this subject on 10 September 1926 at the University of Vienna, in the course of a talk on the future of the currency.

I said: ‘International confidence has returned faster than we thought; most of my Vienna friends wish this interlude could be enjoyed without Cassandra-like warnings to spoil the atmosphere. But may we not, either in good or in bad times, speak out about dangers that we see all too clearly on the horizon? If you ask me why I am talking of an approaching crash when stabilisation has scarcely begun, I can answer that it is because I see people acting as if we were in the middle of a boom period, whereas the international economic situation is more serious than at any time in the last

generation. If a comparable period can be adduced at all, it is that between 1825 and 1830 in England, or 1866 to 1873 on the continent: but the present situation seems to me much more dangerous.'

I went on to say that Europe was in great danger because of America's restrictions on immigration and her overall mood of protectionism. The United States would have offered far better opportunities for international free trade than England in the nineteenth century, but the coalition of interest groups in favour of high domestic prices and wages was growing, and with it pressures for high tariffs.

'How can accounts be balanced between an economy with a surplus of goods and capital, like the United States, and the rest of the world? Granting short-term loans represents the most dangerous development of all. Just today, I warned the managing director of one of the big Vienna banks, Neurath, of the dangers of a policy that involved acceptance of short-term obligations in the strongest currency, in order to grant investment credits at long term in countries far less able to marshal liquid assets quickly.' To base banking business on short-term foreign money seemed to me the greatest folly: never did a period of economic history open with such dangerous assumptions.

Was it at all probable, I continued, that the New York market would continue to supply short-term credits to Europe indefinitely? Was it not more likely that such credits would become unavailable when cheap money in America led to a stock-market boom there? If only the withdrawal of French money and the abandonment of the gold exchange standard could be accomplished quickly, so as to avoid the danger of excessive liquidity and a stock-market boom in America! For if both those developments took place during a boom, or worse in the middle of an American crash, the dimensions of the catastrophe in Europe would be immeasurable. My talk was reported in the leading article in the *New Freie Presse* of 11 September 1926.

Five years later many of the audience who had heard me were astonished when the great world depression began with the collapse of the Austrian Kreditanstalt, whose senior executive officer I had publicly named. But at the time I was completely isolated, and my urgent warnings to governments as well as to the business world were universally held against me. Governments wanted to build up their economies, and looked to foreign capital for every possible purpose. Such capital was being offered them for the first time in generous amounts, and they resented the man in Zürich who kept warning the lending banks that they would lose their money in such transactions. My warnings to Schröder in London about proposed loans to German municipalities, and to Siegfried Stern of the Chase Bank in New

York concerning a large loan to Italy, became known and made me many enemies in German and Italian government circles. As for the continental banks that were trying to restore their inflation-shattered capital by borrowing money, they saw in me a real business enemy whose motives they refused to understand. I did not expect, nor did I receive, any support for my views from economists. Only a very few individuals saw the approaching crisis; wherever I looked, I found only misunderstanding or hostility.

Thus I strove at least to protect my own firm and its clients from the coming storm. I went to Vienna at that time because the arrangements with Rothschilds were about to expire and the partners of the bank offered me an extension for several more years, at a higher fee to Blankart & Cie. for monies deposited with us. I refused outright, saying that I could not in the present circumstances invest gold-backed currencies except in Switzerland or the United States, unless the depositor assumed the full risk of moratoria, devaluations or declarations of bankruptcy. Without such an express assumption of risk I was unprepared to offer any interest accrual for the coming years, and preferred to see a friendly termination of our ties with Rothschilds. My partners in Blankart and Rothschilds themselves protested in vain that I was prepared to dissolve a valuable link that I myself had created, just for the sake of shadowy risks that only I foresaw. I knew exactly what I was doing, however: we paid back the entire Rothschild account.

The Rothschilds for their part invested the proceeds of our repaid account in a Dutch corporation founded jointly by them and the Kreditanstalt for European Lending — and thereby created many unnecessary difficulties for themselves. Thus the money that I had rescued from the post-war collapse with such effort was later put at risk or indeed lost altogether. I tried in vain to explain the true position to Baron Louis Rothschild, warning him not to forge even tighter links with the Kreditanstalt at the precise moment when he should have been dissolving the connection for good. He and his two brothers Alfons and Eugen were the most highly cultivated and elegant — and at times likeable — human beings, but their allergy to banking itself was incurable. Since the matter did not directly concern me, I was unable to insist too strongly; but I was utterly convinced that by allying themselves so closely with the Kreditanstalt and founding the Amstelbank, the Rothschilds in Vienna had forfeited their position as the leading private bank in Central Europe.

By a remarkable coincidence, this same week in Vienna saw a decisive moment in the fate of the two most important Berlin private banks. At the time of our brief association with Bleichröders in 1919, I had mentioned to the firm the extent to which their capital strength had been destroyed by

their tenaciously holding to traditional business methods at a time of war and inflation. Now the senior partner, von Schwabach, came to Vienna to ask Rothschilds and my firm for support: we granted it jointly, in the amount of 90 million Marks, thus at least rescuing the firm's high standing. It transpired that 112 million gold francs had been lost in the inflation because the partners had invested them in Prussian state bonds in compliance with old Bleichröder's testamentary instructions: much of that could have been saved, had the firm followed my advice of 1919 on how to avoid inflation.

Predicting a coming crisis and mobilising to deal with it constituted at that time the essential task for any banker; how they met that challenge decided the fate of many firms. I steered our bank in the appropriate direction, dissolving the Rothschild participation in Blankart, and helping to rescue Bleichröder, which was thus enabled later to merge with Arnhold.

I was profoundly depressed by how little influence my ideas appeared to have in the city of my birth, and felt my intellectual isolation keenly. I could discuss the coming crisis seriously with only two individuals: Ernst Benedikt, the young publisher of the *Neue Presse*, and Otto Bauer, who relished my gloomy predictions and greeted them with gleeful fanaticism. As I had many later opportunities to observe, a true understanding of business crashes is far better developed among leaders of the extreme left or among communists than it is in executives of industry or banking. Unfortunately, however, Otto Bauer, like all his colleagues, imagined that in their future socialist state they could enjoy all the fruits of capitalism without having ever to go through a depression — like the famous hare that reached Paradise without passing through the gates of Death. Otto Bauer also looked forward eagerly, as did his later Russian spiritual heirs, to the awakening of Asia and Africa which would finally crush European capitalism — as if the destruction of European capitalism did not also mean the end of the European working class. Undeterred by my Vienna experience, I continued to warn of the coming crash.

On 21 April 1927 I made a speech at Cologne University on the main problems of the economy. In my talk I said that the three chief effects of the First World War had been Bolshevism, the drive toward independence among Asian countries, and the dominance of the United States. I demonstrated the problem we had to deal with, namely the imbalance of payments between the United States and Western and Central Europe. These areas had lost their external assets, and were unable to recoup due to American protectionism, for Washington closed the doors to both people and goods at a time in which they had to flow freely.

On 14 September 1928, at a meeting of the Association for Social Policy

in Vienna, I commented on the wide spread between loan rates and the yield on shares, which I had described in my *Banking Policy* as the most unmistakable symptom of a crash: 'Never have we seen such a wide gap between yields on the highest-priced shares on the stock exchange and ordinary interest rates. The lower the yields speculators expect from high-flyers on the markets, the greater the danger of a crash — and this development is going on in New York.' I was quite alone in this view: the reports, speeches and discussions at this meeting make interesting reading; a year before the great crash, everything reflects tranquillity, without a glimmer of foreboding. And the economists of Germany, Austria and Switzerland were all gathered at that meeting!

It became clear to me how much the science of economics had declined when it changed from a branch of statecraft to a mere academic pursuit. I reflected on what Bodin and Sully had meant to France, and what an important influence Adam Smith and Turgot had had on their times. But the good schoolmasters gathered in Zürich felt no hint of the storm about to break over all of us: they were exercised over petty details, and uninterested in the large, world picture. One evening at my house, Herkner, Sombart and Emil Lederer all agreed that no crisis was in the offing because prices of goods had not risen at all; that sounded exactly like Keynes's own views.

All these proceedings reminded me of the tale by Anatole France* about the monk who reads with passionate interest stories of old wars, and is so engrossed that he does not observe the enemy creeping into his own cell. Here among my acquaintance were representatives of at least a dozen economic theories, but not one of them had an inkling of the nearness of the greatest crash of our generation.

Among leaders in the Swiss economy, there were two who listened to me: Gottlieb Bachmann, President of the Swiss National Bank, and Anton Schrafl, head of the Swiss Railways. The others, including the leaders of the Swiss Banking Association, considered me a groundless pessimist. I was never as isolated as in those days, just when it would have been vital to make my influence as widely felt as possible.

In the summer term of 1928, I lectured on developments in the world economy at the University of Heidelberg to an audience of interested listeners including Alfred Weber, Lederer, Mannheim, Mitteis, and a group of other faculty members; as well as Madame Sun Yat-sen and a number of younger Chinese who are now playing a political role in their country. Once a week, I flew to these lectures by the afternoon flight from Zürich to

*Penguin Island.

Heidelberg, had dinner and a discussion with my class, and then after midnight travelled back via Mannheim. Members of the most varied parties, from the extreme right to the extreme left, came to these evening discussion sessions, much to the surprise of the faculty; but there were never conflicts, although my introductory lecture on the evolution of liberalism and socialism might well have offended all of them, for I said that both liberalism and socialism had begun as parties that reflected an ideology and an international approach, and had ended as parties representing particular interest groups, and nationalist into the bargain.

My lectures dealt with developments in the leading countries of the world, and I demolished the labour theory of value. My discussion of the proper spheres of government and private sectors in the economy attracted widespread notice and recognition in socialist literature.

I said, 'Governments that reserve for themselves the larger share of wealth produced by the economy pose a danger in democracies of promoting excessive consumption at the cost of investment; in totalitarian regimes they ensure the sacrifice of current needs to future investments whose success can never be predicted.'

Two evenings stand out in my memory: one when the indologist Heinrich Zimmer and Christiane von Hofmannsthal, daughter of Hugo von Hofmannsthal, came to me saying that they had married that afternoon, and regarded our symposium as their wedding dinner; they were two excellent people whose union deserved a happier and longer destiny. And then the other, my last evening in Heidelberg, when most of the participants in the seminar accompanied me to Mannheim, where I waited for the 1.00 a.m. train to Switzerland. I spoke a few words of farewell to the students who surrounded me on the platform, saying that after the experience of the last three generations liberals and socialists, bourgeois and workers had to bridge their differences, otherwise the crisis about to break upon us could never be withstood politically. What differences we might have were small, I continued, and steadily becoming less significant; but what should unite us all was the vital issue of taking a common stand against the barbarism threatening the world. Such a descent into savagery had been avoided in Germany during the war and even during the inflation, but the coming crisis would sweep away all restraints, and the decencies that would be destroyed then could only be rediscovered with great difficulty.

34. The World Depression, 1929–1932

In the first months of 1929, more than ten years after the end of the war, negotiations began in Paris on the settlement of the reparations question; how much Germany was actually to pay the Allies. Poincaré was then Prime Minister of France, Schacht led the German delegation and Owen Young the American delegation; the negotiations were very difficult, and conducted under the anxious scrutiny of the entire world.

On the day before Whit Sunday, the German Finance Minister, Hilferding, rang me from Berlin to report that he urgently needed 100 million Swiss francs or he would be unable to pay his civil servants' salaries, which would have catastrophic political consequences. On my asking him when the money was required, he said Tuesday the first of June: the Reichsbank was only able to advance the money if half came in foreign currency, and even then the Allies would have to consent to the Reichsbank supplying the other half. In the name of the entire German government, Hilferding begged me urgently for help, saying that there was nobody else to whom he could turn.

I immediately informed the Swiss National Bank of the situation. On Whit Sunday morning, a Swiss consortium was formed under the leadership of Blankart & Cie., and including the leading Swiss insurance companies, which immediately put 50 million Swiss francs at the disposal of the Reich Government, with the guarantee of a German banking syndicate, for a period of six months. When I reported to Hilferding on the telephone, he pleaded with me to go to Paris to see Schacht and request him to obtain the necessary approvals in connection with the Swiss loan, since Schacht would certainly refuse to do so if asked by the Reich Treasury itself. I flew to Paris and arranged for the approvals the very same day, although the entire atmosphere there was most unfavourable, following the forced resignation from the German delegation of the industrialist Vögler, under pressure from Ruhr industrial interests.

When I dined that evening with Schacht and Carl Melchior in La Pérouse, the mood of both was grim. The next morning I said in my report to President Bachmann of the Swiss National Bank: 'Almost all the great powers have been negotiating for months about how many billions a year should be paid until 1966, and thereafter until 1988, by a country that is not even in a position to pay its own civil servants' salaries the next day.'

Just as six years before, at the high point of the inflation, I was able with

comparatively small sums — which were promptly paid back — to prevent utter chaos in Germany. Naturally enough, nothing much came of the much-touted large-scale Young Plan, since it was scarcely adopted before the crisis broke.

I was incapable of understanding how the entire world chose to ignore such clear storm warnings. For a year, leading New York banks had been paying Blankart 8–10% on day-to-day money, while the yield on shares had sunk to 2%. By the summer of 1929, the call rate rose to 15% and more, and share prices kept rising dramatically. The President of National City Bank of New York, Mitchell, referred, in a talk he gave to a group of bankers in Berlin, to the ‘raven of Zürich’ who kept croaking warnings of a crash, probably because he himself was engaged in short-selling operations. Mitchell maintained that share prices were far from their highs — and he and his audience had a good laugh at my expense. A large number of my clients, whom I had kept strictly away from share markets, began to be uneasy: such huge profits were being made everywhere, they said, but we were stuck in unproductive inactivity; did I imagine I was right and the whole world mistaken? I answered these complaints by advising those clients to close their accounts with Blankart and go elsewhere; and not a few did so.

In the second half of August 1929, I took a holiday trip through Southern France into Spain, where there were two splendid exhibitions of Spanish art in Seville and Barcelona.

Two days later, when I was making an excursion to Montserrat, I received a message that an urgent telephone call had come to the Ritz Hotel for me from Vienna. That evening, Dr von Mauthner informed me on behalf of Baron Louis de Rothschild that the Bodenkreditanstalt, Austria’s largest investment bank, was unable to meet its payments, and that the Austrian Government was pressing the Kreditanstalt for an immediate takeover of the failing bank. Mauthner asked for my views.

‘That would be the surest way to achieve the rapid ruin of the Kreditanstalt itself,’ was my answer.

‘I agree,’ said Mauthner, ‘but the Government demand the merger, and if we refuse they will take their revenge if the Kreditanstalt itself should need help one day.’

‘Let the Government worry about the Bodenkreditanstalt. There is no point in doing anybody favours that may cost your own life, especially not when you are yourselves in a shaky condition.’

I knew that these people lacked the backbone to defend their own interests. The bankers of my time had little of that spirit of the Governor of

the Banque de France who stood up to Gambetta even in the middle of the Franco-Prussian war; my contemporaries were obedient servants of whatever government was in power.

Even without having heard the details, I knew the reason for the Bodenkreditanstalt’s collapse: like all the Austrian banks, it had financed long-term investments with short-term English and American credits that were not renewed, because after France stabilised its currency, all French flight capital returned to France, and because the boom on the American stock market soaked up available liquidity that was then used for speculation in New York. The Government of the small rump state of Austria, carved out of the old Austro-Hungarian Empire by the peace treaties, was far too weak to help. And now all the big names represented on the Bodenkredit board — the Solvay interests of Brussels, Schröders of London and Morgan in New York — refused their help. It was the lightning that heralded the storm.

Late that evening I telephoned my partner Dr Reitler asking him to alert every one of our clients who had any shares — no matter in which country, or what company was involved — to sell them immediately. For three years I had advised against share purchases, but many clients had not followed that advice; now was the time to extricate them from their shareholdings, as soon as possible. My telephone call saved many large amounts, and in several cases a client’s entire fortune. Of all those who benefited from that warning only one client, a lady, took the trouble to thank me.

On my way back from Spain I could still savour the splendours of Gerona Cathedral, the stretch of the coast between the Pyrenees and the Mediterranean, Carcassonne and Avignon. I stayed only a few weeks in Zürich and went to New York in the second half of October. On my way to Bremen, I stopped between trains at Baden-Baden at Schacht’s invitation; he was engaged with representatives of First National Bank of New York and First National Bank of Chicago in drafting the By-Laws of the Bank for International Settlements in Basel, which was to try to balance international payments in connection with the reparations agreements. When I was asked what I thought about all that, I answered with the pun ‘*Ave, Caesar, moratoria te salutant!*’ At dinner with Reynolds and Taylor I said that I would witness in the course of my forthcoming New York visit the beginning of the greatest crisis of our generation. Schacht hoped that the coming chaos would bring an end to reparations payments. That actually happened, but even a moratorium on such payments was unable to save the general situation.

There is a remarkable tendency in our time: when we require some ideas to solve a problem, we establish an organisation instead. The organisation is of no practical help, in fact it increases the confusion, does not do what it should, creates a growing bureaucracy that then becomes an end in itself; and finally goes on existing long after the entire world has forgotten when and why the organisation was ever established. At that time, Switzerland was the home for many such institutions; now it is Washington or New York — but the results are the same.

Aboard the liner *Bremen* there were offices of several American brokerage firms, as was then the custom, and it was in those offices that the first news of falling prices on the New York market came to us. Men and women stood in front of the tickers, gazing at the bad news with growing anxiety. I was amused by their cries of astonishment and disbelief which betrayed profound ignorance. How much intelligence is devoted to the acquisition of wealth, and how little to its investment!

On my arrival in New York I called on a private banking firm friendly to Blankart & Cie. and there one of the senior partners, who had been attorney to old John D. Rockefeller, was just about to go to a meeting at the House of Morgan to discuss market support operations. When I asked what had been discussed with the Treasury and Federal Reserve Bank officials, he answered with contempt, 'Who bothers with that crowd in Washington?' When he came back from the meeting, he put in large orders for share purchases for himself and his family. 'Why should anything have changed in one week in this country?' he exclaimed with proud superiority.

I cabled my partners: 'Keep clients out of the market. Crisis just beginning.'

In the middle of December 1929 I returned to Zürich. There I found an invitation from General von Seeckt; the President of the Reich Supreme Court, Simon; and the former Minister for Colonies, Solf, asking me to give the opening talk in January 1930 at a private society founded by them in Berlin. I chose as my subject the international nature of the crisis, and set forth the reasons why the interdependence of the world economy was so convincingly demonstrated in the universality of the crash. But the leaders of the economy still refused to believe it: the Managing Director of Siemens considered the events in New York trivial, and irrelevant to the German economy.

35. Marriage

In the spring of 1929 Countess May Demblin de Ville joined our bank as executive assistant: the position had been advertised internationally. Hers was an old noble family from Lorraine, tracing its origins back to 1370, which had emigrated in 1791, first to Russia and then to Austria. She completed her secondary education in Zangberg in Bavaria at a convent school, and then studied languages and business, which she had mastered to a remarkable extent. When I returned from America I worked with her on my two books, *Changes in the World Economy* and *Causes of the Crisis*. I had never before in my life contemplated marriage: my sense of myself as a barometer of world events and my awareness of coming disaster made me consider that I was a man who would be better off alone in the dark days to come.

In January 1930 I was dictating to Miss Demblin a talk that I was to give to the Institute of Government at the University of Heidelberg on the dangers of the world crisis. I was saying: 'Transitions from periods of declining to those of appreciating money values have always led to crises; but on this occasion, there is also the general liquidation of assets as a result of the world war. Such liquidation is only now taking place. In the course of this depression we shall see the introduction of the whole awful machinery of exchange control and import and export controls, and finally the collapse of the banks as well. The trend to international protectionism will triumph just at a time when international cooperation would have been a matter of life and death. Nationalism, that most terrible inheritance of war, will deepen and prolong the depression in all countries. . . .'

'Stop!' Miss Demblin interrupted me at this point, 'please let us have a bit of light, no one can bear so much calamity at once. You will surely be justified by coming events; but have some regard for your poor audience! Each single disaster that you predict could make one sleepless for a week.'

'I cannot help distressing people,' I said shrugging my shoulders, 'everything will turn out that way.'

'But misfortune that has been predicted is harder to bear than that which has merely been experienced: it has a double impact.'

I looked at her with astonishment, and said 'I authorise you to measure my prophecies, regulating the dosage as if for some bitter-tasting medicine prescribed for a weak patient.'

May had gone through enough hardship in the ten post-war years in Vienna to last a lifetime. But neither the loss of the family fortune nor the

changes in their social position had altered her character or bearing.

We were married on 2 April 1930 in Salzburg, midway between Vienna and Zürich, yet far enough from each to make us safe from too great a flood of well-wishers. Nothing is more uncongenial to me than the public display of family events. Apart from us, only my two sisters and a close friend, and the grandmother, father, uncle and a cousin of the bride were present in the pretty hilltop church of Mülln. Our wedding dinner was completely informal since we were the only guests in the Hotel Europe — apart from the ninety-year-old daughter of the composer Meyerbeer.

After the wedding, we travelled to Sorrento and spent a long time in Italy, to the astonishment and occasional indignation of the banking community, who felt this prolonged wedding trip of a colleague at such a time almost as a provocation.

Back in Zürich, I divided my time between the bank and my house, where many interesting people came to visit us. There on the Sonnenberg one could express opinions openly that were considered taboo elsewhere. People of the most varied views could meet — something that had become a rarity.

Just at that time, Hofrat Meder, a former director of the Albertina museum in Vienna, brought me a particularly splendid print of Dürer's 'Knight, Death and the Devil', which also aroused Wölfflin's deep admiration. As the two art scholars discussed the meaning of the print, I expressed the view that we could understand it better than any age that preceded us: the knight persisting in his quest despite death and the devil seemed to me to represent some of the rare spirits of our time too, and I was proud to have a few such in my circle of friends.

36. Political Consequences of the Crisis. Speech in London, 1 December 1930

I spoke on the political consequences of the economic crisis at the Royal Institute of International Affairs in London, in the presence of a very interesting audience, including my good friends Sam Guinness and his father, whose presence meant a great deal to me, since I had the greatest admiration for Guinness senior as one of the most distinguished leaders of the English banking community.

It was generally accepted at the time, both in England and on the Continent, that communism would make its appearance as a direct result of the deep depression. I rejected this view, saying that not communism but Hitler would appear. 'If England has neither the will nor the capacity to reconcile and lead Germany and France now, the depression will be the prelude to a dark era which future historians will call 'the time between the world wars'.'

If this speech had not been printed by the Royal Institute of International Affairs, many would have considered these remarks apocryphal. But they were later cited in a House of Lords debate, where they were praised for their unusual prescience. Such praise might have flattered me; but I wanted to avert a great catastrophe, and failed to do so. In all crises there are brief moments of decision which must immediately be grasped. Only very few recognise these moments, and these few individuals are hardly ever understood in time. Both England and America only saw the national effects of the depression, and did not yet understand its international character. But my prediction made a strong impression on the American intellectual community: eight years later an American writer whom I had never heard of, William Blake, wrote a novel, *The World is Mine*, in which the heroine says that in Zürich all her father's friends 'hung breathless on Felix Somary's words, which were worth gold'. This sort of popularity was not invariably pleasing to me, and I defended myself against it as far as I could. But my reputation aroused considerable bitterness among those who had committed themselves deeply to Central and Eastern European investments.

On 20 February 1931 our first child was born, a girl, whom we named Maria Theresia.

37. The Acute Phase of the Crisis and Prediction of a Turning-point in mid-1932

In the early months of 1931 I withdrew all the assets that Blankart & Cie. had on deposit with banks in England, Germany and Italy, despite the resistance of my partners, who thought my pessimism was exaggerated, and destructive of our business relationships. In order to complete the final liquidation of our German clients' investments I went in March 1931 to Berlin, where I met at the Finance Ministry State Secretary Schäffer and Under State Secretary, later Finance Minister, Count Schwerin von Krosigk, who describes in his book *It Happened in Germany* my visits in 1931 and the spring of 1932.

He wrote: 'In the spring of 1931 the Swiss banker Somary, who also had a reputation as an economist, called on me at the Finance Ministry. When asked how long the crisis on world markets would last, he answered that three events would have to happen before an upward movement could be discerned: the banking sector in Vienna and Berlin would have to be rationalised as the result of a bank panic, the English pound would have to be cut from its dependence on gold, and the Swedish match concern of Kreuger & Toll would have to collapse. In the early summer of 1931 the German and Austrian banks crashed, in the late summer England left the gold standard. When Somary again visited Berlin in the spring of 1932, I asked him if we really still had to await the third event. Somary retracted nothing, but assured me that the Kreuger concern would soon be finished. Four weeks later, Kreuger shot himself in Paris.'

This prediction, whispered outside official circles, gave me an odd reputation, and many people began to regard me with superstitious uneasiness. There were those among them who wanted to know how I could foresee the exact sequence of coming events. For individuals who feel the dynamic energies of a crisis or a revolution within themselves, developments stand out clearly: prognostication is not a matter for mathematicians or statisticians, and particularly not for academics.

With the collapse of the Oesterreichische Kreditanstalt the decisive phase of the crisis began. The Kreditanstalt had first absorbed the Anglobank when its chief shareholder, the Bank of England, was unable to maintain it; it had then taken on the Bodenkredit when the leading English and American banks had failed to support that bank; and finally the turn of the Kreditanstalt itself had come. In the collapse of the Kreditanstalt one could see the full extent of the calamity wrought by the peace treaties that

destroyed the Austro-Hungarian Monarchy: for twelve years the Vienna banks had lived a shadowy existence, and maintained themselves by artificial means. Now the death-knell had struck for the last of these banks. With unfortunate timing, the German and Austrian Governments had just at that point proposed a customs union that was not necessary for either; but that plan ruined the only possibility of effective assistance in the crisis: German-French political cooperation.

Neither Berlin, Vienna nor Paris had any idea of the issues at stake at the time; they only thought in terms of fighting out a diplomatic battle, and had no inkling of the terrible danger to the very existence of the economic system which the collapse of the Kreditanstalt represented.

The materialist conception of history embodied in Marxist thought has overestimated the importance of economic factors in the political life of nations; but bourgeois statesmen and diplomats, to the vast detriment of their peoples, have grossly underestimated it. How often have leading diplomats considered knowledge of economic matters unnecessary, and taken pride in their own ignorance. From 1917, when despatches from St Petersburg confidently predicted the shortest of lifespans for Bolshevism, there has been an endless stream of unfortunate diplomatic predictions, wrong because based on continuing false assessments of economic factors.

In June 1931 I was with my wife in Marienbad and there received a telephone call from Baron Louis Rothschild, saying that the Austrian Government was going to ask me to take over the administration of the reorganised Kreditanstalt. Baron Rothschild begged me to give this proposal serious consideration. I refused absolutely, but he asked me at least to hear what the government people had to say. Shortly afterwards the Austrian Minister of Finance rang to say that I had only to name my terms and they would be accepted regardless; and he asked me not to answer immediately, since I would also receive a telephone call from England. That evening, I was asked by an official calling on behalf of Montagu Norman, Governor of the Bank of England, to accept the offer made by Vienna, with the assurance that I would receive full support from London. Then I gave my answer with absolute clarity: I predicted the economic depressions in Germany, England and America, the coming of Hitler, and then later the Second World War. Even if I were prepared to make the great personal sacrifice that would be entailed in taking on the Kreditanstalt, a man with my views was not appropriate for a position at Europe's weakest point. I advised my caller to appoint some hack who saw the future in less pessimistic terms; and then asked him to be kind enough to let me get on with my Marienbad holiday. I was thereupon asked if I

saw those grim events as happening in the immediate future. I replied that I did not see what could now prevent them.

Soon afterwards the German and Italian banks crashed. While the panic in Berlin, capital of a democratic republic, had the most serious repercussions in both foreign and domestic affairs and did grave damage to Germany's credit standing, the Italian situation was handled quietly by dictatorial measures taken by the Mussolini regime, without any such ill-effects.

Thus the period of privately-owned joint stock banks came virtually to an end on the Continent, except in France and the neutral countries. Those great corporations, which so many leaders of the economy had seen as the wave of the future, lasted barely one human life-span. They were merged, supported by governments, but they could never again become what they had been in the second half of the nineteenth century.

In the autumn of 1931, forced by French withdrawals, the Bank of England left the gold standard. Few then understood the implications of that move: it was in effect a declaration of bankruptcy after more than three centuries of honest money. It was a step taken in peacetime, and it ended London's unique position as the international centre for trade finance and monetary transactions. No other market has since recaptured this position. Once there was an era when the whole world could rely in difficult times on the experience and courage of the Bank of England, which came to the aid of the markets precisely during crises when other central banks failed to do so. Now the Bank of England itself had fallen victim to the crisis: with its fall the entire mechanism of discount policy, credit and trade bills disappeared, for the first time in half a millennium. To an age which felt surprise when a debtor paid at all, the demand for punctual payment seemed absurd.

Unfortunately even the English now began to speak the language of all debtors, who make the currency they pay their obligations in, rather than the objective circumstances, responsible for the position in which they find themselves. Moreover, the gold standard became obsolete overnight for a proportion of English economists.

In late autumn my wife and I travelled to New York, sailing to Quebec in the *Empress of Britain*, a new Canadian ship on which I first found a transatlantic telephone with a connection in one's own cabin. Our passage up the St Lawrence river was extremely cold; the hands of the Customs officials who came aboard from their own small boats were nearly frozen. We went on from Quebec to Montreal, where we were alone that evening in the dining room of the Ritz Hotel. The *maitre d'hôtel* came to us and asked where we were from. When we said Switzerland, he congratulated us.

'Here in Canada, nobody can afford a hotel of this standing anymore,' he

said, 'everything is washed up here.' The manager of the hotel, a man from Geneva, cursed the day he ever left Switzerland.

We travelled the following evening to New York. Shortly after the train pulled out, American Customs officials came through, took exception to my small travelling flask filled with vintage cognac, and emptied it out the window. In New York, the top stories of the highest skyscrapers were unoccupied, since it did not pay to run the lifts; the façades of buildings and the clothes people were wearing looked unbelievably shabby. In contrast to our previous visits, we obtained theatre tickets immediately and without paying any premium; but the performances were sparsely attended and of poor quality. We were practically the only guests in restaurants we visited; and when we were invited to the opening of the Waldorf Astoria Hotel, we heard the cloakroom girls complain that they had not received their wages — and indeed the hotel had to close a few days later. All this made a deep impression on us: things were bad in those days for many people, but nowhere was the depression so evident as in New York.

We were struck, moreover, by the uniformity of American opinion: at a time of unbelievably low share prices, nobody dared to buy; and thus the resilience of the stock market was less in America than in any other country.

38. The Turning-point, June 1932

My prediction that Kreuger's collapse would mean the end of the depression, although it had been made in confidence, was widely circulated and brought me actual threats from persons involved in Kreuger and Toll — some of them Swiss — who then quickly fell silent when Kreuger committed suicide and the true facts were revealed. A few months later, in June 1932, I published a small pamphlet entitled *Turning-point?* that predicted the turning point of the world depression, given certain developments. The pamphlet was widely circulated; Gustav Stolper commented that it was of particular significance because my earlier pessimistic warnings had been so uncannily accurate, and that even my present qualified optimism would have a liberating effect at a time of unrelieved gloom. Indeed the publication did appear to have that effect, especially on younger people. Whether the pamphlet (which went into American and English editions) paved the way for the decisive upswing in stock markets that took place a fortnight after its publication I cannot actually say; but this was widely believed to be the case.

The turning-point in the world crisis came at a moment of great danger, because prices on the New York Stock Exchange had fallen so low that the leading securities were virtually worthless. Extraordinary though it now seems to us, neither the credit collapse in Europe nor the stock market crash in America had led to political revolution, with the sole exception, as I had predicted, of the rise of Hitlerism in Germany. Communism was unable to make headway anywhere, which showed the political solidity of Europe even at a time of extreme economic weakness. In America, even more than in Europe, the widespread fear of communism had no foundation.

As I had done earlier in London, I made a series of suggestions that were designed to bring the depression to an end — ideas that were new at the time such as long-term financing of raw materials production by the consumer countries rather than the producers; and shortening loan maturities by refunding the principal amounts. The banks were strongly opposed to these ideas, but their opposition could have been overcome if the United States had not been reduced to paralysis by the election campaign of 1932. If the measures I advocated had been rapidly introduced, the inflationary period that began shortly afterwards in America, endangering the economies of both Europe and America, could have been avoided.

39. The Lausanne Conference, June-July 1932; Swiss Citizenship

In those months when an upturn from the depression was just about to begin, I spent part of the time working on the revision of Philippovich's theoretical volume on economics: the time itself was so full of valuable ideas. I was at work in the library of the League of Nations in Geneva when I had a telephone call from the Austrian Finance Minister, Schuller, inviting me on behalf of Dollfuss, the Chancellor, to a dinner in Lausanne where the reparations conference was meeting at the time. I did not know Dollfuss, and assumed that he was merely extending a courtesy, or that he wished to discuss economic questions. To my considerable astonishment, he told me in a completely normal and natural voice, as if this were quite ordinary, that after dinner he would be speaking to the German Reich Chancellor, von Papen. He explained that von Papen for his part intended to call on the British Prime Minister, Ramsay MacDonald, who had to stay in a darkened room at the Hotel Beau Rivage in Geneva because of his eyes, and tell MacDonald that Germany would be prepared to declare war against the Soviet Union if it received the necessary backing from Britain. Dollfuss asked me what I thought of this idea.

'It would be absolute lunacy,' I replied, 'and it would inevitably lead to a catastrophe, no matter what the outcome might be.' I continued by saying that it was irresponsible even to think of war one year after the collapse of the banking system; if the war were not swiftly concluded, there would be unavoidable chaos in Germany. However, the Western Powers would never allow such a victory, from which they would run the greatest risks, since Germany would then immediately turn on France. I concluded by urgently advising against such frivolous and dangerous fantasy-mongering, which could only make the worst possible impression on the British.

Schuller accompanied me out to my car; he was one of the most competent civil servants I ever met, a far more capable man than his superiors, but who never let them feel it. He winked at me in satisfaction, and I surmised that he had arranged the invitation so that I might help to avoid a disaster.

On the way back to Geneva I reflected on what might possibly have inspired von Papen's idea, and his motives for involving Dollfuss. I concluded that war must have seemed to von Papen the only means of

preventing Hitler's rise to power; but of course that could not succeed — quite the contrary.

'My God, the people we're dependent on these days!' I sighed to myself.

On 30 July 1932 my wife gave birth to a son, whom we named Wolfgang in honour of Goethe whose anniversary year was being celebrated. He was the second of our children to be born in Zürich, and my wife and I decided in their interests to take up Swiss citizenship. I had not given up my Austrian citizenship throughout the nine years I was in Germany or the fourteen years I worked in Switzerland — but now it was, after all, some twenty-three years since I had left Vienna, and it seemed to both of us necessary to give our children a homeland in the country of their birth.

40. Hitler's Rise to Power; My Letter to Schacht; Speech in Leipzig and the London Conference of 1933

At the end of January 1933 Hitler was appointed Reich Chancellor; the presence of conservative ministers in his Cabinet could not conceal what was clearly on the cards. Shortly thereafter Hjalmar Schacht was appointed President of the Reichsbank, and I wrote to him as follows after hearing of his appointment: 'I cannot understand your joining this government. It is clear to me that the situation will be decided by a new battle among the nations that will take place in eastern Germany, in which the Russians, English, French and Americans will jointly wage war against Germany — and what will then be the fate of Germany and of Europe?' Schacht replied that he admired my ability to foresee the future with such clarity, but that he hoped the coming conflict would take place outside Germany.

On 14 March 1933 I gave a speech in Leipzig at the invitation of the Industrialists' Association of Saxony. The subject was left to me, and I was told the speech would be broadcast on the radio. I deliberately chose the delicate subject of the relationship between the state and the individual. I began by saying that the Roman state was totalitarian by its very nature, while the German state confined itself to authority over internal security and waging war, and was thus in harmony with the fundamental teachings of Christianity as well as classical liberalism.

As I spoke these words a man came up to the podium — I was later told he was a Nazi commissar — and ripped away the radio transmission equipment, despite the protests of the audience. The *Bürgermeister* of Leipzig, Dr Goerdeler, protested strongly but in vain at this interruption to my speech. Goerdeler himself was a functionary of the Berlin Government. I then went on without further disturbance to say that the Roman state and its philosophy had been transferred to Byzantium, and from there to Russia, and that the alliance between Byzantine and Marxist thinking was not unnatural; but that a combination of the Germanic idea of the state and Marxism could only produce an ideological monstrosity. I urgently warned the industrialists in particular to cling to the heritage of the West, which was based on the alliance between the German spirit and Christianity; these meant freedom for the individual, and without them a free-enterprise system was unthinkable.

My speech was greeted with hearty approval; even sometime afterward I continued to receive many appreciative letters that showed clearly the consideration my ideas received even in these practical circles, so far removed from juridical philosophising. At dinner following the speech there were many questions; only the Nazi commissar sat in grim silence and finally said he might have expected me to talk about the economic crisis. I had planned to return to Switzerland by a train that left at midnight, and Goerdeler invited me to drive to the station in his car. The commissar tried to push his way in after us, but Goerdeler elbowed him off the running-board, closed the car door, and ordered the chauffeur to drive to the station.

'You have seen this evening', he said, 'how far things have gone here. But surely you can also feel how it could and should go differently, if only we succeed in changing the attitudes of those few at least who might be prepared to resist.'

He added that my speech had warmed his heart, and that it had shaken up the audience. But Goerdeler too felt isolated: he had no confidence in any member of the present government, or in either von Papen or Hugenberg. Finally he said that he refused to be discouraged; Germany simply must not be allowed to fall into criminal hands.

He seemed to me born for resistance, and to grow in stature with the resistance. But fate was against him. The Western powers, crippled by the economic crisis, sought to appease Hitler, and failed to understand precisely those men who represented the best of the great German middle-class tradition. Always internally divided, the West never takes decisive action in time against hostile movements — and not just in the 1930s.

In June 1933 I travelled with my wife to London for the World Economic Conference, which had been convened to deal with the problem of stabilising world currencies. The new American President, Franklin Delano Roosevelt, was an unknown quantity; the two American delegates, Cordell Hull and James P. Warburg, were quite candid about their lack of authority and their ignorance of their President's intentions. Professor Moley, who enjoyed Roosevelt's confidence, was supposed to come to London with the President's proposals. His arrival was awaited by the entire Conference, but when he came at last after repeated delays, he had brought nothing new with him. Two days later, my friends Sam and Alfhild Guinness gave a reception in our honour at which the leading delegates to the conference were present. The latter spoke openly of their bitterness at the casual contempt from America which had been displayed; it was the first time that all Europe experienced such treatment,

which was then considered unusual. The delegate and Finance Minister of the Irish Free State took us back to the Savoy Hotel in their car: even these two, warmly disposed to America as they were, could not but be very upset by Roosevelt's ostentatious contempt. But worse was to come: the modest proposals that were finally agreed with the cooperation of Moley and the two American delegates were countered with a blast by Roosevelt against any suggestions for stabilising world currencies — the entire point of the Conference — as if these had been part of a conspiracy by ruthless bankers. Roosevelt's reproaches were ridiculous, since they were directed at central bank governors, notoriously the most harmless creatures on earth.

Professor Bachmann, President of the Swiss National Bank, was particularly depressed and disgusted by this form of demagoguery. I comforted him by saying that it was a wretched situation, but that it was anyway too early for an international stabilisation, in an era between Hitler and communism. I predicted that French capital, which had been repatriated to France barely three years before, would now stream out to America, despite the regime there, for fear of war. Now was the time for demagogues, I concluded: the proper role for economists, unless they wished to prostitute themselves by accepting payment from the men in power, was to take refuge in silence.

Under the direct impact of the London Conference and its aftermath I stopped my preparatory work for a textbook on economic theory, and paid my intellectual debt to my collaborators without making further demands on their participation. It was not possible to justify raising the young generation with teachings that had to debar them from successful participation in life, but there it was — mine was the voice of one crying in the wilderness. I was always prepared for that role as far as my own life was concerned, but never wanted to drag others along in my wake. My teachings would in any event have suited all too few.

A few weeks later we were in Marienbad for the cure I regularly took there. During our stay we were sought out by the well-known operatic bass, Emanuel List, who asked us to take him to Bayreuth in our car; he was to sing there, but despite the short distance from Marienbad there was no easy train connection, and no international taxi service yet existed. We ordered tickets for *Die Meistersinger* and *Parzifal*, dropped List off in Bayreuth, and took rooms in Nuremberg. When we wanted to visit Dürer's house the next morning, we found the streets blocked: the Führer was expected in town. An officer saw the Swiss licence plates and let our car through. I said to my wife: 'It's exactly like the East here, the natives have no rights and distinguished foreigners are allowed everything.'

That afternoon we arrived at the Festspielhaus in Bayreuth and were kept

waiting in front of the entrance like all the others because Hitler was expected there too, a fact we had not known. A chain of S.A. men blocked the road and all the Festival visitors had to wait patiently behind them. Then Hitler arrived. May laid the camera she always had with her — and handled like a professional — on the shoulder of the S.A. man in front of her and ordered him: 'Stand still! Don't move and keep your shoulder level.' The man obeyed without asking who was giving orders, and stood like an automaton.

The closing verses of *Meistersinger* had a stronger effect than usual:

*Zerging in Dunst — Das heil'ge Röm' sche Reich
Uns bliebe gleich — Die hohe deutsche Kunst.*

Richard Wagner was right when he wrote these proud lines: Goethe and Beethoven flourished when Germany was powerless; they had no need of a strong state or of world domination. But of course they lived in a cultivated society, and it was precisely that culture that the twentieth century lacked.

41. The Mid-Thirties, 1934–1936; Speech in Saarbrücken

I received an invitation from the industrialist Röchling to make a speech in the winter of 1933–4 in Saarbrücken. The Versailles Peace Treaty had decreed that the Saar region was to be autonomous, and its coal production went to France; there was to be a plebiscite in 1935 on the region's future. My repeated suggestions for a German-French customs union had been greeted with interest in the Saar, and I was assured that the French would welcome my speech as well. I replied that in view of the present situation the invitation had come one year too late. But since Röchling was insistent, I gave in and went to Saarbrücken for a day.

Röchling fetched me from the station and briefed me on the German viewpoint. At the lecture I sat on the dais between Röchling and the French representative, whose name I forget. In my talk I blamed the diplomats for their penchant for creating artificial structures that failed to solve existing problems but only aggravated them: the Saar itself was one of these structures. Nobody could possibly have considered it an autonomous area had it not contained coal mines. However, was an area rich in coal mines, and bituminous at that, sufficient reason to cause a quarrel between France and Germany, two countries whose mutual understanding determined the fate of all Europe? If it could somehow be possible to bring about a political and economic union between the two countries the Saar question would solve itself. At the present time, I continued, such a solution was far more difficult politically than it would have been seven years before, at the time of Locarno; and the depression and current German political developments were the high price paid for the resistance of both France and Germany to the notion of any economic union.

The French delegate gave me a lift in his car to Metz, where I was to take a train after midnight for Switzerland. 'What blame do you ascribe to us?' he asked me. 'After all, we French only take a small fraction of our reparations from the Saar region.'

I replied, 'Since we are here alone, I will speak quite openly. Nationalism came from France; and with it you destroyed all too many historic and economic unities, and thus intensified the barbarous sort of nationalism. Don't complain now that it is directed against you French.'

'What do you advise us to do?'

'I should have advised that you establish a Franco-German company in which each side has a 46% participation and the remaining 8% is in neutral

hands, with the proviso that the 8% reverts to the French and German sides if they are unhappy with the neutral. But that whole scheme is now impossible with Hitler in power; too bad that for the time being one of the partners is mad.'

'But you really cannot reproach the French side in any way. Haven't we run the mines in an unobjectionable way?'

'Certainly you have, and this time you are the side which is in the right. But inside France you still cling to thinking along the lines of Louis XIV.'

When I boarded the train for Basel I had no inkling that the Saar question, which in 1935 seemed settled, would again become an acute issue. An entire world war is required, it would appear, to dispose of but one territorial corridor created by the diplomats: in the First World War it was the Sanjak of Novi-Bazar, and in the Second the Danzig corridor. But the whole Saar question is now again a live issue, and will share the fate of all artificial structures erected by diplomacy. These are much beloved in Foreign Ministries because they cover up a total lack of ideas; and yet, as the Saar itself shows, the underlying questions keep coming back from the very files themselves. Artificial solutions such as the Saar lack viability, and appear to have no other purpose than to project national rivalries externally.

Amid all the storms of inflation and depression, Switzerland remained calm. She had lost a good deal through her foreign assets; her export industry suffered from the world depression; but her social system remained unshaken. In the critical year 1934, however, three of Switzerland's neighbours began to totter: France lost her military superiority; Austria experienced civil war and a Nazi revolt, and Germany went through the alleged Röhm *putsch* and its bloody repression. The events in Germany and Austria had a strong impact on Switzerland.

In February 1934 the Dollfuss government defeated the Social Democrats in open warfare; since the Dollfuss regime was in conflict with Hitler, this was an almost lunatic beginning. In Austria one saw for the first time the relationships among parties that soon became the norm in Western and Central Europe: Marxists, Nazis and the Catholic centre vied for power. The centre by itself, supported only by a few experienced fighters, could hardly fight simultaneously against both left and right. Immediately after the suppression of the socialists in Austria, Hitler began acts of sabotage against her: bombings threatened to cut off all traffic between Switzerland and Vienna. I still remember clearly the evening when my wife's grandmother returned to Austria: in Zürich all the coaches of the Paris train had been uncoupled, leaving only the one sleeping-car to Vienna,

to which the locomotive was attached. The old lady boarded this train with its one car, the sole passenger for Vienna. We would gladly have spared her this eerie experience, but she seemed rather to enjoy the notion of travelling in her 'private' train.

A few months later, at the end of June 1934, the great wave of political murders took place in Germany: it spread in all directions, without rhyme or reason, without any resistance. Old President Hindenburg remained mute. From that moment on, the Hitler regime showed its true face. In the certainty that it would be acting with impunity, it started its attack on Vienna scarcely three weeks later. However, the enterprise miscarried, despite the murder of Dollfuss, not so much because of Mussolini's opposition as for lack of adequate preparation. Again, as at the time of the Kapp *putsch*, I had a quite normal telephone conversation with Vienna on the very afternoon of the crisis, in the course of which I was able to confirm that we in Zürich were better informed about events than the gentlemen of the Wiener Bank, five minutes away from the Ballhausplatz.

That was how far matters had gone in Europe: in six months Vienna saw more armed conflict than it had done in six centuries of Habsburg rule. In Germany, meanwhile, terror and lawlessness reigned. In the autumn of 1934 I travelled to Berlin to the Board meeting of Mitropa, where I found a group consisting of leading railway officials and industrialists. We were informed that one of the leading Reich railway executives had left his position. When I inquired what was the reason, there was an embarrassed silence, and my neighbour Krupp von Bohlen plucked at my sleeve to stop me from asking further questions. On our way to dinner at the Hotel Kaiserhof I asked von Bohlen, chief executive of Krupp, why the official had resigned. I was told that the official, along with his son, had disappeared, probably into a concentration camp.

'But why?'

'He once eased out some junior executive who richly deserved it, but who is now a leading Party boss and is taking revenge.'

'And everyone remains silent about it?'

'Believe me, we are worse off here than the natives in Timbuctoo.'

The expression on his face was one of profound despair. A high-ranking civil servant, Ministerialdirektor Vogel, was more courageous than von Bohlen: as we went by the newly erected Propaganda Ministry building, he called out, 'What do you say to such waste? Two years after the great crash, and for such nonsense!'

I wanted to believe that this voice of courageous resistance represented the outlook of the senior civil servants, but at dinner I sat next to Todt, the

builder of the great Autobahn network, who excitedly told me about his visit that day to the Führer. Hitler had spoken of the relative advantages of airplane, automobile and train travel, and had said that railways should not try to increase train speeds — they could never compete with air travel in speed — but should rather put the emphasis on comfort, in which trains could be unrivalled. Thus the overnight sleeper from Munich to Berlin should not take nine hours for the journey as it used to do, arriving at 7.00 in the morning, which was far too early; but instead take fourteen hours, so that passengers would arrive around noon, in comfort, after having rested the entire morning. I said that with such a timetable passengers would lose the advantage of overnight travel by wasting an entire half-day. To this Todt, the famous engineer, replied, not at all *de haut en bas* but with deep conviction: 'The Führer understands everything better than anyone else on earth. I am daily convinced of that in my own field of expertise.'

There I had before me the perfect menial, delighted with his servitude; in later years I often met such types among engineers, physicists and chemists, professions that appear to attract people with innately slave-like personalities. My profession alas was no exception to that: I have only to think of Schröder, Cologne banker and Chairman of Mitropa, whose servility knew no bounds.

I had had enough, and next morning resigned my seat on the Board. Before my departure I once again visited an old colleague, Dr Heinrich. He had been a very successful physician, had also studied economics, and was head of the Veterans' Home. We walked up and down in the garden, he castigating the regime in a steadily rising voice for its deeds that would inevitably drag Germany's name into the mud all over the world.

'Unfortunately not many people think like you,' I remarked.

'Here everyone feels as I do,' he answered, and turned to two of the Home residents. 'What do you say about our splendid Führer?'

'If we had a chance, we'd have a go at him with our walking-sticks, with our fists. He's a disgrace, we can't stand him!' was the answer.

In parting, Dr Heinrich said to me, 'Please tell them outside Germany that we are not as passively abject as they must think we are.'

I concluded that, yes, the old Germany was still alive, but its representatives had no influence.

In the winter of 1934-5 I stayed in Switzerland without a break for the first time in many years, to the joy of my wife and my sisters. My prolonged stay also had the advantage that I was no longer an interloper, albeit a welcome one, to my children, who were now four and three. On

7 April 1935 our third child, Johannes, was born. Our house in Sonnenbergstrasse was too small for us, although a successful resistance was mounted against further explosion in the book population; but when our faithful German shepherd dog was ill, there was scarcely a corner for him to lie down. It was not possible to expand the house, but we were so fond of it that we feared a change of abode and stayed on.

But now the events in neighbouring countries began to encroach on us too. My publisher, Siebeck (J.C.B. Mohr) of Tübingen, who had published my books for two decades, came to Zürich to talk with me and Professor Fleiner. Adolf Fleiner, the outstanding teacher of constitutional law, was a pioneer in the battle for individual rights *vis-à-vis* the state; I further extended his ideas by strongly emphasising the boundaries between state and private enterprise in economic theory. That evening in my house, Siebeck, who seemed upset, broached the suggestion to me and Fleiner that in the introductions to the new editions of our books we should make some concessions or at least diplomatic gestures towards National Socialism; otherwise, he said, he could hardly contemplate proceeding with new editions. Fleiner and I answered as one man, that what he asked was utterly out of the question; and I added that he should suspend any plans for a new edition of my works, and that we should speak of other things. The following day I received a post-card sent by Siebeck from the Swiss frontier, in which he excused himself for his request of the previous evening, added that he could no longer bear his life, and asked that I should keep a good memory of him. Two days later he committed suicide.

History is full of heroes, as the church is of martyrs, but such figures are to be found not merely in politics and religion but also in much more humble positions in life. When we enumerate the cultural victims of Nazism and the war, we must add to their number German publishers. German publishers were unequalled in the world, except in France: the respect they accorded authors, the selflessness with which they gave their service, their pleasure in books that extended knowledge or were aesthetically successful even when financially a loss, were not found elsewhere. And now that too was shattered; there was no longer any room in Germany for such integrity.

In the economic sphere as well, moral decline did not stop at the Swiss frontier. Since the American devaluation, manipulation of money had been elevated by venal professors to modern economic theory. The Swede Gustav Cassel, who started from an entirely false reading of Philippovich, had prepared the way for this development with his theory of purchasing power. Devaluation of the currency was seen as the remedy for every evil. Only

two countries remained unaffected by this thinking, Holland and Switzerland. Gold from neighbouring countries flowed into both because of their neutrality; they were thus able to purchase more from the rest of the world, but export less. Export industries therefore pressed for price cuts, and a remarkable development in the French and British press came to their aid: the newspapers were full of the notion that the disgrace of currency manipulation should be somehow shared, otherwise it would be less respectable as modern theory. The coming devaluation of the Swiss franc and Dutch guilder was ceaselessly proclaimed from France and England, also from circles that were close to the governments of both countries.

The Swiss National Bank was able to withstand the strongest attacks on the franc, and was firmly determined to do so. Early in 1936, at the request of the National Bank President Bachmann, I persuaded the leaders of the Social Democrat Party and the labour unions that a devaluation would represent a serious danger to the workers in a country where such a large proportion of food supplies came from foreign countries. Since the old tradition of sound currency was deeply rooted in the entire population, any referendum in Parliament or in the country would have rejected a devaluation. It came, nevertheless, in the form of a decision of the Federal Council under circumstances that had better be passed over in silence. On the Saturday afternoon of that decision, I comforted my friend Bachmann, who was deeply shaken, by saying, 'Even ten years ago, a devaluation in the case of a bank of issue with 100% gold coverage for its currency would have been termed a fraudulent declaration of bankruptcy. Nowadays they call it "the theory of purchasing power". I don't remember which Roman emperor it was who called out to his Finance Minister, who had tried to warn him, 'Honour is no longer appropriate to our times.' One thing alone is crucial: unscrupulous people should never try to behave decently, and decent people should never try to behave improperly; it doesn't suit either of them. Today is certainly no cause for cheering, but it will be forgotten if it remains the sole exception in many days.'

Fortunately, that has remained the case in Switzerland up till now.

Yes, governments in my time had it easy. In the Middle Ages, the Pope forgave King Philip of France for all sorts of sins, but for one he refused to lift his ban of excommunication: it was the debasing of the coinage. Such coin-clipping during and after the Thirty Years' War was held in contempt for generations. But *we* call these things merely inflation and devaluation. Even at the end of the 1920s, the Japanese made heroic efforts to combat the beginnings of a decline in their currency. But after that time no feelings of shame were attached to having a devalued currency, for

countless knaves scurried to cloak the disgrace with the mantle of 'economic theory'.

Either in that autumn of 1936, or one or two years later, when it had become fashionable in America to rent castles and organise hunting parties in Austria and Slovakia, I had a visit one day from Senator Carter Glass of Virginia, who stopped off in Zürich en route to a shooting party. I believe he was travelling with Bernard Baruch. I had not yet arrived, but was expected and meanwhile he was explaining to my colleague Reitler that in his view inflation in America would take the same course as it had in Germany, ultimately leaving the dollar worthless. At that point I came in and said that America's strength was paradoxically also its weakness: what had taken six years to accomplish in Germany would last in the United States five times longer. 'Is that weakness?' asked Senator Glass. I replied that 'in my opinion it was better to experience such a sickness radically and swiftly than to be plagued by it for a lifetime.'

When he had gone, Reitler asked me whether Glass was leader of the opposition in the Senate. I said that, so far as I knew, he was a member of Roosevelt's Democratic Party. 'My God', Reitler cried, 'he spoke of Roosevelt as if he were a criminal! If that's the way his own Party colleagues talk about him, what are we to think of the whole situation there?' 'Carter Glass', I went on 'is the author of the American Federal Reserve system: he initiated the establishment of a few banks of issue instead of countless smaller ones, and wanted to make the currency sound by instituting coverage through a market in bills of exchange instead of the earlier system, through Treasury bonds. Now the market in bills has dried up, the bonds have largely been dumped on the market, and centralisation has made possible a vast extension of inflation. He achieved the precise opposite of what he intended.'

42. Ideological Preparations for the Second World War, 1936–1938

In the late autumn of 1935 I sailed to New York from Genoa aboard the *Conte di Savoia*. In New York, the President of the Bank of New York, Traphagen, invited me to an exchange of views with Norman Davis, Roosevelt's ambassador-at-large, on the question of whether a world war was imminent. Our discussion took place in a club, in the presence of a number of prominent industrialists. Davis had represented America on the most important missions, especially at the Disarmament Conference, and was considered an authority in international affairs. It was his firm conviction, he declared, that a new world war in our generation was almost inconceivable for economic and financial reasons.

I took the precisely opposite position, and expressed my views with the strongest emphasis: 'I cannot understand', I said, 'why America persists in veiling realities with fine phrases. What happened to the Kellogg-Briand Pact? What was the outcome of the Disarmament Conference? I never saw so many munitions manufacturers' salesmen in one place as I saw during the Geneva conference. People maintain it might be different if America joined the League of Nations; well, in 1931–2 America sent the Secretary of State, Stimson, to Geneva to urge collective action against the Japanese attack on Manchuria. It was the beginning of winter, and the Royal Navy said it was not in a position to carry out naval operations against Japan in the Pacific. No other country was ready to join an expedition against Japan. That is how the protest against Japanese aggression became merely a paper tiger, and all subsequent aggressors were thereby encouraged. Hitlerism in Germany is a revolution, and it cannot be interrupted: it must go on from one stage to another, and will have its catastrophic dénouement only in the fifth act. The Hitler revolution will come to an end, like its Russian counterpart, but first there will have to be a struggle between Russia and Germany, and then some sort of accommodation between the United States and the victor.'

'You mean you foresee an era of open-ended conflict?' Davis asked sceptically.

'Nothing in life goes on for ever,' I replied 'but probably only few of us will live to see the establishment of real peace.'

For several moments there was total silence in the room. I found myself regretting that May had not been present, for she would somehow have made me sugar the pill slightly. It was hard enough for me to go on, with

all I could see coming; for the others, however, it was unendurable to have that knowledge. I should have left them a bit of hope.

After my return to Switzerland, I was deeply involved in the fight against devaluation, as I have previously described. I continually emphasised that any public discussion of devaluation within Switzerland should be avoided, because such a discussion in the open would undermine one of the greatest war assets any country has: confidence in its currency. Nobody wanted to understand my argument at that time; and it was pure luck that Switzerland was later spared having to include in the costs of war financing the true price of her temporary rashness.

In the late summer of 1936 we went to Biarritz, a place we especially liked with its splendid bay and nearness to the beautiful Pyrenees: the power of Biarritz to fascinate visitors was understandable when one stood on the wide veranda of the Hotel du Palais and looked across at the high waves of the Bay of Biscay and the magical outline of the Cantabrian coast.

I sat on that veranda with a two-volume book and read practically without interruption from morning to evening. May respected my mood, but on the third day her patience ran out and she demanded why in such splendid weather I did not want either to go out on the water or to play golf at Ghiberta or Chantaco. What could be so interesting about that book? Was it Greek?

'Yes,' I answered, 'Thucydides.'

'That's what one reads at school.'

'But that's just the stage when one is not yet able to understand it. Let me read on till this evening, and I'll have reached the end. After dinner I shall give you a quarter of an hour's résumé of the whole work. Now I remember — I've missed an excursion with your father I had arranged and also missed a golf foursome in Chantaco, but you will forgive me when you hear what it's about.'

I then read that evening the part from the fifth book where Thucydides writes: 'Until that point, the War had lasted twenty-seven years. It would be incorrect to regard the intervening time as peace. To be sure, the opponents refrained for six years from attacking each other on home ground, but outside their own countries they did as much damage to each other as they could, so that peace hardly meant anything.' And then I read from the third book that most profound of all chapters written by a historian, the description of the moral consequences of war.

'That's a precise description of Hitlerism!' said May.

'Yes,' I replied, 'and of fascism and bolshevism and God knows what further ideologies may still come. Thucydides in his time understood

that — he writes that this is the way it will always be as long as men live and fight with one another. When it all began in Russia, the Corcyra of our time, we reacted as if the events were somehow odd. Now we in Switzerland are beginning to be the exception. When we read these things in school we found them boring, and now we experience them and understand them at last. If the curse of "Party above family" should hit our country too, how should we try to bring up our children?

May answered calmly, as if all this were self-evident: 'We should bring them up so that they preserve their souls, no matter what goes on around them.'

A few days later we were sitting one evening in the quiet village of Ascain in the garden of a small country inn; at tables to the right and left of us people were talking about Germany. These were all French people of the area, the nearest German village was 1,000 kilometres away, and moreover it was dinner time, when French people normally do not like to talk politics. But Germany had been the nightmare of France for sixty-five years, with intervals when it was repressed for a time; people were almost resigned about it. One could not say that there was fear in the discussions we overheard, but there was deep concern: these French people felt that their victory in 1918 had been worthless, and that a threatening new colossus had grown on their frontier.

A few months after our return, on 4 February 1937, I gave a lecture at the University of Zürich, at the invitation of the students, on the subject of the contemporary problems of Switzerland. I urgently warned in the course of it that war preparations were necessary. I said that Switzerland could boast of two unique achievements in the political sphere: a long-standing democratic tradition that never swung to demagoguery or to tyranny, and the cooperation of three equal language groups representing the three great nations on the European continent. Such outstanding accomplishments would never have been possible, I continued, if the Swiss had contented themselves at each step merely with questions of prices and wages; more important than anything else was the inculcation of spiritual values in public life.

'A truly effective defence', I concluded, 'can only be built on the clear recognition by all of certain fundamental rights that are sacred to the entire nation. In Switzerland, life, freedom, honour and personal property are all immune from the arbitrary exercise of power by those temporarily in government, who themselves are subject to the law; that is what differentiates free people from slaves. Thus every individual bears responsibility for his actions and for his beliefs; that is where we differ from non-believers,

and if the rights of one individual are harmed, then all are harmed. For two thousand years these have been the fundamentals of European culture; if we remain true to the notion that without freedom of action and freedom of belief life is not worth living, then we shall have the moral strength to withstand all storms, and to show the way to a happier future for neighbouring countries.'

The young people greeted these words with hearty applause: I had the impression that I had echoed their deepest convictions. However, the older members of the audience seemed to be taken aback by the definite forecast of war that I expressed throughout my speech: such frank talk about international affairs was a rare exception in cautious Switzerland. A few days afterward, Federal Councillor Obrecht, whom I had not previously known, the Chief of the Economic Department in Bern, called on me to discuss measures for economic war preparedness.

Obrecht began with an unusual question. The leaders of the agricultural interests, as well as of the Social Democrats, had spoken of me with great respect and advised him to contact me; my own banking *confrères*, on the other hand, and the Association of Bankers, had complained of deliberate snubs on my part, and were distrustful of me, if not downright hostile. Obrecht wanted to know whether I had taken account of the discrepancy in attitudes, and how I proposed to explain it.

'Since my school days', I replied, 'I have had the tendency to detach myself from time to time from the group into which I was born, so as to understand the rest of the world better. Wherever I have been, I have sought out agricultural and industrial workers and their political and economic organisations, as well as industrialists and academics. I believe I know what a Swiss banker will say without being obliged to listen to him; that is why, in every country I visit, an agricultural show is more interesting to me than a bankers' convention. I do not mean to denigrate my own profession, which I consider one of the most important in the entire economy, as did the Saint-Simonians in their time, those much cleverer forerunners of Marxism. But after my office closes, I don't seek out others who will confirm my way of thinking, but rather strive to widen my point of view, so that I can attempt some conception of the entire interest of a country that is entirely independent of my own position.'

'Well, that's why you belong in Bern,' said Obrecht, 'I hear that from more and more people there.'

'For heaven's sake, no!' I replied laughing, 'I'd be the object of all sorts of hostility and envy. I was not born in Switzerland; and even if the Swiss like to travel abroad — certainly not the worst elements in the country do

that — they prefer the foreigners in their own country to be tourists, not leaders in the economy and especially not political leaders. There is already enough ill-feeling towards me in Zürich, where I deliberately lie as low as possible. You remember Figaro's mockery of the Count, whose entire merit consisted in being born a count. Present-day nationalism springs from the same narrow-minded delusions: it comes from those people who have no other merit than to have been born where they were, in the country of which they are citizens. There is no shortage of such folk, as in the times of the old aristocracy; there are many of them in every country, even here. In times like the present, a man who was not born here should avoid at all costs playing a politically prominent role. In the eighteen years since I came to Zürich I have lectured everywhere else; I gave this one most recent lecture in Switzerland, and I am beginning to regret it.'

Obrecht did not want to admit all that. He himself was one of the most interesting figures in Swiss public life: one felt in his whole being, in his words, the unique centuries-long tradition of Swiss democracy, especially in his contempt, verging on disgust, for Hitlerism. He was a man of deep convictions, which his experience of life had only strengthened. He never wished to preach his own political principles abroad; but in his opinion the entire world would eventually have to return to those principles if it was to emerge from its present chaos. I thought what a fortunate country Switzerland was to have men of a stature sufficient to fit them for a much larger stage, but who retained that rare sense of the limits within which they had to operate.

'We appear to have talked right over each other's heads, and that makes me sincerely sorry,' Obrecht said to me at his departure. I considered the episode ended at that point.

To my astonishment he rang me a few days later, saying he urgently needed to speak to me. One question kept nagging at him: at our meeting he had asked whether my conviction that war was unavoidable was well-founded. The general view was to the contrary: Germany had emerged from the worldwide depression just a few years before; she was still an international bankrupt, with minimal gold reserves; outwardly united, but internally full of conflicts. Moreover, for two decades everyone had known what a war might mean. Of course, with fanatics like Hitler anything could happen, but none of the people Obrecht had contacted considered war in the immediate future either probable, or indeed unavoidable. In all the major cities in the world the same rather calm assessment of the situation was the accepted one.

I convinced Obrecht completely, establishing my contrary opinion on

the unavoidability of war by reference to facts. I added that Switzerland should no longer hesitate to take war preparedness measures. I quickly summarised the basic raw materials needed for war, and thereby laid down certain principles which were adopted by Obrecht, and which gave the Swiss war economy from that point on its special character.

Switzerland is a small country, and possessed inadequate installations for stocking war matériel. I therefore suggested that the stockpiling of foodstuffs be left to individual households, in the form of either a recommended reserve or an obligatory one. That had three important advantages: it would save the Government the cost of financing food stockpiles, except for poorer families, as the better-off paid for their own food reserves; the foodstuffs would be scattered throughout many households, and thus far better protected from danger than any centralised stores would be; and the entire administration of the food supply was left not to over-worked officials in some central office but to those excellent Swiss housewives who would of course devote extreme care to stocking goods for their own families.

The bureaucracy strongly attacked this new idea: they said it would lead to hoarding, and that was a grave danger. It took a bitter struggle to overcome this objection; but I won through. Later experience showed that in no other country throughout the war did food stocks hold up so well. In my own household, the flour that according to official statistics should have been sufficient for one or one and a half years lasted instead — thanks to my sisters' care — for more than six years in excellent condition. Similar results were obtained in many areas.

Even fourteen years later, when in another critical situation the Swiss authorities appealed to the public to stockpile food, the American newspapers expressed their admiration or sometimes annoyance at this hoarding. Anyone who has ever observed the negligence and gross wastefulness of centralised war economies — in either the First or the Second World War — will certainly prefer my solution, which I have good reason to hope will always be that chosen in Switzerland.

Remarkably enough, we still hear attacks on the system of private stockpiling, even from supporters of the private sector — how deeply socialist slogans have penetrated the consciousness of the other side! On the one hand, people oppose the centralisation of production, and on the other they demand centralisation of consumption. How very little is understood even today of the essential nature of economic liberalism.

I was less successful in efforts to assure the stockpiling of substantial supplies of raw materials, and the mobilisation of a shipping fleet to

accomplish that task. Negotiations within Switzerland to that effect dragged on for years, and were resolved, unsatisfactorily, only two years after my initial suggestion. The delay was especially regrettable because we undertook no risks in buying at the bottom of the commodity market of the time.

In the context of all these matters Federal Councillor Obrecht asked me to arrange with a major American aircraft manufacturer the establishment of a branch factory in Switzerland. American aircraft manufacturers were in financial difficulties and had no interest in foreign investments; however, I was able through banking friends to interest Glenn Martin in such an enterprise. Obrecht and the Commander of the Swiss Air Force, Colonel Bandi, were delighted with this news. Martin came to Zürich, accompanied by two of his leading executives, and by his mother. I had described him to my wife as one of the pioneer aviators, and she was amused to see him leave our house after dinner on a rainy evening under the shelter of an umbrella held by his anxious old mother. When we drove to Bern the next day Martin observed with astonishment the thick woods that lined our route, which he felt made Switzerland unsuitable terrain for aerial warfare. Of all the millions of visitors Switzerland has had for generations, I do not believe that any before Martin had seen our forests in quite that light.

In the Bundeshaus in Bern a group of department heads had been convened under the chairmanship of the two Federal Councillors responsible for defence matters. After Obrecht's opening remarks, Martin wanted to outline his plan but was interrupted by Colonel Fierz, department head in the Military Department, who asked him for an hour's private talk to inform himself of the situation. Federal Councillor Minger agreed to that procedure, and Fierz used the time allotted to sabotage the plan. Since he assembled aircraft in several small factories, he perceived the proposed large-scale enterprise as destructive competition. He advised Martin that his proposal should be given up because it had no prospect of success. With that the entire affair collapsed. When the waiting Air Force officers heard what had happened, they did not conceal their bitter disappointment.

Two years later, when Switzerland sent a delegation to America to study the aircraft industry, Fierz went secretly from Washington to visit the Martin factory in order to study how it was organised. He begged the attaché at the Swiss Legation not to inform any of his (Fierz's) three colleagues of his private visit. He had every reason for this odd tactic: for it was he who two years before had declared that Martin's products were entirely worthless.

I have gone into this episode in detail because it so graphically illustrates

the danger of a fanatical bureaucracy: this type of official lives for his office and devotes his life to it. But when something comes from outside that threatens his exclusive territory, he is ready for any form of sabotage without regard to the consequences for his country. One may well wonder at encountering such a mentality in isolated cases among even that most honourable of peoples, the Swiss; but they are somehow typical of the bureaucratic mind generally. I have found this type in every country I have worked in — with one exception. In Washington such people do not exist — not yet, since the professional career civil service is still something new in the United States.

Later the same year I made a speech in Geneva on the subject of currency policies in wartime to a group of officials at the League of Nations. All agreed on the points I made in my historical introduction; but many of these cautious people were distressed that I talked of the oncoming war as a certainty. They said one should not be upset, nobody could predict the future; how very often I had to listen to similar statements. Such a mentality explains the serious shortcomings in preparedness during critical times.

43. Harbingers of the Second World War; the Occupation of Austria, 1938

I met opposition similar to that I had experienced over the aircraft affair when I was engaged in the struggle to build up Swiss reserves of war matériel. The Federal Finance Department was adamant in its refusal to approve larger sums for the purchase of war stockpiles. I pointed out in vain the very low and therefore most advantageous level of commodity prices, which offered an almost unique opportunity, since the risk of loss was practically nil. That, I was told, smacked of the private speculator's recklessness. The whole project made no headway. They pointed out to me that in late autumn there had been a substantial decline in the prices of strategic metals, a sure sign of peaceful intentions in the West. I answered that we should exploit this buying opportunity. My urgings fell on deaf ears.

Since the end of 1937 German-Austrian relations had worsened. At the end of January 1938 I rang Baron Louis Rothschild, head of the Vienna Rothschild bank, then in Kitzbühel for winter sports, urgently recommending that he should leave Austria at once; he decisively rejected my advice. In order to demonstrate his ostentatious calm, the second-in-command at the bank, who was of Dutch nationality, decided to take a holiday in Egypt. On 11 March 1938 I received a report early in the morning that the German march into Austria would take place that day. I telephoned to Baron Louis saying that he should now at last leave, and immediately without losing a moment in further delay. He postponed his departure to the following morning, and that cost him not only his freedom, but a great deal besides. His brother Alphons and his wife came the same morning to call on me, saying they wanted to travel to Schillersdorf via Austria; I prevented them from doing that and managed to save their three children by getting them out of Vienna.

The Rothschild bank in Vienna was occupied by the German Government. A few weeks later the Nazi Commissar in Vienna rang my bank, and spoke to my colleague Dr Reitler. The Nazi official demanded delivery of the shares in our possession of the Wittkowitz Mining Company, a Rothschild holding, in accordance with the terms of a decree issued in Austria. Reitler refused curtly, and referred his caller to the Zürich courts. 'I won't get foreign exchange allowances for litigation in Switzerland,' said the Commissar, 'but I'll make you a proposal. Give us half the shares, and let the Jew keep the rest for himself.'

'Enough!' Reitler shouted, and hung up.

Scarcely a week went by without offers to free Baron Louis from imprisonment, or to arrange the export of his brother Alphons's confiscated art collection. There were some very odd characters among this crowd of bounty-hunters. A few who seemed particularly suspicious were announced in our bank according to standing instructions with the three initials 'E.A.M.' pronounced in the English way: that was our code reference to Shakespeare's stage direction 'Enter a Murderer'. Others among our visitors belonged to the highest levels of the Nazi Party; the name Göring came up repeatedly, and General Bodenschatz had authority to sign for him. The freeing of Baron Louis was arranged through none of these, however, but only after the most difficult negotiations and the payment of a record sum in ransom.

For the rest of the world, which did not lift a finger in her defence, Austria's fate seemed to fulfil a natural destiny. How could Austria remain apart from a Germany whose Führer was, after all, an Austrian? How wrong they all were! Austria and the other successor-states had to be swamped twice by foreign invaders before the Western world, including the Germans, came to realise the necessity for an independent Austrian state, without which there can be no Europe.

The First World War began in Vienna, and now this was the beginning of the Second. I had no doubt that the occupation of Vienna was the prelude.

44. From the Summer of 1938 to the Outbreak of War; Switzerland's War Preparedness Programme

Even the events in Austria failed to shake the cautious attitude of the Bern Finance Department. The Department was manned by very conscientious officials who zealously guarded hard-earned taxpayers' money and believed in peace, because they considered the rest of the world to be as materially satisfied and scrupulous as Switzerland. There were strict limits to the effectiveness of my appeals for action; in the first place I belonged to no party, and then I was a member of the banking profession, which no bureaucracy in the world considers capable of rising above its own narrow interests and concerning itself with the general welfare.

At the beginning of September 1938 I was invited to France to participate in the meetings of the International Economics Institute. The sessions took place at Pontigny, in an old convent, where the participants were also accommodated. My chauffeur came to me one day during the meetings to report that the innkeeper of the small country inn where he was staying had come to him in tears, saying that war was coming, and their house was to be razed for military reasons. These were the days just before the Munich Conference, but I said those fears were absurd: Pontigny was several hundred kilometres from the German frontier, between Troyes and Chablis, and a two-hour drive from Paris. But when I asked again, I found to my astonishment that the innkeeper and his wife were correct.

I remember that convent in Pontigny vividly; it was to be destroyed in the course of the new war. The chairman of the meeting was France's leading economist, the wise Charles Rist; and many carefully-prepared special studies were presented to the participants. The two German delegates from the Weltwirtschafts-Institut of Kiel sat to one side; since the death of Harms and the exile of its best staff members, the Institute was a shadow of its former self. Among those present, the Rockefeller Institute people were on the lookout for new staff. The statisticians appeared to enjoy the proceedings most; they and the economists argued over their favourite doctrines as if the fate of the earth depended on them. Everyone was obsessed in those days by the lasting depression; but the fascinating and unique aspect of the situation was the existence of a depression at a time of the most critical danger of war. Where were government purchases, where was speculation? My reference to this central point about the business cycle was

completely ignored by those present.

Lionel Robbins of the London School of Economics was one of the few present with whom I was able usefully to exchange ideas. Imagine studying the business cycle on the eve of a war, in the very midst of an epoch of wars! At such a time, the economists are interested in only one question: which form of bankruptcy has not yet been fully exploited, so that it can be used for government financing of the coming war.

A few days after my return to Zürich, the Munich Conference took place, and the entire world was jubilant over 'peace in our time'. That was of course absurd. The forced cession of the Sudetenland created a situation that was simply untenable in the longer term, and represented the first act in the terrible tragedy of Bohemia that we were to observe in the next fifteen years. I told Federal Councillor Obrecht with absolute certainty that this amputation would mean the occupation of all Czechoslovakia, because it left the country completely defenceless. If all Czechoslovakia were to be occupied, said Obrecht, that would oblige the authorities in Bern to proceed seriously with a programme of economic war preparedness.

The entire Sudeten question began to bring to the consciousness of the West the terrible calamity that had been caused by the destruction of the Habsburg Monarchy.

Just ten years earlier, Sieghart and I had met President Masaryk at the golf course in Carlsbad. In the course of our long talk, Masaryk, to our astonishment, asked what we thought of Czechoslovakia's future. When Sieghart, after a few polite phrases, bluntly referred to the 'two Irelands', by which he meant the Germans and the Czechoslovaks, Masaryk said he had always considered it would be hard for the two to live together, but had found it even more difficult than he had imagined. He had gone to the very limits of the possible in trying to meet Sudeten German demands, but every effort at compromise merely sharpened their resistance. Like Bismarck in his old age, Masaryk saw his entire life's work threatened, and was unable to conceal his deep concern. And now, scarcely twenty years since the establishment of Czechoslovakia, the collapse was at hand.

The Munich Conference established the pan-German solution, fixed the frontier one hour's train ride from Prague, dismembered Bohemia, and made a Czech state simply untenable. The consequences were self-evident from the start. Seven years later, after Hitler's defeat, the Czechs expelled the Sudeten Germans from their country; and had scarcely finished that when they were overwhelmed by the Russians and submitted to the harshest repression.

There were endless difficulties until Bohemia and the two nations that

lived in it finally proved the impossibility of either the pure German or the pure Czech solution. But England, and America too, began finally to understand in 1938, and to see the situation more clearly.

In October 1938 I sailed with May to Canada and the United States, in order to study both countries from the point of view of the coming war economy. Both were still sunk in the deepest economic depression. We travelled with American friends, the Greves — to whom the Duke of Windsor had just offered to sell his Alberta ranch. On our drive to the ranch we saw with surprise the beginnings of oil drilling, with quite primitive equipment. The day before there had been a snowstorm, and the cattle, which even in the hardest winters were left out of doors, had strayed; we saw the ranchers out on their horses, trying to round up their herds. The country was so thinly populated that it did not pay to build shelter for cattle, which in any case had little value because they had to be shipped to market over such long distances. At an evening reception in Calgary we asked the Governor, who was one of those many confused economic reformers, why Canada had so radically altered its immigration policy. His response was harsh and strongly-expressed: there were 800 unemployed in Alberta alone! The lunacy of those times!

We proceeded to the Pacific coast, going slowly through the superb region of British Columbia, and then through Washington State and Oregon, where sadly an all too large proportion of the population were already concentrated in cities. All the Swiss could have found homes in Oregon alone — and how they could have developed its beauty! We then returned east at a leisurely pace.

The battle over social welfare measures was being fought all over the giant continent, and I was amused to see measures, which in Germany had been accepted social policy for fifty years, trumpeted forth as a 'New Deal'. Social welfare measures, and in particular employment policies, should be introduced in times of prosperity; here they came in at a time of depression, and the entire enterprise would have been a hideous fiasco had the war not radically altered the situation. But nobody in the American economy was preparing for war, in that vast country which was masterly in technical accomplishments but not in forward planning; and admirable in its sympathy for the oppressed and the weak, which gave the lie to those who maintain that America is entirely materialistic. Neither the industrial nineteenth century nor the brutal twentieth century has quite eradicated in the American mentality the seeds sown in the eighteenth. This curious combination of crass commercialism and the best of humanitarianism may strike the fastidious observer as either confusing or repellent; but it will remain

an enduring characteristic of American life. Christianity seemed to me more deeply rooted in provincial America than in most parts of Europe; at least, it was more practised.

We endeavoured to contact as many sections of the people as we could; we were most impressed by the gap between advertising and reality. Hardly anywhere did I encounter a group of people held in greater contempt by the rest of the Californians I met than the film colony in Hollywood. 'Here live the dregs of humanity,' said our chauffeur as he drove us through Beverley Hills in the hired open car in which shortly before he had driven members of President Roosevelt's party. 'They live in big houses,' he went on, 'have estates in the country, and throw their money around, but we think nothing of that whole crowd, and there are no exceptions.' We found the same reaction to film people everywhere in Los Angeles, even from the head waiter in a luxury restaurant much frequented by Hollywood personalities. When we sent back a bottle of wine with an obviously faked label, he excused himself, saying that for the cinema crowd everything was too good, and it was embarrassing to have to serve them. The average American's independence of judgement is far greater than we are led to expect; commercial advertisements and propaganda have not formed opinion nearly as decisively as we are told. The influence of the press on public opinion is also exaggerated; despite their massive size and circulations, newspapers and periodicals do not give us a clear picture of voting trends or changes. Surprising shifts, such as that in Germany before Hitler's coming to power, are far from impossible in America at times of crisis — and the press has little inkling of them.

The attitude of Californians to the film industry was in sharp contrast to the way they felt about the aircraft industry, which was also important in the state. Although the entire industry was particularly depressed, people admired it and displayed an intense interest in everything that concerned airplanes. We were often in the modest flats and houses of aircraft engineers, and interested ourselves deeply in their serious work and their concerns, and were also amazed to confirm the enthusiasm which the workers in this industry brought to their jobs. How carefully one must guard against premature generalisations in America!

These oilwells in the middle of urban dwellings; these shops and the fashion industry that pushed ahead in frenzied competition with New York; all this in those twenty little villages without a centre for which no name could be less appropriate than 'Los Angeles' — for even the appearance of angels from heaven would go unnoticed amid the bustle. How different it all looked thirty years before, and how very different it will

look by the end of our century! Nowhere else could one observe so clearly the nomadic tendency in Americans. The city is not a home for two or three million people — the very word 'home' seems odd in this context — but more an encampment, comparable to Attila's tent city, which it took six hours to cross, the time we needed for our walk from the railway station to Beverley Hills. We took this walk often, with many variations, and never once found a cheerful face among the countless passers-by we met.

A year and a half earlier we had both been on a cruise to the Greek islands. We had been so cheered by the sight of entire families of fishermen — grandfather, father and son — on board modest boats, all singing happily. One could see on the handsome faces of the older people their satisfaction with a modest but happy life. Here in Los Angeles the old people looked ugly and crushed by life, and the younger ones struck us as neurotic. Who in this town would ever sing, unless that happened to be his profession? Even love here seemed to be a business, and every evening we encountered drunken women in and outside our hotel. How we wished this giant city more beauty, more joy in living!

It was in the Middle West that we found the strongest opposition to the Roosevelt administration. Entrepreneurs of all kinds had ruled there more absolutely in the past fifty years than in any other country. They lost their heads completely in the crash, were attacked on all sides, and did not even retain the courage to defend their own interests. Now they were beginning at last to get a grip on themselves; but they were still far from winning back their political influence, and they knew it. They had no prestige, as long as business was still going so badly. That business was still bad we were able to see for ourselves; people were very eager to learn how we as outsiders judged the situation. Americans, particularly those of the Middle West, only want to listen to the views of outsiders in times of deep depression.

While we were in Chicago, we had one small encounter that interested us very much. We drove with a taxi to visit several factories, and then took lunch in a small hotel in one of the industrial suburbs. Our driver sat down at our table and told us that his brother had come on a visit from Usküb in Serbia, to decide whether he should come to Chicago as an immigrant with his old mother and rent two rooms from his American brother. The brother from Serbia had given up the idea, however, and would shortly return home. The difficulty was that the old mother would not be able to adjust to the conditions she would find in the house of her American son: he himself had a son, also a driver, who had his own car but was unemployed at the time. However, the young man, instead of helping his father on Sundays, took his car and went out on excursions with his girl-

friend; the old lady would never be able to understand that, and there would be intolerable conflicts at home. Moreover, the wife of the American son was a problem too: that was not proper food she prepared for her husband, and when the old lady saw it, she would have to take over the kitchen and cook herself. And finally, none of the American children knew that the family had always been Greek Orthodox, and when they heard about it they found it laughable. For all those reasons, the brother was happy to be returning to his mother in Usküb.

We listened with great interest, and after lunch we drove with him to a museum, and asked him to wait. When we came out after two hours, he beamed with pleasure: all his colleagues had made fun of him, saying that with so much money accumulated on the meter, his passengers would certainly slip out of the museum by another door to avoid payment. Our driver had told them that such things did not happen in the country his passengers came from.

We were impressed by this little episode, which so graphically illustrated the vast differences between a European and an American family. In my Balkan Railway days, how contemptuously we had looked down on Serbian-Macedonian Usküb, a byword for Balkan backwardness; and yet a peasant could come from that tiny place and say to his Chicago brother: 'You are a poor man, because you have a wife and children, but you have no real home.' To a son of even the poorest and most God-forsaken spot in the Balkans the inhabitant of Chicago seems a mere nomad. The Balkan brother does not value what the other has achieved in material goods or freedom of movement, or even in education; the Chicago brother strikes him as a man without tranquillity, without a soul, without true happiness. All those, according to the European, can be attained only within what the American brother lacks: a homeland.

'One hundred men, a barracks; one woman, a home', says the old Chinese proverb; and that wisdom is echoed by all the world's ancient cultures. How many generations will it take for Chicago and Los Angeles to achieve that? For human happiness, what do universities, museums and modern means of transport amount to? Is not Chicago also a vast caravanserai and not a city? For even a poor Balkan peasant, if he still has his family and home that is a great deal. But what would people in Chicago have left if material wellbeing were to cease? Nothing but the permission to pursue happiness as the American Constitution assures them. But first one must know what happiness is. That is what May and I kept on discussing, on the trip back from Chicago to New York. Of all my many visits to America, this one had made the deepest impression on me.

In New York, I made notes at the time of my impressions of the New York securities markets and the Chicago commodities market. I wrote: people argue about capitalism and the importance of banks within it; but I can more readily imagine an economy without banks than without a Stock Exchange. However, I am disturbed by the intellectual backwardness I observe among leading figures on these crucially important markets; not one has any idea of what war and its consequences could bring, and all of them reject any thinking on that subject. Any intelligent enemy could easily manipulate the stock and commodities markets, to the profound danger of the national economy. The French understood that in Napoleon's time, and the Russians also understood it until the First World War. Fortunately for America, I continued, the Germans and Russians of today are weakened and made stupid by their political fanaticism. God help America the day it is otherwise! For the Americans have 10,000 or 100,000 professional mathematical economists, but only a few who understand the realities of political economy; that is a sufficient number for peacetime, but it is dangerous in war.

'Don't always think about war,' said May, who had looked at my concluding memorandum, 'it makes you too gloomy. Can nothing happen to prevent it?'

'Before the First World War', I answered, 'I convinced myself that the disaster could be avoided. At the time all the four monarchs who occupied the thrones in the greatest European monarchies were God-fearing and responsible men. Never before had there been more peace-loving individuals at the head of European states; and then one assassination destroyed all efforts for peace. And today we have sitting in the two seats of decisive power murderers such as European history has never seen, no matter how far back we look. Who is in a position to halt the inexorable fate that awaits us?'

We sailed back to Europe at Christmas on the *Queen Mary*. Anthony Eden, who had addressed a meeting in New York — the travels of English statesmen to America had become a permanent feature of political life after the Munich crisis — gave the toast at the gala dinner on board. He called for the equality of all humanity, without regard to race, nationality or religion. Such words carry conviction only when spoken by the Swiss; with speakers of any other nationality, one always feels some reservations. Heavy seas prevented the tugboats for many hours from coming alongside for docking; we arrived in Paris at 3.00 a.m. on Christmas Day and had great difficulty in reaching Zürich the same evening. I reported to the Federal Council that despite my view that war was imminent, there was

still an unusually favourable buying opportunity across the board: it was a fortunate chance that had to be seized.

And now finally, thanks to Obrecht's strong pressure, the resistance to buying large stocks of raw materials appeared to break. But then a new clash of opinions arose as to whether purchases should be made at fixed prices, or under option contracts; the Finance Department stubbornly maintained the view that options should hedge all purchase bids. Then in February 1939 I succumbed to the influenza epidemic which was about at the time — my first illness since childhood — and had to spend five weeks in bed. When I was up again in March, a decision had already been taken to proceed with option contracts. Obrecht requested me to lead the negotiations in Washington as soon as I was able to travel.

I felt at the time that this invitation had come too late: on 15 March the Germans occupied Prague, which I considered the beginning of the war. Never had the Western powers had a better opportunity to enlist the Russians in a war of alliance against Germany: national sentiments and political motives of the highest urgency would have forced the Soviet Union to intervene. But England and France remained supine — for which they paid the price later.

I was half a year out in my assessment of the likely outbreak of war, since I over-estimated the political intelligence of London and Paris. As far as Swiss war preparations were concerned, however, this delay was the first of four crucial strokes of luck throughout the war; the three others being the delay in Italy's entry into the war; the declaration of war by the United States; and, between these two events, the opening of the corridor to Spain and Portugal through Vichy France. If the occupation of Prague had led to general war, a catastrophic shortfall in provisioning Switzerland would have been almost unavoidable. At the time, as so often, I was reproached for being the eternal prophet of doom; but whoever in such situations does not imagine the worst case and start planning from there is guilty of irresponsibility. And any provisioning programme in Switzerland for a future war has to start from the assumption of a total blockade. The precise month when a war will begin can never be predicted with certainty; but the unforeseeable episodes which — thank God — bought time for Switzerland in the Second World War need not necessarily have worked in our favour.

I had a long dispute with Obrecht over the nature of my mission to Washington: I categorically refused any title or any payment, not even the reimbursement of expenses. Obrecht replied that this was highly irregular: the Swiss Government in Bern could not allow itself to be donated services,

and an envoy without title or rank would encounter great difficulties in relation to foreign governments. But when I said that in that case they should forget about my appointment, they finally gave way. I asked only that Director Ernst Liechti, an unusually well-qualified expert in agricultural commodities, should accompany me. I decided to do without a secretary, saying that the cooperation of the Swiss Legation in Washington would be enough. Herr Obrecht wrote to me that the Federal Council would not forget this very great contribution I was making. I smiled to myself: nothing is forgotten quite so soon as debts of gratitude.

45. The Swiss Mission to Washington; War Options Contracts, Spring 1939

At the end of March 1939 I travelled to Washington: my aim was the conclusion of option contracts with a six-year life from June 1939 to June 1945 for the purchase of certain raw materials and foodstuffs.

My negotiating partners in the Department of State were Secretary of State Cordell Hull, Assistant Secretary Sayre (who was Woodrow Wilson's son-in-law), and the Economic Advisor, Herbert Feis. My proposal aroused opposition on three essential grounds: people, even then, considered a general war unlikely; even less likely was the entry of the United States into such a war; and, finally, the six-year term was unrealistic in their view and would represent an intolerable strain. And anyway nobody was willing to be committed to a binding contract with a foreign government on these matters.

At one of our negotiating sessions, I quoted what Napoleon had once said about Austria: *'L'Autriche est toujours en retard ou d'une idée ou d'une armée ou d'une année.'* The Americans smiled, assuming the remark referred to them. After many difficulties, the negotiations were finally concluded in May; as far as I know, the agreements signed were the first such for war matériel signed in the Second World War.

The Senate Foreign Relations Committee invited me to lunch, not in any official capacity, but on an entirely personal basis. I found the invitation inopportune: any leak could easily have compromised my entire mission, but Cordell Hull and the Swiss Minister, Peter, both advised me to accept. As everywhere in American life, the simplicity and lack of protocol throughout the lunch were typical; questions rained down on me from all sides, quite unconstrained, serious and silly ones all mixed up together. The ease with which certain members of this highly important Committee skated over critically important issues both surprised and upset me. The basic attitude was: 'What are Vienna and Prague to us?' I recalled my mission and spoke in courteous diplomatic language.

The same evening I met the chief of the Finnish delegation, Väinö Tanner, who later became Prime Minister of Finland. He said to me, 'If Finland were governed the way this country is, we would have ceased to exist twenty years ago!' Finland had been independent for just twenty-two years.

'You may well be right,' I replied, 'but you are geographically between

the devil and the deep blue sea; the Americans here can afford the luxury of political nonsense, at least for the moment.'

'You mean, just until they too find themselves between the devil and the deep blue sea,' said Tanner thoughtfully.

Together with Liechti I concluded the options contracts with several leading firms; how gladly would I have signed contracts at fixed prices instead! But then in one area a critically important opportunity was offered. The leading ship broker of Bergen offered an entire fleet of Norwegian freighters for purchase on very favourable conditions: shipping prices were still very low. He wanted to come to Bern with firm offers shortly after my return.

I returned to Switzerland in June 1939, and was warmly received, especially since nobody had believed beforehand that my mission would succeed. We were also able to maintain secrecy till the very last, to avoid any upheaval on the markets. The Swiss authorities appointed an expert adviser on war shipping — a subject which few in Bern knew anything about; he was a retired executive of the Federal Railways, a worthy old freight-rate official, who alas understood nothing about his new duties. He acted according to the old maxim of the career bureaucrat: any proposal that did not come from him must be sabotaged. The Norwegians came to Bern with the firm offer of a fleet that would entirely have met Swiss requirements, on unusually favourable terms. But the adviser refused to recommend acceptance of the offer because if war did not break out, Switzerland would stand to lose the brokers' commission, which I believe was all of ½% or 1%. This happened at the end of July 1939! It is scarcely bearable to think of the appalling difference between the price then offered, and the price Switzerland ultimately had to pay, later in the war, when it acquired a Greek fleet.

46. The Summer of 1939

Our house in Zürich had long since become too small for our needs. First my sisters, who always accepted any personal sacrifice cheerfully, moved out to a hotel. The children were growing up — Schiller says 'the rooms grow, the house expands', but that was not appropriate in our small villa on the Sonnenbergstrasse. My sisters therefore rented a pretty villa, Le Rivage, in Chambésy near Geneva. They took a long-term lease on the villa that was to serve as their year-round residence, a summer place for May and our children, and a weekend *pied-à-terre* for me.

Geneva was at that time a dead city: the watch industry had failed for the past two decades to come out of its prolonged slump, and the banks had their problems in France and further east in Europe. The League of Nations, whose grandiose headquarters had just been finished, was still there, but it was on its last legs. However, the area surrounding Geneva was still a splendid setting for the contemplative life, truly a piece of eighteenth-century France. The gardens were beautiful; the houses tasteful even when neglected by their impoverished owners, especially where heating and water installations were concerned. The country roads round about were full of small-scale charm, even the steep and rocky Chemin des Chèvres that led to the small, modest church where the dignified Père Falquet received his small flock and gave sermons that would have warmed the heart of St Augustine. In that setting, I hoped I had installed my family in as quiet a spot as the times permitted, far from political disturbances. I myself remained in Zürich and devoted considerable efforts to calming the nervous clientele of my bank.

Carl Burckhardt called on me one evening: he was absolutely convinced that the war would begin in Danzig, and soon. On about 15 August I was driven with May from Chambésy to Zürich, arriving around noon. There was a man standing at the garden gate of our house, and May recognised him from his stiff white collar as Hjalmar Schacht. At the time, he was out of favour with the Führer and had spent a few months in the Ticino.

'I heard from your people', he opened, 'that you two would be returning around noon, and I waited for you. Is war coming? The people don't want it in any country.'

'Whoever asks the people these days?' I replied. 'War is certainly coming, and soon.'

'Then I'm driving back to Germany immediately,' said Schacht, whose

car was waiting across from my house. We shook hands, and he got into his car.

'Why don't you try to hold him back?' May asked me, 'he can't do anything more there.'

'He'd never survive a war here, in enforced idleness', was my reply.

The Germans in Hitler's era had the odd custom of setting a particular date weeks in advance for the start of some military operation, and then from time to time letting that date be known to small circles of people through calculated indiscretions. Thus we learned the date set for the occupation of Prague some months in advance, and also knew in the same way as early as the beginning of August that the first of September was the day fixed for the attack on Poland. We learned from a speech of General von Halder to the General Staff, a copy of which reached Switzerland, that Hitler would attack Poland even if he could not be sure of Russia's attitude; but after the Nazi-Soviet pact the offensive became that much more certain.

Hitler began from two assumptions: first, that he would succeed — and the Western powers would fail — to reach an accommodation with the Soviet Union, thus securing his eastern flank; and secondly, that Britain and France were ill-prepared for war. Both assumptions were correct, but he drew the wrong conclusion from them. Britain went to war despite her unpreparedness, and dragged a reluctant France with her.

Did Britain enter the war to put a stop to Hitler's plans for conquest, or because of its treaty obligations to Poland? The question has often been disputed, but it should be recalled that Britain concluded its alliance with Poland at a time when it knew quite well the grave danger which faced the Poles. Britain kept its word despite its military weakness at the time; no other country would have done the same, and that quite rare fidelity to its obligations will always stand to its credit. But then later in the war Britain let the same Poland for which it had endangered its very existence fall to the Russians. The lame lawyer's excuse with which it tried to justify that action was that the original pact spoke only in terms of mutual help against Germany and not against the Soviet Union. How oddly close are heroism and weakness; and how quickly war destroys public morality.

The first international corridor, the Sanjak of Novi-Bazar, lasted thirty-six years; the second, the Danzig corridor, lasted only twenty. When the Danzig corridor was created, many openly predicted that it would be a cause of hostilities, and they were right. But the Danzig corridor was of course not the cause of the Second World War. Poland, even an enlarged Poland with 30 million inhabitants, was defenceless against a German-

Russian alliance, and neither the Western Powers nor any international arrangements could have realistically helped it. I wrote in 1916: 'The Polish nation can only maintain its independence within the sphere of a great power.' That was to be amply proved in the course of this war.

47. The Second World War; Continuation of my Mission to Washington, September 1939 to the End of 1940

The war began with the destruction of the Polish Army within two weeks, just as von Halder had predicted. To the world's amazement, the French stayed put, behind the Maginot Line. People then had great regard for French generals, and thought that behind this immobility there was some fiendishly clever plan that would turn into brilliant reality. But more sensible military circles in Switzerland were sceptical: how could the French justify wasting even a minute at so critical a time? The story of 1866, when France gave the Prussians a free hand against Austria, seemed to be repeating itself, although at that time there had only been one Prussian division on the French frontier. This time round, the German forces were much stronger, though still not invincible.

Federal Councillor Obrecht was very concerned about the situation; he saw Switzerland's encirclement approaching rapidly, and asked me to travel again to America to carry out further preparedness measures. This time May went with me, and we left the children in the care of their aunts at Chambésy. We sailed at the end of September from Genoa aboard the Italian liner *Rex*, which was only one-fifth full. Among the passengers were the Japanese Ambassador in Berlin, General Oshima, who ostentatiously spoke German to his family, and Oumansky, the Russian Ambassador in Washington, who sat alone at a completely isolated table in one corner of the dining room, while all the other passengers were in the middle, which itself was hardly crowded. We assumed that he sat there at his own request, but the chief steward told us that all the waiters had simply refused to serve him, so that they had to be ordered specially to wait at his table in its corner. Oumansky was alone all day, avoided like the plague, particularly by Oshima, which struck us as particularly odd in view of the Nazi-Soviet Pact.

Also on board was an Italian Fascist commissar, who invited the passengers to drink Asti and liqueurs and then tried to influence them. By then I had been on the receiving end of political propaganda for over twenty-five years, and found that governments absurdly over-estimate its effectiveness, particularly in the case of grown-ups in the West. By the third sentence of the little speech one gets the drift, and simply ceases to listen further. These clumsy attempts to win the passengers over, here as on German-flag

vessels, usually had just the opposite effect to that intended.

We found all quiet and calm in the United States. Only European diplomats and especially their wives displayed nervousness; the public at large appeared to take the situation with some indifference. Neither the American nor any foreign government had given industry large orders, which I found incomprehensible. Prices in general, and those of securities, were low; the depression did not appear to have improved. In government circles there was the general opinion that the Maginot Line was a great success: the Germans would be stuck in front of this wall as they were halted before the trenches in the First World War; and with their scant reserves of gold and raw materials they could not hold out very long. When I advanced the opposite view, citing Gibbon on the Roman wall on the Main, or the Chinese Great Wall and its effectiveness — which seemed to me symbols of decline and proof of impoverishment of spirit —, I was treated like some overgrown schoolboy. The self-delusion of the Americans was a blessing for Switzerland, for it allowed us to stockpile supplies much more easily and cheaply than would otherwise have been the case. I therefore avoided political discussions as far as I could. The only far-sighted political commentary I heard at the time came from the head of the Finance Section of the American Chamber of Commerce, John Jay O'Connor, who agreed with my view that America would have a long, hard and very costly war on its hands; a similar view was held by Herbert Feis, the economics expert at the State Department, who had a difficult time putting his ideas across to the political officers.

In the middle of December 1939 we sailed home, again on the *Rex* bound for Genoa. The ship had so few passengers this time that they offered us the three cabins adjoining our own, gratis. The *Rex* was docked for an entire day in Gibraltar so that the British officials could unload all freight bound for Germany. 'These barbarians are even taking children's Christmas presents!' the Captain shouted to us, 'and they don't let us sail into our own Mediterranean. It is intolerable, and must be stopped!' We listened attentively: Italy was still neutral.

The ship docked for another day in Naples, and we took a taxi for an excursion in the area. The driver had been on the Abyssinian expedition. He said, 'If that man Mussolini drags us into another war, it will be the end of him.' May and I and our dear friend Straessle were amazed at these words, and the voice in which they were spoken. I reminded May of our California driver and his contempt for all those personalities and things so praised by advertising, and called her attention to the wide gulf between the press and the public opinion it purports to influence.

We docked the following morning in Genoa. There at the dockside was a cousin of May's, who had been astounded to find himself, with one exception, the only person there to welcome a huge luxury liner that would usually have been met by a great crowd of relatives and friends. When he asked his fellow-welcomer, an elderly Italian, if he was on the right pier to meet the *Rex*, the Italian confirmed it and asked May's cousin whom he was meeting. 'Relatives,' was the reply.

'Where are they coming from?'

'From America.'

'I don't understand.'

'Why?'

'If they were in America, why are they coming to Italy now?'

We missed the train connection in Milan, arrived in Lausanne at midnight, and were able to reach Geneva only by electric tram, the little train that waits at every station, in whose one small coach we sat perched on our many pieces of luggage. Since we were meant to arrive in Geneva only at 2.00 a.m., the three of us tried to decide how we could transfer our heavy cabin trunks from the station to home. The conductor heard our discussion as he came through and without saying anything to us telephoned through from the next stop to the station at Geneva, where we found porters and a car waiting. His telephone call was 'on official duty' and he refused reimbursement for it; he said it had been part of his 'service to the clientele.' That was a standard of service we would have encountered in no other railway system in the world: an official of a state railway accommodating passengers without charge, simply out of a sense of pride in providing service.

We found the same pessimistic mood in Switzerland as the elderly Italian had expressed on the pier at Genoa. My two sisters were a happy exception to the general rule; they contemplated the future with perfect calm, and prevented our children from noticing the general war nervousness.

Elsewhere, however, there was great excitement. Banks were requested officially to transfer their securities holdings and safe-deposit boxes to places in the mountains, and the larger banking institutions established offices in those remote places. We considered it unthinkable to try to carry on a banking business from mountain villages, and therefore established just one small bank in Geneva, in order to spread our risks, without making any concession to the hysteria of the time.

At the beginning of 1940 my colleague Dr Arthur Reitler left the bank and went to live in the countryside near Gstaad. He had always expressed

the firm determination to retire after his seventieth birthday: half a century of banking and the problems of clients and the world seemed to him enough. A Frenchman once remarked that what bound Reitler and me to each other was the perverse pleasure we shared in ridding ourselves of tiresome clients.

Reitler handled particularly repugnant characters with cold contempt. One such client had bought a series of American shares at the beginning of the 1930s at their all-time lows; with the exception of one holding, Electric Bonds and Shares, they had risen so far that his entire account had tripled in value. First he sent his wife to us with the complaint that the decline in Electric Bonds was ruining his sleep. Reitler had the man himself come to call and had his file ready.

The man came in saying 'What's wrong with Electric Bonds? They fell a whole dollar yesterday!'

'And the Nickel, the Standard Oil, the Steel, the Metal, the DuPont, the Allied Chemical?' Reitler tartly responded.

'Oh, I didn't look up those shares,' answered the client.

'You mean to tell me you only looked up the Electric Bonds? Out!' Reitler shouted, throwing his file directly at him.

'We're definitely rid of that creature,' Reitler said to me with triumph.

He was wrong. The man, a leading industrialist from the Western part of Germany, tried several times more to re-establish his connection with us, but without success. Suddenly we discovered that he was hiding behind a Dutch export firm that had opened an account with us. 'I treated him too well,' Reitler sighed.

In his business transactions, Reitler never went in for long-term investments, preferring to take his gains quickly, and collect his commissions even more quickly. He used to say, 'The banker reaps as much ingratitude as the dentist who is resented for extracting a tooth, because the patient fails to realise that otherwise it would have developed an abscess.' Reitler was by nature a pessimist, but within limits: he sometimes considered my pessimism exaggerated. But he carried out with energy and efficiency all the measures that were required by my prognostications; he overlooked no detail, and thought beyond immediate consequences to indirect ones as well.

We bade farewell to each other in Montreux. Reitler said, 'We've seen too much already, and I am not curious to experience the near future as a banker.' We sat together for a considerable time without speaking, and each was doubtless thinking the same thought: we were reviewing those two decades of joint work, which had begun at the end of one great war;

and now another was beginning, and the shore of the Lake of Geneva facing us belonged to one of the belligerents. To what end had we laboured, what had been the purpose of our lives?

'Do you really want to go on with the bank?' Reitler asked. 'It will all end sooner or later in nationalisation. They'll have to find a new name for war loans, but the confiscation will be just the same.'

'If Switzerland maintains its neutrality, which I believe it will, private banking will be able to survive this war too,' I said. 'I don't foresee a future of communism.'

'That's the first optimistic statement that I have ever heard from you!' said Reitler smiling, 'I hope you may be right.' His parting was unusually warm for him, as if he had a presentiment that this was to be our last meeting.

The decision to go on with the bank was hard for me. Jacques Blankart was an outstanding guardian of the house, utterly reliable and honourable. His son, on the other hand, was a sick man, who had become old before his time. That made it necessary for me to devote much more time to the bank than I had previously; but I did not want to leave an enterprise to which I had devoted two decades, just at a critical juncture, so I stayed on, requesting Obrecht not to appoint me to any further foreign missions.

At about that time Sumner Welles, United States Under Secretary of State, came to Europe to take soundings about the possibilities of peace before larger-scale hostilities erupted on the Western front. In Bern they had high hopes for the Welles mission, because they had grounds to believe that Hitler had his hands full with his eastern conquests and did not want to weaken the West fundamentally because of his fear of the Russians. On the other hand, there were fears that a large-scale military clash was approaching in the West, since rumours had swept Switzerland about a German plan for conquest titled 'From the Skagerrak to the Pyrenees'. These rumours were taken very seriously in Switzerland — rightly, as it soon turned out — and a German offensive was feared early in the new year. This was therefore the last possible moment to make sure of Italy's neutrality, which was critically important to Switzerland because of the port of Genoa.

The Sumner Welles mission failed because the French over-estimated the strength of their position. If they had had any foreknowledge of what was to be their fate within a few months, they might well have seen their way to making greater concessions to Italy.

When the failure of the Welles mission became apparent, Obrecht urgently asked me to travel again to Washington, for it was clear that

Switzerland would soon be cut off because of the foreseeable entry of Italy into the war and an equally foreseeable German offensive. When this critical situation came to pass, Obrecht wanted me in Washington. I refused, thinking of my family from whom I did not want to be separated, no matter what happened; and also thinking of the bank, which I did not want to abandon at such a time. But Obrecht wrote, appealing to me as a Swiss citizen to make a heavy personal sacrifice, and to prepare to sail in mid-March on the *Conte di Savoia*. And so I parted from my family with a heavy heart, and sailed on the same ship as the American delegation.

To my great surprise, I found optimism still the prevailing mood in Washington. The English and French military missions seemed to be in no hurry to make war purchases, and the Mussolini-Hitler meeting was almost ignored. Everyone believed in the Maginot Line and the strength of the French army. Hitler's unsettlingly rapid successes and the total isolation of France were taken with incredible *sang froid*. It was an election year and as was to be expected, both candidates promised peace. Insofar as there was any interest at all among Americans in foreign issues, it was concentrated on the Russo-Finnish war, which aroused the most attractive side of the American character, sympathy for a David struggling with Goliath. This sympathy for the Finns went so far that the Russians did not dare to open their pavilion at the New York World's Fair in 1940. But the heroic resistance of the Finns led to false conclusions about the Red Army, which was considerably under-rated.

When the Finns were at the point of capitulation, the British Government appealed to them to hold out just a few weeks longer, because aid from Britain would come to them. If the Finns had been able to last that long, Allied troops would surely have been engaged in combat with the Soviet Union, and thus would have assured the continuation of the Nazi-Soviet alliance. Did the British Government have some inkling of what was just about to take place in the North and West? Did London know that Britain itself would shortly be standing isolated and defenceless against the master of the continent? Was not the Finnish surrender the most fortunate of coincidences for Britain and the United States during the whole war?

In the spring of 1940 the 'Skagerrak to the Pyrenees' plan became reality. Hardly ever before in European history had the world seen such effective offensives, or such weakness and helplessness on the defending side. But even so, military observers in the United States remained quite calm. When the German push into France began, Colonel Magruder, Roosevelt's military aide, said to me that he expected a decisive French

counter-offensive at any moment. Knowing as I did von Seeckt's tactical teaching, I said I regarded the French situation as hopeless, whereupon Magruder harshly criticised me to close friends.

Soon, however, the blows of defeat came in legions; and the danger for Switzerland grew as the French were swept back from their defensive positions. President Roosevelt gave his Vice-President, Henry Wallace, an odd message to convey to Wallace's brother-in-law, who was the Swiss Minister: the Minister was to inform his government that if Switzerland submitted to Hitler without fighting, she would be left to her fate by America; but if she chose to resist, the United States would undertake the obligation of assisting in the restoration of Swiss sovereignty. Since telephone reporting was not then customary from Swiss diplomatic missions, and the danger of leaks was too great from public telephones, Dr Bruggman asked me to ring Federal Councillor Obrecht, and request him to be in touch with the President of the International Labour Office, who was informed of the matter from Washington. I was appalled when Obrecht telephoned me on an open line and said that Wynant of the International Labour Office had not understood Washington's message. Since time was of the essence, I had to transmit the gist of the message then and there. 'What do you advise us to answer?' asked Obrecht. 'Unsolicited offers should be noted without specific replies,' I answered.

The rapid advance of the Wehrmacht into France posed financial dangers for Switzerland: a not inconsiderable portion of the Swiss National Bank's gold reserves was on deposit with the Banque de France under the so-called Tripartite Agreement, and should have been evacuated to North Africa. I received confidential information concerning the whereabouts of certain units of the United States Navy, and informed the National Bank about them, advising that Swiss gold reserves should immediately be loaded on board the ships. A few weeks later, I received a telephone call from the Treasury in Washington.

'One of our warships has arrived in a home port with a gold shipment on board. We do not know the origin of this gold and wonder whether you can tell us anything about it.'

'Certainly,' I replied, 'the gold belongs to the Swiss National Bank.'

'How did it come aboard a United States Navy vessel?'

'I advised the Bank to load the gold on board.'

'Where did you apply for permission to do that?'

'Nowhere. If I had waited for official permission the gold would have been lost. The Germans were advancing beyond Bordeaux. Would you have preferred the gold to fall into their hands?'

'No, but see that it doesn't happen again.'

'I cannot promise that it won't,' was my reply.

When the German offensive got under way, the Treasury decided to block the assets and securities of citizens in the occupied countries so as to protect them from German confiscation. The Treasury official in charge, Bernstein, a man for sweeping solutions, proposed to extend the reach of these measures throughout the entire continent. He asked an official of the Swiss Legation to call on him, told him the freezing of foreign assets was a protective measure for property-owners, and then told the Secretary of State that Switzerland welcomed the assets freeze. I immediately went to Henry Morgenthau, Secretary of the Treasury, and with the support of Merle Cochran, the author of the Tripartite Agreement, managed to get Switzerland exempted from the regulations. Unfortunately, officials in Switzerland failed to understand either the difficulty or the meaning of that success.

The French collapsed with unforeseen speed under the impact of the German offensive. Italy entered the war, and France capitulated. I waited tensely for news of what Hitler would demand at Compiègne. Had he at that time reached out fraternally to the French and created a new empire with some equality between France and Germany, he would have become a new Charlemagne, and the French would have followed him enthusiastically wherever he chose to lead. But to all our good fortunes, he showed himself a charlatan rather than a Charlemagne at Compiègne.

Obrecht wrote despairingly to me in July 1940 that nothing could now stand in Hitler's path, and the future looked very dark. 'I do not see it that way at all,' I replied. 'Hitler has now reached his peak, and Britain her lowest point; but Britain can count on two allies, the Soviet Union and the United States, and the later these two enter the war, the weaker they will find Germany.' I sent a copy of this letter to my former colleague Reitler in Gstaad.

My letter impressed Obrecht who, as I was later to learn, had become seriously ill. In August 1940 I was sitting on the veranda of the Shoreham Hotel in Washington on a blazing hot evening when I felt a hand on my shoulder: it was Emil Ludwig, who had just come from Ascona, and had met Obrecht in Locarno. Obrecht had read my letter to him three times and Ludwig had thereupon come to Washington to speak with me.

'You have a large-scale view of the world,' Ludwig said. 'You can and must make it reality!'

'What are you referring to?'

'Why, the alliance between Great Britain, the Soviet Union and the United States.'

'That will come of itself.'

'It will be too late then! You must start things rolling immediately.'

'Not I. You should speak to Roosevelt and Oumansky.'

Emil Ludwig knew them both; he had written a biography of Roosevelt, and had an interview with Stalin at the time that Oumansky was Stalin's secretary. No non-official person could arrange appointments as fast as Ludwig: he rang that same evening, and was invited to lunch with Roosevelt and to a meeting with Oumansky the very next morning.

The following evening he came to dine with me, looking very dejected. He had suggested to Oumansky, as his own idea, that an alliance be concluded between Britain, the United States and the Soviet Union. 'With whom should we ally ourselves, with the British?' he reported Oumansky as saying. 'Those arrogant milords wash their hands four times after being with one of us. And the Americans? They're not to be taken seriously, they always say one thing today and the opposite tomorrow. No, we're not letting ourselves in for anything with these people.'

After all that cold water, Ludwig went to Roosevelt and reported on his meeting with Oumansky. 'So that's what the Ambassador said to you,' Roosevelt remarked angrily; 'I have twice tried to suggest such an arrangement with those people, and will never do it again. They don't keep their word and they break treaties; they're an impossible lot. An alliance with them — I could never live with that.'

Ludwig was crushed, but I laughed.

'Why are you laughing?' he asked in surprise. 'After all, it's your proposal that's fallen by the wayside.'

'My proposal?' I replied. 'No, you misunderstand me. I see such an alliance on the cards, because it has to come, irrespective of what the so-called leaders think about it right now.'

Ludwig just shook his head: he considered that France and Britain faced certain defeat.

Ten months later the alliance between Britain and the Soviet Union was a reality, and another six months after that saw America allied with both of them. 'Was ever woman in this humour won?'

Hardly ever have alliances been entered into with more distrust than during the Second World War. When Hitler came to Vienna, he found in the archives there evidence of the operations Mussolini planned against him; similar material must have been available concerning how each of the partners felt about the other. This mutual distrust continued throughout the entire conflict, and was never quite laid to rest — with one significant exception: the attitude of the United States to the Soviet Union. In this case, trust was not merely feigned but actually felt — and with what

fervour! — but only by one side. Heaven help the person who dared to utter a word of warning to the Americans!

Obrecht was now very ill, and begged me a few weeks before his death to stay in Washington and take the appropriate economic measures in Switzerland's interest, including preventing Swiss assets from being blocked under the proposed Treasury regulations. In order not to be separated from my family, I had no choice but to bring my wife, my sisters and my three still very young children to America. They arrived in New York in October 1940 after an adventure-filled trip, and with their arrival an entire new life began for me in America. Despite all the alarms and excursions, my family had very much enjoyed their voyage through Vichy France, and especially the part between the Mediterranean and the Pyrenees, although the poverty of Spain, still devastated by the Civil War, made a painful impression. In Madrid they had given their food to poor people who begged through the windows; and with their halting Spanish had tried to comfort a mother whose baby was dying for lack of milk. They had been surprised in Lisbon by the noise and activity of a war boom; the place had changed unrecognisably since May and I had been there seven years before, when it was the quietest spot in Western Europe. Now the streets and hotels were full of refugees and war profiteers of all kinds. My family almost missed the ship, which sailed two days earlier than scheduled. In the neighbouring cabin was a former French Prime Minister who became tearful when the Geneva Conference was mentioned, saying 'Oh, how unimaginably far off that now is!'

May was welcomed by friends and acquaintances with the American brand of hospitality which is unlike any other in the world. My sisters were wide-eyed and cheerful, observing the wonders of New York for the first time in their lives. To them the New Yorkers seemed quite extraordinary, and they commented on the fact that churchgoers who visited St Bartholomew's, opposite their hotel, ran in and out as if they had already lost too much time. They found it odd that the towers of St Patrick's Cathedral were not the highest but the lowest of all the towers in the neighbourhood; and that the bells could only be heard on Sundays, when the noise of traffic lessened somewhat. They asked all sorts of questions: was the crowding of so many people into so small a space really necessary in a continent the size of the United States? Why did one see so many tense faces and so few cheerful ones? Why were theatre tickets so absurdly expensive, and what were all those crowds doing on Broadway in the evenings? Our American friends did their best to answer the questions, but often got bogged down, not sure of their own explanations.

May was enchanted in the train coming down to Washington by the American love of children: our trio — nine, eight and five years old — were the centre of attention. All the people in the carriage spoke to them and tried to recall shreds of foreign languages to make themselves understood. Was it good humour, or the interest of a young country and its people in the future? My sisters looked out at the appallingly neglected landscape and listened to my explanations with amazement.

In Washington we rented two housekeeping apartments with kitchens in the Shoreham Hotel, which is in its own park, with a view out over a bridge that spans Rock Creek, a small stream whose many bridges cost more than many over far larger bodies of water. The hotel, although at the time hardly ten years old, had already had quite a varied history. It had been built by the owner of another hotel opposite, an Englishman named Wardman, who had worked himself up from obscurity and became so rich that he donated the land on which the British Government built its palatial Embassy. With his vast experience in hotel management, he built the Shoreham with a thousand rooms, each with views on to the park; the private suites with their large rooms and private kitchens were unique, almost unknown in any other establishment. But the Depression ruined Wardman; toward the end of 1940 the hotel was still half-empty, in sharp contrast to the situation once the war began for America. The management went out of their way to meet our every wish — the assistant manager was from the place where we had spent our childhood holidays, Goisern in the Salzkammergut — and we were thus spared some of the unpleasantness that otherwise would have accompanied a prolonged stay in an hotel. But that we were to spend a dozen years at the Shoreham was beyond my imagination at the time.

In the last months of 1940 the United States Government sequestered the chemical companies that belonged to I.G. Chemie, a holding company with headquarters in Basel, part of the I.G. Farben group, and I received orders from the Swiss Government to lodge a formal protest. I registered my strong opposition to such a move, saying that there was no doubt of the correctness of the Swiss position on pure legal grounds, but explaining that the Americans had acted from practical rather than strictly legal considerations. I further said that after we had won so difficult a victory in the struggle over the American attempt to block all Swiss assets, it would be highly inadvisable to become involved in this particular matter.

Even as I was engaged in this tussle, my banking firm, from which I had taken formal leave, was requested by the British Consulate in Zürich to

provide information about a client's account, and refused, in accordance with Swiss banking laws. The entire matter was settled very quickly, to the satisfaction of Blankart & Cie. and the British authorities; but although the affair did not affect my position in America, I felt it appropriate to resign my official mission. It had in any event lasted far longer than I had planned, and Federal Councillor Obrecht, whose idea it was, had meanwhile died.

I prepared to return to Switzerland in the first half of 1941, but was told that that would be possible only for me personally, but not for my family.

Since I was no longer in a position to deal with Swiss financial questions, events took the turn I had feared: the Swiss official protest concerning I.G. Chemie led to the blocking of all Swiss assets in the United States. Despite my warnings, the Swiss authorities had considered such a move impossible. When the regulations were published, a Treasury representative predicted to me that the Swiss franc would now begin to fall.

'On the contrary,' I replied, 'it will rise, and rise all too far.'

That proved correct subsequently: the dollar sank from 4.30 to 3.00 Swiss francs, and was held at that level only by vigorous intervention.

I have found very few politicians and diplomats who understand economic questions; conversely, those who are well-acquainted with financial and economic matters seldom have political gifts. But little as I sympathise with the Marxists and other materialists who ascribe all political happenings to the economic factor, I consider it a great shame that today in America and Western Europe politics and economics are so separate. In Washington I met many individuals, including military officers, who had a real feeling for economic policy, but who were seldom able to put their views across. And there was not one of these individuals among the members of Roosevelt's Brain Trust or the Secretaries of State throughout the war.

48. My Position in Washington; the War with Japan

To have a public function, as the citizen of a foreign country, is always a delicate matter; especially so in the twentieth century and in the United States. The times of Schomburg and Prince Eugen, of von Jomini, Salis, Planta and Reding, but also of Necker and Gallatin, are long past. Americans acquire in their school days the odd notion that their ancestors came to the United States to escape political and religious persecution. These motives may have actuated a very tiny minority among the immigrants, but for the overwhelming majority, economic motives were uppermost. Hitler's persecutions strengthened this ancient American myth: Europeans were seen as political refugees, to whom the protection of America should be extended, and the United States was to become their new and better home. That was generous in conception, and very often in administration too. But it had three disadvantages, which had not been experienced before: a well-meaning condescension on the part of Americans; a sensitivity over foreigners becoming involved in American affairs; and a feeling of being insulted by those Europeans who decided not to adopt American citizenship. In due course there was also the oppressive element represented by the European debts to the United States. The very word 'European' meant an eternal beggar. Those whose parents had been immigrants from Europe were particularly ostentatious in their patriotism; and the new citizens, who went about saying 'We Americans', often behaved in specially offensive ways. People gave readily and generously, but all too obviously congratulated themselves, and reminded the recipients rather readily too.

'You cannot imagine', a high-ranking British official once said to me in the anteroom of a Washington government department, 'how galling it is to find oneself cast overnight from the position of creditor to that of debtor, especially when one is made to feel it afresh every day.'

I was in an entirely different position: I was no refugee, I had not lost my country; indeed, Switzerland represented American interests in Germany, Italy and Japan. Moreover, Switzerland never needed financial assistance; throughout the entire war, it was never a problem for the Swiss authorities to provide themselves with dollars — but it was something of a problem for the Americans to supply themselves with indispensable Swiss francs. I myself sought neither private nor public employment, and required no supplementary income.

My position was then unique; but to mention my anomalous status

even in self-defence was to invite criticism for presumption. The Americans were very fond of their role as political and financial benefactors, and easily took offence when they met someone who had no need of their generosity. Their feelings sprang from goodwill; and we understood, even if we were often slightly amused when confronted with these attitudes. It is always awkward to have to keep explaining oneself, and I was able successfully to avoid that necessity. Since in Washington, as in any bureaucracy, an official car and driver are the dream of every high-ranking official, May, my sisters and I refused throughout our twelve years to own a car. As usual, I wrote my own letters and manuscripts, and all secretarial work was done by my wife and sisters. I avoided social life as far as I could, seeing only a few close friends; and we seldom invited guests to call on us.

Americans are admirable in the art of organisation and in those areas of life where such skills are best deployed, especially industry and in the prosecution of war. I was keenly interested in the shepherd, the sheepdogs and the shepherd's crook — but I left the herd itself to others. Mass society may have its uses for the purposes to which it is applied; for those who do not share those purposes, it has little meaning. By abstaining from most of the big receptions and other public gatherings of Washington I saved myself a great deal of time and health. In London and Paris one can think aloud, even on social occasions, but not in America; that is one of the weaknesses of mass existence. We were fortunate in being able to meet thinkers in Boston, New Haven or Princeton; in Washington one seldom met intellectuals of any kind. People in Washington were caught up in things and events, they did not stand above them. May took on, with great success, the social role that I preferred not to assume. She was wonderfully gifted in entering any circle without being in the least influenced by those within it. When she came into a room, people were attentive, the entire tone became quieter, conflicts were resolved, harsh laughter gave way to smiles. She created a circle of her own friends, and they gradually accustomed themselves to seeing me once a year in their midst, when I enjoyed American good humour, friendliness and cheer even more than otherwise. For her sake and that of my children I should have cultivated friends much more; but the grim seriousness of the time weighed on me too much.

Even in the spring and summer of 1941 people in Washington did not take the situation very seriously: they still hoped optimistically for the mutual destruction of the Fascists and Bolsheviks.

In early 1941 Mussolini had prepared an attack on Albania and Greece, and informed Hitler of his plans at a meeting in Florence. Horace Finaly, a Paris banker who was living in New York as a refugee, received by

coincidence a report of this meeting, leaked from Mussolini's own office, and passed it on to me. Hitler was very reluctant to accept the Italian plans, particularly their opening moves, which had not been cleared with him. He was reported to have wandered through the Uffizi and Pitti galleries in a state of apathy, unimpressed by either Renaissance or Baroque art. It then rained, and the Italians were beside themselves with anxiety as to how to entertain the Führer. Then someone told Mussolini of the existence of a collection of pictures from around 1880, a period Hitler loved, in the Villa La Pietra. The collection had been established by Horace Landau and bequeathed to his great-nephew, a member of the Finaly family. Mussolini took Hitler to the Villa La Pietra. Hitler stood for a long time before a woman's portrait by Makart, and seemed unable to tear himself away. He was full of enthusiasm, and wanted to purchase the portrait at any price, whereupon Mussolini generously gave it to him as a gift. Hitler left Florence beaming, and readily consented to all the Italian plans. Mussolini then approached Finaly in considerable embarrassment, and explained the matter, asking Finaly to name his price for the picture. Finaly replied that the portrait was of his mother, Mme Jenny Finaly, and that he would never sell it, least of all to the man who had caused his flight from France. Why, out of all the splendid female portraits he was shown, Hitler was captivated only by the picture of a Viennese Jewess is a mystery perhaps psychiatrists can fathom.

Finaly himself attributed Hitler's ill humour to simple irritation with the Italian competition; and also to the fact that the Crown Princess of Greece was a grand-daughter of Kaiser Wilhelm. However, I suspected that Hitler had designs against the Soviet Union and wanted no distracting sideshows. It was widely known that Hitler had studied Napoleon's Russian campaign in 1812 with special admiration, and taken to heart the criticism made by the Tsar: the principal mistake had been in delaying the offensive by two months. Even in a period of much improved communications, it was imperative to launch any attack on Russia in April, so as to minimise the risk of being caught by winter. Had the Germans not lost two months because of the entirely superfluous Balkan campaign, Moscow would probably have fallen before the beginning of winter.

When Americans speak of the war with Japan, they date it from 1941; or, if they happen to be diplomats, from 1931-2, when the Japanese attacked Manchuria. But both these events were merely the consequences of earlier happenings in American policy.

Theodore Roosevelt's significant role as arbitrator in the Russo-Japanese War of 1905 is well known. But a few years later, without any

particular reason, Japanese immigration to America was banned. The origins of that legislation go back to California populism: it was directed against the only Asian country that is spiritually akin to the Europeans. The banning of Japanese immigration was an act of unfair competition against labour that was superior in ability to the American, and it was especially humiliating to the Japanese at a time of international freedom of migration; for in this case, as earlier in the case of Chinese exclusion, racial discrimination was obvious, sanctioned in legislation, and had the effect of blocking Japanese access to the other side of the Pacific. Half a century previously, the American Commodore Perry had forced the opening of Japanese ports by referring to principles of free trade; and now the Japanese were prevented by the same America from exporting the surplus population that had accumulated in those fifty years.

In the *Tales of a Thousand and One Nights* there is a wonderful story. The Caliph Haroun once saw his Grand Vizier torturing a man repeatedly and horribly. 'What did he do to you?' the Caliph asked. 'Nothing', replied the Grand Vizier, 'but I have committed a serious injustice against him, and since that time I have been thinking only of his destruction.'

The United States expressly excluded from the jurisdiction of the League of Nations at the Versailles peace negotiations any of the areas covered by the Monroe Doctrine; but refused to grant any analogous right to the Japanese as far as their side of the Pacific was concerned. The Americans forced the Japanese to evacuate Vladivostok; they caused Britain to end its alliance with Japan; they took the initiative in combating the Japanese incursion into Manchuria; wherever the Japanese moved, they ran up against American resistance.

In Geneva in 1931, at a social gathering, I met the then American Secretary of State, Henry Stimson, and told him the story of Bismarck and Marquis Ito. Ito is reported to have said to Bismarck: 'If you attack Russia, we shall come from the other side and assist Germany.' Bismarck looked down at the small Japanese diplomat, as if to say 'And who are you?'

'What do you mean by all that?' Stimson asked me. 'It applies to you!' I replied. But Stimson understood as little as Bismarck had done. For him, a lawyer by training, the Japanese were simply the 'aggressors'.

But why was there not an effort to find a positive solution for the Japanese problem of surplus population? Was not the boycotting of Japan on all sides bound to lead to conflict?

I followed the progress of American-Japanese negotiations throughout the summer and autumn of 1941 with breathless suspense. An entire group of my most brilliant students had come from Japan; two of my closest

friends, Schumpeter and Lederer, had been guest lecturers in Japan and had returned full of admiration for the Japanese. I felt that war with Japan could only arise from the most profound political ignorance. When the outstanding Konoye succeeded in persuading the Emperor to agree to a meeting with the American President in Alaska, I felt the situation had been saved, but I was completely mistaken. Neither then, nor later when I was able to study the official documents, could I understand why the United States refused that meeting; the refusal played directly into the hands of the Japanese war party.

My friend Straessle, Managing Director of the Swiss Credit Bank, who several months later organised the exchange of American and Japanese diplomats, told me of an episode that had occurred on board the *Gripsholm* which was chartered for the exchange. The Japanese special envoy, Kurusu, asked Straessle one evening to inform the Swiss Federal Council that he (Kurusu) and his colleagues had received strict instructions to do all in their power to prevent hostilities, and that he had negotiated in good faith; but that Washington for its part had made the negotiations impossible. Kurusu surely had not the slightest reason at that time to deceive the Swiss Government.

Explanations of that sort among men of affairs seem to me far more revealing than any number of official documents, which are always so over-rated in our time. Did Roosevelt purposely provoke the breach with Japan because he feared a final victory by Hitler, and was able to bring the United States into the war only via a conflict with Japan? Was the bombing of Pearl Harbor opportune for him? That is what many of his enemies said at the time, while his friends condemned the notion as slanderous. Those who judge only by the documents that are made available will be as little enlightened as those who attempted to fix the blame for the First World War. Criminologists and archival historians should keep well away from judging political motivations.

Roosevelt's deeper intentions cannot be proved with any certainty; there does, however, seem to be an analogy with the position of the United States before its entry into the First World War. At that time, Russia was on the brink of collapse, and Wilson feared that Britain would be defeated; the situation in the autumn of 1941 was similar. The Germans were approaching Moscow, and from Washington the collapse of the Soviet Union appeared imminent. The second American President of the Democratic Party who was in power during a world war felt he was in the same position that had caused Wilson to declare war. But this time Hitler took the initiative, not the United States.

Why did Hitler give the Japanese a free hand against the Russians, although he did not want a war with the United States and had reason to fear redeployment to the Western front of the Russian army stationed in Manchuria? Apparently neither Hitler, Roosevelt nor the Japanese had foreseen the German reverses before Moscow. For Hitler the only move that could have kept the Russian armies in the east occupied in Manchuria, and thus used them to prevent Japan from attacking the United States, was lost. His defeat at Moscow lost him the game; it was a blessing for the Soviet Union. Hitler's reverses were not foreseen by Roosevelt, as was obvious in Washington at the time. But who is granted foreknowledge of the enemy's mistakes?

The seventh of December 1941, the day of Pearl Harbor, has remained unforgettable for me. It was a Sunday, and shortly after 2.00 p.m. my friend John Jay O'Connor, Finance Director of the United States Chamber of Commerce, startled me with the news of the surprise attack and the destruction of the fleet. Shortly after came the radio announcement with the usual international official lies, reporting merely the destruction of one ship and the damaging of another.

Even before the outbreak of war, the United States had lost its Pacific fleet, inglorious and obsolete as it was. We expected to find universal gloom. That same afternoon we were invited to a party and I went, despite my usual habit of non-attendance, because I wanted to test the mood. To our astonishment we found an absolutely cheerful atmosphere. We were greeted with the question 'Have you heard the latest? The United States Navy now consists only of submarines!' This joke was enough to cheer everyone up; all were convinced that this was a mere episode that would be quickly forgotten. We asked ourselves if this reaction was frivolous, or whether it represented an admirable optimism. In the coming years the second alternative was proved correct: for very soon a new fleet was built, larger and stronger than the Royal Navy, which was to destroy the Japanese navy. Optimism was in fact justified; but the population at large did not have its understanding deepened even by the catastrophe of Pearl Harbor.

49. Summer Days in Sugar Hill, 1942 and 1943; Chief Justice Stone and Peace Questions

Throughout the four war years, May spent each summer with the children at Sugar Hill, a mountain village near Franconia in New Hampshire, while my sisters sacrificed their comfort for my sake and kept me company in the humid broiling heat of Washington. I went from time to time for visits with the family.

Chief Justice Harlan F. Stone and his wife lived in a neighbouring cottage. Stone was a distinguished jurist and a fine man. We often took walks together and discussed our concerns in long conversations. My foreign citizenship did not inhibit Stone from the free expression of his views; on the contrary, it was an opportunity for him to compare his opinions with those of a European friend. Stone was free from worldly vanity, and was modest in his judgement of both himself and his profession. He told with great charm of how he had once called on his famous colleague Justice Holmes to congratulate him on his ninetieth birthday, and told Holmes that he had just heard a superb concert by a talented young violinist. 'Yes, being able to play like that is a great gift,' said Holmes, 'then later you don't look back with sorrow on an empty life.' 'But Mr Holmes,' Stone protested, 'is your life empty? Your important legal treatises, your famous decisions?' 'You cannot fool God,' Holmes answered grimly.

Another time Stone told me a story to illustrate how fleeting fame can be in America. He paid a courtesy call on President Coolidge on the President's last day in office. Coolidge told him, 'I used to receive about 2,000 letters a day, and callers crowded the anterooms in the White House. Today I received not one letter, and you are my only visitor!'

President Roosevelt summoned Stone from Sugar Hill one day for a meeting in Washington. 'I never saw him so charming,' Stone recounted on his return. 'He offered me a particular position in connection with the war administration, with the obvious intention of getting me off the Supreme Court. I replied that in my present position I felt I understood about half of the matters I should understand, and constantly suffered from my lack of understanding of the other half. How then should I take on an office in which I understand absolutely nothing? The President laughed and said "Oh, you're not the only one!", and went on to paint the new position in glowing colours. Carried away by his own rhetoric, he said "Don't you find that interesting, my dear ____?" and mentioned by accident

the name of the man by whom he wanted to replace me on the Supreme Court. The President bit his tongue angrily, and I said, deliberately choosing to misunderstand, "Oh, he'd be the ideal man for the war administration job, he can take on anything, because he understands nothing!" President Roosevelt's mood changed abruptly, and the interview was quickly over.'

Another time, in 1942, Stone was called back to a special sitting of the Supreme Court because some German defendant had chosen to rely in his brief on Magna Carta. My son Wolfgang, then ten years old, heard about it and asked me what Magna Carta was, so I wrote him a humorous reply:

'The Normans, who were foreign invaders, were able after one successful battle to deprive the English of their property and to divide the whole country among a few hundred Normans. About a century and a half later these Norman magnates forced their king to agree not to impose burdens on them without their consent; that is, these few hundred families were not satisfied with the free acquisition of enormous parcels of land, they also wanted to be tax-free as well. This Magna Carta increased almost infinitely the privileges of a tiny foreign land-owning class, to the detriment of the natives, the subordinate class of Anglo-Saxons. But it is to this document that the British and the Americans ascribe their essential democratic rights.

'Now, that will not be easy for you to understand, so imagine that Hitler wins in his Russian campaign and divides the entire country among a thousand of his party comrades. After two generations there comes a more moderate successor, who wants to ease the pressure on the Russians, but the German Party people in possession force him to abstain from all those moderate measures for an indefinite period — and then the Russians ascribe all their freedoms to this act.

'You can't understand that either? Too bad! It is something children should find easy to understand; the more one grows up the less comprehensible it is. Grown-ups tend to speak of the lies of history — and out of such lies the most important human institutions arise.'

Stone was amused by my memorandum, and said, 'Jefferson would admit his mistake in ascribing our tradition of freedom to Hengist and Horsa.' We were talking about the motives of Sidney and the Puritans, who revived the old half-forgotten Magna Carta for their own purposes. 'In that long line from Cicero to Marsilius of Padua, Sidney and John Locke to Jefferson, there were only lawyers and propagandists, but no objective thinkers,' I remarked, 'and certainly not one theologian.'

'Theologians least of all', Stone laughed.

It was perhaps this conversation, one of many that Stone and I had in

1943, that caused him later to discuss a legal and political question with me. Roosevelt had entrusted Stone with the task of doing the preliminary work on the peace treaties to be signed after the war. Stone asked me what in my opinion were the most important problems that might arise in that context. I replied, 'The chief question to be answered is, with *whom* can one conclude a peace treaty?' I then said that the very principle of popular sovereignty contradicted the notion of a long-term treaty, and added that it was difficult to foresee what individuals could undertake to sign a peace treaty for a totalitarian state, considering the life of such a treaty. The parliamentary arrangements that would succeed a defeated totalitarian system were pure fiction; quite soon after Versailles, the men who had signed for Germany were swept violently away.

'Who guarantees the continuity of a government system that underlies a lasting peace? Without such continuity any peace treaty is just a scrap of paper.'

'From that point of view,' said Stone, 'a monarchy had undoubted advantages.'

'Certainly,' I replied, 'and I think the worst political mistake Wilson made in the First World War was to destroy the monarchies of Central Europe. I very much hope that mistake will not be repeated this time with Japan. If the dynasty there is eliminated, the most reliable link to the West will be destroyed, and chaos created for the future.'

'And why does a hereditary monarchy maintain peace treaties better than a democracy?'

'Any political party that takes over a defeated country is by definition weak; the opposition easily works against that party, precisely by undermining the terms of peace, and can pursue its campaign without any scruples because its members never signed the peace treaty. The position of a monarchy is fundamentally different: if it rejected the peace, that would be tantamount to disavowing the monarchy; and according to Montesquieu, the fundamental principle of monarchy is honour.'

50. The Quebec Conference, September 1944

I was at the Ambassador Hotel in New York on the morning of 11 September 1944 when Archduke Otto, head of the Habsburg imperial family, asked me if I could immediately join him at Grand Central Station for an urgent meeting. He had just come in overnight from Washington and was waiting for the train to Quebec, where he had been invited to the conference.

His exceptionally hard fate had freed Otto von Habsburg of all illusions. His demeanour of studied calm immunised him against the attacks of paid and unpaid ruffians. For both leading dictators, Hitler and Stalin, he was enemy number one because both, with their keen political instincts, understood the meaning of his name. Perhaps they were the only leading political figures who did.

Otto von Habsburg asked for my opinion of the general situation. Since there were only a few minutes before his train was due to leave, I quickly answered: 'America has lost the peace; it failed to lift a finger for the men of the Resistance against Hitler. Germany will count for nothing in terms of political power for a decade after the war. That means temporary Russian hegemony, and the beginning of a struggle between the Soviet Union and the United States. I understand from reliable sources that Henry Morgenthau, the Secretary of the Treasury, will propose to Roosevelt and Churchill at Quebec a plan to destroy Germany's industry and turn the country back into an agricultural economy. That is arrant nonsense. I advise you, if there is any opportunity in Quebec to do so, to give the sternest warnings against any such lunatic schemes. Any project to force Germany into becoming an agricultural country would make Germany the perpetual enemy of the United States, which must be avoided at all costs because such hostility could endanger the entire existence of Europe as well as the United States. If you should have the impression that this plan is going through, then I urge you strongly to distance yourself from both the British and American Governments throughout the discussions.'

Archduke Otto related to me a few days later what had transpired in Quebec. He had been received by President Roosevelt at 4.00 p.m., and the President informed him that he had just accepted the plan proposed to him by the Secretary of the Treasury. Archduke Otto had pointed out the dangers of the proposal, but it was apparent that Roosevelt had hardly any idea of what was in it, and explained that he had in fact not even read Morgenthau's memorandum.

Roosevelt appeared to be utterly worn out physically, and said, 'You

see how things are with me. You'd better speak with the little dark man.' He meant Thomas E. Dewey, his Republican opponent.

'He is an extremely sick man,' said Archduke Otto. He had seen the President many times in the previous few years, and so was in a position to notice how his strength had ebbed. The experience had shaken him.

At 4.00 p.m. Roosevelt had not yet read the Morgenthau Plan, and at 7.00 that same evening the Plan was issued to the press!

Two months later Roosevelt won the election against Dewey, somewhat to his own surprise, and then proceeded to the negotiations with Stalin at Yalta. No individual in the world has more important decisions to take than the President of the United States. Roosevelt was physically incapable of making these decisions even at the time of the Quebec Conference. Those who deliberately concealed his state of health from the country bear a heavy responsibility for what happened not only at Quebec but at Yalta as well.

51. Controversy over the Emperor of Japan, 1945; The Doctrine of Monarchism

My remarks to Chief Justice Stone, made in the strictest personal confidence, appear nonetheless in some unfathomable way to have penetrated into public consciousness. At the beginning of 1945 there was a spate of attacks by left-wing journalists in the United States press on 'the new Le Maistre', some arch-reactionary who was never mentioned by name. Finally a German émigré periodical published an article attacking me, and accusing me of inspiring all sorts of monarchical movements. All these accusations were in the context of the debate over the fate of the Emperor of Japan, which was being bitterly fought at the time. I do not know whether Stone at some point brought my views to the attention of government authorities, and if so whether they had any influence on decision-making. But it was strange that I was repeatedly questioned by various official agents as to whether I had banking or other interests in Japan; and when I said I had none, they wanted always to know why, that being the case, I had come out publicly in favour of retaining the Emperor in Japan. I consistently replied that if we were now to add to the utter chaos in Europe the destruction of Europe's only possible friend in the East, then none of us could look forward to a life of freedom. Nobody wanted to believe that this conviction — and only that — was the sole reason for my position. When I wrote an article in defence of the former Japanese Prime Minister, Konoye — shortly before he committed suicide while in American custody — I found no publication willing to risk publishing it.

It is extremely hard to represent the interests of international order in opposition to the trend of the times, and against the prevailing opinions of fanatical masses in war conditions; especially hard in America, where separating oneself from the crowd is considered blameworthy *per se*. Moreover, American commercialism, communism and socialism all have the same materialistic convictions in common. The problem of Japan affected all Americans, but few were directly concerned about it. That made it all the more praiseworthy on the part of the then Administration to oppose its own party platform and refrain from touching the structure of the Japanese monarchy. America had apparently learned something from the catastrophic experiences of the period following the First World War.

The American constitution was written in the eighteenth century for a sparsely populated country with hardly any history. Transferring such

conceptions to an over-populated island with a thousand-year past would have led to a terrible fiasco. Doubtless those who advocated a Japanese republic did so in good faith; they wanted to give the island empire the very best constitution they could conceive; but they had no idea how much their success in imposing a republic would have endangered the United States.

52. Currency Questions before the North Africa and Normandy Landings

Shortly after my Swiss Government assignment ended, I was asked by the United States military authorities if I were willing to take charge of currency questions in the Pentagon. I refused, referring to my foreign citizenship and the obligation of neutrality that went with the Swiss passport. In a short time, I was asked whether I might agree nonetheless to act as adviser on certain key questions. I could not refuse such a request, but made acceptance conditional on my not being asked to advise on any political affairs; also, I was not to receive any compensation for my services. The first condition was immediately met, the second was met only with considerable reluctance.

I deliberately confined my advisory work at the Pentagon to entirely technical elements of currency questions. These questions came in vast volume, and their solution was consistently blocked by the vanity of the several governments concerned, all of whom wanted to maintain the highest possible exchange rates for their own currencies, with the intention of exploiting the American military planners as much as possible. Nobody of course heeded the future consequences of such behaviour.

One morning in 1943 I was telephoned at 6.00 a.m. and asked to come to a meeting at the Pentagon as soon as possible. Having arrived at the meeting, I was asked what the appropriate parity between the dollar and the French franc might be. I replied with the counter-question as to which franc they meant, the one in France itself or the one circulating in North Africa, and was stared at with undisguised suspicion.

'What do you know?' asked the chairman.

'I do not understand your question,' was my reply.

'Well, why do you differentiate between the mainland and the African French franc?'

'Because they have two quite distinct exchange rates, and the relation of each to the dollar must also therefore vary.'

'If that is the case,' said the chairman, 'then you must swear not to tell anybody the questions we have asked you.'

After I had given the undertaking requested, the chairman told me they were considering the African franc-dollar relationship.

It was now clear to me that an African offensive was being planned, and I asked the chairman to allow me time to prepare my answers, which he refused. Compelled to answer on the spot, I explained that a rate of 150

francs to the dollar seemed to me the most reasonable, whereupon I was told that the French authorities were insisting on a rate of 50 francs to the dollar. 'If that is to be the rate,' I said, 'the biggest black market will develop.' I was asked to explain the meaning of that term, and when I had done so, one colonel said with contempt, 'Wherever the United States Army goes, there will be no black market.'

One hour later I gave the rapporteur of that meeting a memorandum I had written in haste, asking him to pass it on to Secretary of State Stimson and to the President. In it I sketched the dire consequences of the currency arrangements they were proposing to institute in North Africa. In parting, I remarked to the assembled officers at the meeting, 'One learns a great deal when one has insight into the workings of various governments.' When they asked what I meant, I went on, 'I once assumed that arrogant know-all attitudes were the exclusive preserve of the Prussian General Staff. I did them an injustice: militarism is the same everywhere; an overbearing attitude is apparently of its very essence.'

There were far more important decisions to take some time later when a meeting was called for a discussion of currency questions on the eve of the Normandy landings. How should the dollar rate be established for France, Belgium and the Netherlands? To be sure, the American authorities now had the experience of North Africa and Italy behind them, and were to some degree enlightened by it; but when I would not be bound by the strict limits of the question and considered the full consequences of currency relationships in occupied Europe, my boldness aroused admiration, but also some degree of consternation.

For centuries there had been so much talk of a united Europe. Most of those who dealt with this concept were unrealistic dreamers, and very few really thought the problems through to the end. With the exception of the age of religious wars, one could hardly imagine a less propitious time for any unification programme than our century with its rampant nationalisms. If we were merely to re-establish the old system of national states with their own customs, currencies and attempts at autarchic economies, we would have the old chaos for eternity, however much any younger generation might desire change.

But in those weeks before the Normandy landing there was an historic moment, the only such there was to be, when the economic unity of Europe might have been imposed at one stroke. Germany, France, Italy, Belgium and Holland all had two things in common: they were all utterly crushed, and all were dependent on assistance from the United States alone. Before the invasions, the United States could have completely

restructured Western and Central Europe; by the day of the landing itself it was already too late.

Nobody in Washington understood, but there are moments in history that must be exploited, for they never recur. I proposed that we should not consider the relation of individual currencies to the dollar, but that dollars themselves should be introduced as the currency in Western and Central Europe, at rates to be determined by the prevailing free-market rates in Switzerland. The Belgian representative, Van Zeeland, expressed strong opposition; I understood his reasons, but did not give them much weight. When many others reproached me for selling out Europe to the Americans, I defended my views with the calm conviction that my scheme would save Europe from monetary problems for many years. The American representatives appeared very much interested in my plan, but they did not dare to express their opinions, because the ideas I expressed went far beyond the limited authority they had been granted as participants in the meeting. We had to content ourselves ultimately with fixing parities among various national currencies.

Like the ancient Romans, the Americans wish to '*debellare superbos*'; but when they have achieved that, they no longer know how to proceed. They do not know their own course.

53. The Bretton Woods Conference, 1944

My proposal for post-war economic reconstruction was that there should be a currency union limited to Western Europe, regulated by the creditor countries. Leon Fraser, formerly president of the Bank for International Settlements in Basel and then of the First National Bank in New York, wrote a special memorandum that confined itself solely to the issue of a large-scale loan to England. Restoration of the City of London's international position was a matter of world concern; the gap in the international economic order left by the crash of 1929-30 had not been filled by New York. The sooner action was taken the better, Fraser contended, and it was absolutely necessary to restore and strengthen England's special position.

Leon Fraser did not have the necessary push to see his proposal through: he was a mild-mannered, good-humoured man, weighed down by domestic troubles, and president of a Wall Street bank at a time when the Administration was anti-bank in feeling. Moreover, his down-to-earth calm was out of joint with the growing hysteria of the war years. World-scale philanthropists were in fashion in those years; they propagated the notion that immediately after the war ended, a war that had so closely followed the first, there should somehow be full employment without any time for recovery — and at the same time international stabilisation! At about the same time, in 1944, two separate finance proposals were written, one in London and the other from the Treasury in Washington, each accompanied by all the fuss and sensation of war propaganda.

I had met Keynes only once, in circumstances I have already described; that had been a chance meeting, and I had not kept up any contact with him in the intervening fifteen years. I was all the more surprised to receive from official British sources a confidential memorandum of his scheme for a Clearing Union, which was sent to me at Keynes's request. Naturally people hurried from all countries to acclaim this new message of salvation.

Herr Bachmann, president of the Swiss National Bank, asked me for my opinion. I very strongly urged that Switzerland should not participate in either the London or the Washington scheme. The Keynes plan, I said, was a bold attempt by the debtors to make a raid on the resources of the creditors; not even the most naive observer could fail to see that. I further predicted that what would come of all this would be an unsatisfactory compromise, because people were preaching what they in fact did not want: the majority wanted inflation, but a fund was to be created which

would preside over devaluations by international agreement. I considered that plans for a World Bank were more promising. But in all these institutions, the Soviet Union, France and even China were meant to play leading roles; and who would be in a position to influence Russia in internal matters? Who could stop Chinese inflation? How, for that matter, would France's political constellation appear after the war? I maintained that Switzerland could join all these institutions at any time, but should not do so one day earlier than necessary; or at least not until the political situation became much clearer, and that would be some considerable time ahead. Bachmann thanked me and said that Switzerland would not for the time being participate in the Bretton Woods institutions. He sent this letter by courier to the Swiss Legation, which passed it on first to the United States Government before sending it on to me. I thus received word of the letter first from the American Government and only later from the Swiss Legation.

In the event, the development of the Bretton Woods arrangements was remarkable. Two political catastrophes had unexpectedly favourable economic consequences. First the Soviet Union's refusal to cooperate with the United States, and later the revolution in China, removed these two powers from their central positions within the Bretton Woods scheme, thus sparing the world many bitter conflicts and inevitable disappointments. And later still, intelligent administration of the World Bank and International Monetary Fund was successful in masking the principal weaknesses of both.

54. The Transformation of Political and Social Life in America in the War Years

Anyone who has ever lived through the outbreak of war while resident in a foreign country knows the enormous changes that occur in social life the moment war begins. Those who have members of their family at the front; those who themselves will be fighting shortly; those who believe their own lives or the life of their country to be at stake — all of them see things differently from the foreigner. Patriotism creates on the one hand a false feeling of solidarity and on the other hand equally artificial lines of difference. The citizens of a country at war feel closer to each other than usual, and also hate the enemy, whether they know the enemy only a little or not at all; they are also mistrustful of other foreigners, often their own allies.

The Americans made only one exception to this general rule: the Russians. With their characteristic predilection for extremes, they showed the Russians special favour, as if somehow their goodwill had to be cultivated. Moreover, it was the United States that had to keep giving to the Russians, for the Germans had been fighting at the gates of Moscow since Pearl Harbor, and the Soviet Union had concluded a neutrality pact with Japan. Among the horde of refugees from Hitler who arrived in the United States were many communists and communist sympathisers; they soon joined the many Russo-Americans whose parents had fled from the Tsarist regime and came to regard the Bolsheviks as something like liberators. Many of these people had attained leading positions, especially in the labour unions; and soon there was scarcely any government Department in which one or another of them was not represented. As the French writer Pertinax once remarked to me in astonishment, in America one could say anything at all against France or Britain, but the slightest hint of criticism of the Soviet Union or even of Stalin was taboo. Minor journalists played the leading role in this pro-Soviet school of opinion.

At the time, there were relatively few Europeans in the United States who were not refugees. The European continent outside the Soviet Union was in the hands of either Hitler or Mussolini; and since Spain too had to be counted among the totalitarian states, the circle of European neutrals was reduced to Portugal, Sweden and Switzerland. The *Blitzkrieg* had destroyed French military prestige, and Yamashita in Singapore and Rommel in North Africa had done the same for Britain. Respect for Europe in general declined, while America's self-awareness grew. The

European governments represented on American soil were in the weak position that exile always imposes.

Out of all this the United States fell unawares into considerable future danger. The rise of the country in the previous century had been received with unusual warmth by the entire world; even acts of aggression such as its attacks on Mexico and Spain had met with no unfavourable reaction; they were passed over indulgently as the impulsive acts of a young country. Even the Germans, who were full of indignation against the British in the First World War, felt only perplexed and sad when the United States entered the conflict.

But now for the first time there was a real antipathy to America in Europe, and it grew from year to year. The Americans regarded Europeans as parasites, and Europeans saw Americans as parvenus. In each of these judgements there was a grain of truth, but no more than a grain. It was wonderful to see in those years how in Washington European richness of ideas complemented the American talent for organisation; and how deep were the humanitarian impulses in the American people. To be sure, there was a great deal of unpleasantness in social encounters; and the most important problems of life, apart from purely technical questions, were handled with terrifying naivety or superficiality. In American circles I gladly took up the cudgels for Europe, and in European gatherings defended America; which brought me brickbats from both. May and my sisters were incomparably better at all that than I was.

My rich experience of the consequences of war and inflation led me to take a different line from the Democratic Party then in power. The United States, which had taken part in the First World War only towards its final phases, was now for the first time experiencing real war; and the same consequences were to be anticipated in America as in the rest of the world. But here too the broad masses of the people failed for years to understand what issues were really important — just as the Government failed in its understanding of these issues. The Administration gave a handful of labour leaders a monopoly position, and permitted strikes in the middle of war. I as a foreigner was compelled to refrain from any criticism; but after all my European experiences, I often found Washington's policies incomprehensible. It seemed to me that if individuals were given power to paralyse entire vital sectors of the economy, the road to dictatorship lay wide open. Many developments reminded me of the more sinister chapters in Roman history. One could already see in many places the Catilines springing up: the spenders, the easy-money advocates, or whatever they called themselves. But the coming Caesar was still invisible in the shadows.

Symptoms of decadence appeared everywhere, in quite unmistakable forms: the over-emphasis on the erotic, and with it the rampant growth of the pseudo-science that calls itself psychoanalysis; the strong increase in perversion, whose rapidly growing constituency formed a secret society with a powerful social and political influence; the growth of sham religious sects of a strongly aggressive kind, with questionable businessmen as leaders, and devoted and free-spending followers. The spread of everything that was morbid and irrational seemed inexorable, and American powers of resistance appeared to be on the ebb. I was able to admire in my immediate vicinity many great deeds of heroism and willing self-sacrifice, but these became more and more the exception amid a progressive spiritual and moral decline. High-minded Americans stood by unsuspecting while this change in the environment took place; and when after the war I made a presentation at the Institute for Advanced Study in Princeton — at the invitation of Walter Stewart — on the connection between war, sexual decadence, inflation and corruption, I met with overwhelming denial: 'Those views may apply to other countries, but not to us' was the cry. In reality, those insights are more valid for the United States than for any other country, because within American society the influence of family and tradition is less than anywhere else; and also because of the all too eager willingness with which Americans embrace whatever may be the fashion of the day.

55. American Society and Education in the Second World War

The United States Army was a people's army; democracy was most strongly expressed in the very comradely relationship between officers and other ranks. I found hardly anyone among the leaders of the war effort, which created vast armies and a fleet practically out of nothing, who was not of extreme personal modesty, or who tried to make personal capital out of his contributions. America has often been characterised as a country of braggarts, without any feeling for quality; but when hard decisions had to be taken in wartime, the nation sent men of quite different character to Washington. These men achieved remarkable things as if they were quite ordinary; and they almost all had a remarkably un-American trait: they knew how to listen and how to be silent. But as rapidly as it had been assembled after Pearl Harbor, this group scattered in all directions after barely four years. The same happened to the armed forces that had been built up with such élan.

Both those qualities of getting on with the job, and of concern for quality, were signally lacking in the society as a whole. Social life was characterised by snobbism in the most literal sense: *sine nobilitate*. One felt the almost total lack of concern for intellectual or spiritual issues; in the midst of a most serious time, conversation was of an appalling vulgarity, and the most sensitive of social institutions, the debut of young girls into society, was already commercialised. Society was devalued by self-promotion and pushing for position. Just as it was an iron rule among the old aristocracy never to allow oneself to be talked about, here in the United States the very opposite was the norm.

And while the country's intellectual strength was reflected in important contributions to the war effort, independent thinkers disappeared from society and artists became slaves to money. Owners of real estate and labour leaders rose in the social scale, but the representatives of learning and teaching, victims of the inflation, saw their status decline. Despite all the talk about a 'brains trust', the disparity between the status of academics in Europe and America became enlarged. To that may be ascribed the remarkable inferiority of American public schools. Secondary schools required twelve years of their pupils instead of the eight required in Europe; but there was a lack of good teaching in ancient languages or in science. Hardly ever had a country sent so many soldiers completely ignorant of foreign languages to all corners of the globe. American schools

raise their pupils with an appreciation of civic duty and in a spirit of togetherness, but they also strive to fill them quite early with a herd instinct, and to prevent them from striking out on independent paths. Obviously there are exceptions, and St Albans School in Washington, for example, can stand comparison with any school in the world. But the majority of American schools pay homage to the cult of mediocrity, and are actively hostile to the special: they share that quality with democracy itself. In peacetime, such schools may have their advantages, but in war, when true talent has to emerge to deal with complex issues of politics and military solutions, the gaps in education become glaring. A man of the stature of a Churchill or, in the military sphere, of a von Seeckt — a man with the necessary vision to deal with the entire situation — was not to be found in the United States throughout the Second World War. Such a man will be indispensable in a Third World War.

The most unfortunate social consequence of the war was the coarsening of public manners where drink was concerned. Drunkenness among both men and women, even of the higher social classes, became more and more common and was not infrequently seen in women's colleges. Such phenomena were hardly ever seen on the European continent. It was only a minority that succumbed to alcoholism, but their numbers were increasing, and they were sufficiently numerous to damage the country's prestige. What might the causes have been? In Europe those who drink tend to be people who are unhappy and somehow cannot put their lives in order; but the number of such people in the United States cannot be large. Is it some sort of uncontrollable urge, some weakness of character; fear of one's fate, or perhaps lack of a home? Or is it the desire to escape from the herd and be alone with one's own thoughts, a desire that cannot be satisfied in any other way? Such a decline in public behaviour also took place in the victorious countries after the First World War; there were no analogous developments in the defeated countries. Nothing that the United States may have gained in the war could make up for the severe moral damage she suffered in the course of the conflict.

In the course of the war the disagreeable practice crept in of creating 'public relations' staffs for every government department; these were journalists who specialised in the task of informing the public of the accomplishments of their offices and their superiors. The whole thing degenerated into personal advertising, and often contributed far more to misinformation than to enlightenment.

Moreover, in wartime the one-sided nature of Washington as a purely government city made itself felt; it became clear that the majority of the

population were officials with no relation to or interest in the arts. There was a tiny, almost invisible group of independent spirits, quite in contrast to London or Paris. The rulers had practically no sense of a direct reaction to their utterances, they acted as if they lived in a vacuum.

It felt almost supernatural, ghostly, that the world should be ruled from this place, with its paper knowledge of things, with its contacts among ephemeral governments and their shadowy representatives; all without deeper grasp of the essential things. It is to that unreality about Washington that the three greatest mistakes of the war can be ascribed: the lack of any support for the German resistance to Hitler; the complete misreading of the Chinese situation; and the optimism in judging the policies of the Soviet Union. These misperceptions cost all the fruits of victory and endangered the United States itself in ways nobody could have foreseen in earlier days.

56. Journey to Switzerland, 1945; the French Resistance

Immediately after the occupation of Paris by the Allies I went to New York to fly from there to Paris. It had been more than five years since I had been receiving meagre censored news from my bank. My partner Jacques Blankart was nearing his eightieth year, and his son was already mortally ill.

May accompanied me to New York to catch a military transport plane. The flight was delayed three times, but on the fourth try, we took off, shortly after midnight. I and another man, unknown to me, were the only passengers in a new airplane that was just receiving its flight trials. Before our departure we received emergency parachute instructions, which hardly pleased May. She said, 'Is this trip necessary, is the bank really worth it? Think of your family!' I kissed her warmly and tried to calm her fears.

However, the plane could not get further than Bermuda, and I was lodged in a private house with instructions to wait until another plane could get there. Nobody could tell me when that might be. How Bermuda had altered since the time of my last visit, a year before the war! At that time it had been a quiet refuge for English and American pensioners, who carefully kept noisy motor-cars out of their idyllic retreat, and made do with bicycles and horse-drawn carriages. In other places, new developments were considered luxuries, in Bermuda everyone preserved arrangements that had long since disappeared elsewhere. But now the noise of heavy military vehicles filled the air.

Late in the afternoon, I was told in a cinema I had just entered that the replacement aircraft was about to leave. We flew via the Azores to Paris; I stayed overnight in the waiting-room at Orly, and the next morning went with a military bus to the billeting office in the Place Vendôme. I was assigned a room in a house near the Arc de Triomphe; the place had been requisitioned by the military and bore the unmistakable traces of a former brothel. I was fortunate indeed to find one of the few requisitioned taxis available for my trip to the house. But that was the exception: for the rest of that day, and throughout my stay in Paris, I went about on foot. It was not pleasant in the heat of summer, but it was interesting. The external appearance of a city under foreign military occupation was familiar to me from my observations in Antwerp over thirty years earlier, in 1914, but until this visit I had only seen enemy troops in occupied territory. Here

were Allied soldiers in a big city they had liberated — and I was profoundly surprised, after a quick and admittedly superficial survey, to find the same attitude among the population towards the occupying forces. The faces of the Parisians betrayed not the slightest traces of joy or enthusiasm. Were they preoccupied by thoughts of the millions of Frenchmen still in captivity, their ignominy in the war, hunger, or the inevitable frictions of any occupation? There were notices outside all the larger restaurants and hotels restricting them to Allied military personnel, and I was astounded by the sharply hostile reaction of Parisians to this measure, which in such situations is almost a matter of course.

Perhaps more than any other people, the French are irritated by the sight of foreign troops in their beloved Paris; and when these troops play the part of lord and master, then they tend to forget the difference between the enemy and the liberators. The Allied military command made a serious mistake in not quartering their troops outside the city. That was the beginning of American unpopularity in Europe, right then at the time of the liberation. The entire incident should serve as a warning in future: such important decisions should never be left to the military authorities alone.

On my first day in Europe I was able to see that deep weariness I was so often to find later: very few faces reflected any real joy. The upper classes were obviously nervous, and the rest appeared indifferent. I was very much surprised by that at the time; later I repeatedly had similar experiences, such as the time nine years later when I was in Rome, and news of the return of Trieste to Italy was greeted with total apathy.

Lavissee ended his great book on the history of France with the march of the victorious French generals into Paris in 1918. That event appeared at the time to herald the start of a new era; but instead it was merely an episode. To French people in 1945 too, their liberation seemed only an episode. Despite all efforts to the contrary, the occupation weighed heavily; there were still old people living who had experienced three occupations of France. All of de Gaulle's attempts to build a national myth could not conceal the truth: it was the English and Americans who drove out the Germans, and that represented a fresh humiliation to the French.

I found great difficulty in arranging my onward journey to Switzerland. I heard that the only train that made the trip was so crammed with passengers that it was unthinkable to get on it. Motor-cars were not available. But then Carl Burckhardt and his wife invited me to lunch in the one hotel reserved for diplomats, and told me that the Paris gynaecologist, Professor Maurice Mayer, was leaving the next day by car to attend a Red Cross meeting in Geneva, and would take me along as his passenger.

The other lunch guest was Countess Lanskoronska, the daughter of Count Lanskoronski, the Polish connoisseur whose house near the Belvedere in Vienna, whose collections and whose personality were all equally unforgettable to those who knew him. Terrible things had happened to the daughter during the German occupation of Poland. She told us about it calmly and with a resigned air, as if her personal fate were a matter of indifference to her. If one has the misfortune to live in a time of leaders who pander to the worst instincts in the masses, what else can one expect? Any hint of attempting to arouse sympathy or pity was quite alien to the Countess's proud spirit. As a Pole she belonged to a people who had been used to oppression for 150 years, and as an aristocrat she was accustomed to standing alone. In spite of everything she preferred to stay where she belonged, in Poland, in a world ruled by the worst elements of the people, and made no concession to the times; not in the hope of a better future, for after all what difference was there between a proletarian from Upper Austria and one from the Caucasus?

All this was unspoken, but I felt it from her demeanour. And there was her conviction that all Europe's problems would be even further from a solution after Hitler's defeat than before. From what source could the Hercules arise capable of dealing with these titanic tasks of reconstruction? The democratic countries, which had after all spawned both a Hitler and a Mussolini, or Russia?

That lunch was the only square meal I had during my stay in Paris, for that evening, as well as the following morning and mid-day, I had to be satisfied with radishes, the only food available. The second afternoon, Dr Maurice Mayer appeared at my hotel to collect me in his small car. With him were the two children of a friend, and their grandmother, whom he was going to take to a holiday resort in the Jura. When all our luggage had been added, the car was overflowing; I sat next to Mayer. I learned from the Swiss Legation that he had played a leading role in the Resistance: his mother had been killed by the Germans, and his wife, a Swiss, had divorced him and returned to Basel. He was not much more than thirty, and a man of unusual energy.

We spoke very little to one another while we drove fast down almost empty roads to Dijon. Mayer made a few stops, ostensibly to fill up with petrol, but I soon learned that he was having animated discussions at each place about various aspects of the Resistance. It transpired that a good deal of dissatisfaction was expressed with the first post-war measures of the French Government; on the other hand there was a great deal of warmth for Britain, and quite outspoken anti-American feeling, that I was later

told related to the manner in which the Americans had conducted their aerial bombardments on French soil.

After a particularly heated discussion at one of these stops, Mayer turned to me before starting the car and asked:

'You come from Washington, tell me — what do people there think of us? How do we stand?'

'Very few people there think beyond the next day; and as for what they think of France, their views are diametrically opposed to mine.'

'How is that?'

'There are two sorts of people who judge French history: there are those who see a rising curve from 1789, and the others who see that year as the first act in France's decline.'

'But surely that last group is a disappearing minority!'

'*A qui le dites-vous?* I belong to it!'

Mayer looked at me with unconcealed distaste: he had never expected that reaction from someone who had just come from Washington and was going to Switzerland. For a moment, I thought he would ask me to leave his car, and abandon me on the empty road.

'How do you justify your point of view?' he asked at last.

'Just compare France in those days with France today. Then continuity of government going back a full eight centuries; France possessed the entire Middle West of the United States; it was the military creator of American independence; the leading power on the continent. And now? Who after all proclaimed the notion of national unity that has now defeated you, through Germany and Italy, and that tomorrow will deprive you of your African possessions?'

Mayer listened to me with the tense attention of a man who in the past several years had risked his life, his economic livelihood and his family for his country. 'What you say is true,' he said after a short silence, 'but it is bitter to have to hear it.'

We arrived in Dijon late in the evening, where three rooms in a small hotel opposite the station had been reserved for us. There were countless people sitting and lying in the square in front of the station, waiting for the one train to Lyon. The two children with us were crying from hunger, but the hotelkeeper told us there was simply nothing to be had in the city. Mayer went to the Prefect, whom he knew, and somehow obtained a piece of bread. I shall never forget the looks we got, of envy, excitement, desire; of course we gave the bread to the children and their grandmother.

That was in the capital of Burgundy, a region that for 500 years was a byword for rich living and the most ample enjoyment of food and wine. At

the beginning of 1919 I had seen hunger in Vienna, and now a quarter of a century later I was witnessing it in Burgundy. Was this cyclical political plague now to be the fate of Europe? How slow had been the rise to the peaks of ease and culture, and how swift the fall into unheard-of poverty!

Who could have slept that night, amid the sights and sounds of the hungry, tired masses waiting just under our windows for the only train? I gazed out at them, and thought: when had anything comparable happened in this rich country? Six centuries before, during the wars with the English. I thought of Shakespeare's *Henry V*, and the King's speech to the Duke of Burgundy about the destruction in France and the despairing children; but then, as if to comfort me, Schiller's immortal lines came into my mind. Thibaut, the father of Joan of Arc, says:

*Lassen wir die Grossen,
Der Erde Fürsten um die Erde losen;
Wir können ruhig die Zerstörung schauen,
Denn sturmfest steht der Boden, den wir bauen.**

That is how it was to be this time too: scarcely six years later I received an invitation to Dijon for a gourmet dinner of the very highest order!

But 'the great of this earth' did not derive much use from their victory. What good to the English was Agincourt, when in one glorious day they utterly destroyed the entire French nobility? What good did the Germans achieve from their *Blitzkrieg* victory? The French do not have that obvious defensive strength that belongs to Spaniards and Russians, but they do have an incomparable passive will to resist that somehow causes them to prevail against all outsiders — enemies and even friends. How much better it would have been even for the Americans if they had not set foot on French soil. I was unable to forget the harsh words about them that I had heard the evening before.

Centuries of experience of wars and revolutions have given the French a political tradition possessed by no other people. Among all the great nations, they remain the only true economic individualists. They have not, like the British and Americans, just discovered the state one century after Hegel: on the contrary, they have known all about the state since the beginning of modern times, but without over-estimating it, as others do; they have a healthy contempt for the state and its spokesmen. What the state brought into being, and what one confided to the state, was always

* 'Let us leave to the great of this earth, the princes, conflicts about territory; we can look calmly on the destruction, for the land we till is eternal, unshakable.'

lost in war; what the individual hid on his own land survived all occupations. The vast majority of people in our century expect salvation from the all-mighty, benevolent, omniscient and — in contrast to mere mortals — eternal state. French people, who oppose all excess on principle, refuse to be taken in by this over-estimation: French governments come and go with the seasons, but the French character and the French land remain eternally the same.

The next morning we drove to the Jura, deposited the grandmother and children in a small village, and in Arbois drank a bottle of the superb local wine, unknown outside France; it refreshed us royally although we had not eaten for forty hours. We arrived finally at the frontier, at La Cure, where the French passport officer had to be called from the village: he had not expected any cars at all on a Sunday, with such meagre traffic on the other days of the week. The young Swiss border guard asked me where I was coming from, and when I had left my residence. My reply 'From Washington, three days ago' seemed to this man from a tiny Jura village some kind of a poor joke; when he learned that it was true, he called his wife and children out of the house to hear about the miracle. We arrived in Geneva towards noon. The honest custodians of our country house, Le Rivage, were astonished when I turned up unannounced after a five-year absence in America. Maurice Mayer drove on to the Red Cross headquarters.

From the terrace, I looked out over the Lake of Geneva to the peak of Mont Blanc, the high frontier between France and Italy. At that time our rented property had not yet been turned into a construction site, and I was able to take a long walk alone and undisturbed through fields and along the Lake shore. This I did with much enjoyment that Sunday afternoon, putting my impressions in order on returning to the old continent after five years of war. On the other shore was France, and a few kilometres to the west there had been bloody fighting only a short time before. Now all of it looked so peaceful that it felt as if the quiet had never been disturbed.

After all the turmoil of Washington and New York, this deep quiet of Europe seemed to me the very core of peace — and yet it was the opposite. For the second time in a generation, Switzerland had shown what frontiers can still mean.

Was the war really over? Apparently Germany, Italy and Japan had been defeated, precisely those three powers whose unification or rise to power had determined the course of European and Asian history in the last half of the nineteenth century. But how would Europe and Asia look without these three? I concluded that all of them had to rise again, and that they would do so; otherwise Europe was likely to become a Russian

province. But would there be enough time for that development? Had not Hitler killed almost all the men who might have channeled this growth into sensible patterns of development?

I climbed the path between the Lake wall and the hedgerows, thinking how completely this whole area still bore the impress of the eighteenth century. Somehow I found myself walking near the estate of the Gallatins: how long it was since Gallatin, as the chief American delegate to the Ghent negotiations with the English, had prided himself on his dual Swiss citizenship. That had been in the time of my grandparents; in the short period since then the Americans had populated their entire continent and become the world's leading power. No wonder they had such difficulty governing themselves — how, then, could this stripling nation rule the world? Was it not appropriate to feel fearful, after so often seeing American diplomats at work during various international negotiations? With the best intentions, they seemed destined always to misunderstand their closest friends. They talked endlessly about the unification of Europe, but they had just missed the most favourable moment for such a development: Europe could have been unified before the Normandy landings, and with the cooperation of a Germany under the regime that Goerdeler and his fellow-resisters could have established with Allied help. That was a unique opportunity, and it was gone: from now on only weapons, not negotiations, could unify Europe. And that of course was precisely the strategy of the Eastern bloc.

Fourteen years earlier, I had said in London: 'It is Great Britain's task to bring Germany and France together again. If the British lack either the will or the strength for that task, a dark period for Europe will begin.' Since then, the problem had grown more difficult, for there was a stronger hatred between France and Germany to be reconciled. Britain's eleventh-hour attempt to unite with France had failed, and its prestige had sunk. But how except with the British was this gulf to be bridged? German-French cooperation remained the nub of the problem in Europe.

In the evening Maurice Mayer called on me, and our conversation was a great surprise for me. I had assumed that a man of the French Resistance, who had personally suffered so much, could not show such objectivity and deep comprehension of the entire situation, and indeed such a high-minded sense of justice. The Resistance had apparently no idea of the split within the German officer corps, nor did it know that the Commandant of Paris belonged to the opposition to Hitler. How the flood of press news had obliterated the few important pieces of information! But now there were few charismatic personalities available to assist in the reconciliation of France and Germany. The German underground had been destroyed, and

the French Resistance had first to purge itself of its communist element.

Mayer told me that at its peak, the Resistance had never amounted to more than 80,000 people, of whom a large part were communists. 'An all-too small élite for such a glorious country as France!' he said. The tripartite division among people in political revolts that Tacitus observed still has validity. He wrote of the assassination of Galba; 'Few did it, a larger number wanted it, and the rest let it happen.' That is the recipe for all present dictatorships!

I parted warmly from Mayer, who was driving back to Paris late that night; it was a rare experience to acquire a friend in such times. All my travel fatigue had gone, and I continued walking for much of the night, up and down on my terrace, trying to overcome my sense of foreboding about the future. The cool mountain breezes felt good after the overwhelming summer heat of Washington. The next morning I went on to Zürich.

57. Years of Transition to 1947-1948

In Zürich I found all in order both at my house and in the bank. Two books still lay open on my table, just as I had left them before departing in 1940; in the best tradition of Swiss housekeeping, they had been dusted daily. The war, of course, had brought its unhealthy boom times and other undesirable consequences — but the character of the Swiss people remained unchanged. The entire atmosphere was pre-war, and that was the principal difference between Switzerland and the rest of the world. A coalition ruled peacefully in a country whose organised labour had not had a strike throughout the war, and whose central bank kept careful watch over the soundness of the currency. At weekends, the liveliest topic of conversation was the weather; the rest of the time, it was the food supply which, while far better than in the First World War, still left a good deal to be desired.

International banking business was all but suspended. Europe was bankrupted by the war, and its assets in the United States were frozen; one simply had to wait until they became accessible once again. Things were better for industry: many sectors that had anticipated a post-war slump found themselves enjoying a boom instead. The watch industry, which for twenty years after the First World War had been the problem child for the whole of Switzerland, began to move into a speculative boom fuelled by a number of lucky coincidences; the boom was to last for years, and lead to all sorts of excesses that were dangerous for an industry hitherto managed on such careful Swiss lines. It was hard to begrudge a bit of prosperity to such long-depressed areas as La Chaux-de-Fonds and Le Locle, but the sudden outbreak of watch-collecting fever among American and Russian troops, and many connections with war industry, were responsible for a long-term rise in demand with many questionable side-effects.

Swiss self-awareness had sharply increased, and with it a certain over-estimation of the Swiss contribution to the present wellbeing. Neighbouring countries were often looked down upon, and many people felt that somehow Switzerland had been spared the war by virtue of its own strength. That attitude irritated the Americans in particular, who attributed the maintenance of Swiss independence to the Allied defeat of Hitler. In Switzerland there were complaints that the Americans had returned the favours they had received from Switzerland — the representation of United States interests in the enemy countries — with the blocking of Swiss assets and with an increasingly unfriendly attitude. That was of course disputed across the ocean; but there remained an unexpressed

current of resentment between the two countries that only someone close to both could perceive.

The Western Allies had fought the war with the official slogan 'Defence of Democracy', and public opinion in both America and Britain, which took this slogan with deadly seriousness, begrudged the Swiss their neutrality. References to the honourable tradition of neutrality going back over three hundred years failed to sway many good people, who saw in this war an ideological rather than a purely national struggle. How often had I heard in Washington such reproaches as 'While our sons are dying for European democracy, you people are doing business with Hitler.' That did not apply to me personally — my bank's fight against the Hitler regime was well-known — but it did affect the country of which I was a citizen. But how could such a small country as Switzerland, placed right in the middle of Europe, cut itself off entirely from economic contacts with the autocracies? When I mentioned our lack of raw materials for a highly developed industrial economy I was given the easy answer: 'We understand sacrifice for the necessities of life, but only for them!'

I was unable even at the time to understand the negotiations in Potsdam or the arrangements for the surrender of Japan. The catastrophic results at Potsdam were later ascribed to the unfortunate coincidence of Churchill's election defeat and the lack of experience of President Truman, who had come into office with so little preparation for his tasks. The mistakes, however, went much deeper; the West simply had no blueprint for peace. The war had been fought with untold sacrifices, and when victory was achieved, the democracies had no idea what to do with it. Obvious as it was that there was now going to be a conflict between the two super-powers, no Western official was willing to draw the appropriate conclusions. One could not even raise the question of who was responsible for the establishment of the occupation sectors. Those arrangements permitted Soviet power to extend even beyond the left bank of the Elbe, and simply gave them almost the entire territory of the former Habsburg monarchy.

As early as 1946 I urged on Federal Councillor Stämpfli the view that the programme for food stockpiling should be continued. A few months later, I sent a letter to Senator Alexander Wiley in the United States, outlining the world situation and warning that, in spite of the optimistic opinions of foreign traders, the fate of Czechoslovakia was already sealed. My voice did not carry very far. The wives and mothers of America screamed loudly that they wanted their husbands and sons to come home, and Washington hurried to obey this command of its true masters. It is hard for any democracy to provide its peace negotiators with the necessary

military power to back up their position; but it is entirely impossible for a country in which the women are the majority of voters.

And so, with a shortsightedness scarcely paralleled in history, the Germans and Japanese were completely disarmed; and a series of schoolboy sayings was introduced with the intention of teaching the two countries to be good little democracies. The French at least should have known better where things were going: their fate in three wars had taught that country some hard realities, and weaned it from easy phrase-making. Now the moment had come for the France-German conflict, so hopeless for both peoples, to end, and for the two countries jointly to determine the further fate of Europe. I therefore welcomed the invitation to come to Paris in September 1945 to meet Bidault and Dewavrin, then de Gaulle's aide. Maurice Mayer had arranged the introduction.

Loss of memory is often a symptom of increasing age among individuals, but it also seems to afflict countries, which sometimes forget the most important events they have passed through only a short time before. By the autumn of 1945 the British had entirely forgotten the reason why they had entered the war: to save Poland. Entering the war completely unprepared, they found themselves in a life and death struggle, and, having survived, they had to give up Poland without a struggle.

I warned Bidault: 'Do not repeat the mistakes of 1918! No reparations, no occupation, no claims on the left bank of the Rhine or any part of it. Do not create new grounds for revenge. You are still very weak, and so are the Germans; do not again embitter the life of a decent German government. You and the Germans can jointly destroy each other, nobody doubts that; but together you can reconstruct Europe better than any other two powers. Europe now ends at the Elbe and by the gates of Vienna, which is a reversion to the situation of seven or eight hundred years ago. The British do not quite understand what that means, and the Americans not at all. But French and German people ought to understand very clearly what the stakes are.'

Bidault did understand, and judged the entire situation with great clarity. What individual however was strong enough to push through such a bold idea for Europe, against both right and left, against unhappy memories and new recriminations? He wanted also to know what consequences I believed would follow from the present regulations proposed for Germany?

'Two matters are very clear to me,' I said. 'The present situation is inherently unstable, it cannot last. And joint administrations have always led to war between the occupying powers.'

I met Colonel Dewavrin at a lunch arranged for me and Mayer. He had been de Gaulle's right-hand man in London, and at that time was still very close to him in Paris. De Gaulle appeared to dominate the entire French scene.

Dewavrin was practically the only person to speak at that lunch. After my years in Washington, which were something of an education in keeping a modest demeanour, I was particularly struck by his self-importance and arrogance. He appeared to have little affection for either the British or the Americans, and positively to hate the Russians. I kept trying to recall the person he most reminded me of, and finally realised it was Ludendorff. His criticisms of those countries might be well founded, but with whom else did he propose to make policy?

Dewavrin began, 'The Americans are making trouble in our colonies, and give themselves the airs of masters in our own country. But those are merely passing phenomena. The General is firmly convinced that a Third World War will come, and that it will see the decisive defeat of the United States. You doubtless consider that impossible, it frightens you too much.'

'Not at all,' I replied. 'With their political immaturity in America, nothing is impossible. But I see a decisive difference between your views and mine. You appear to regard such an outcome with equanimity, and I see it as the end of Europe.'

'Do you not prefer the notion that Europe should reconstruct itself through its own efforts, and without the Americans? Such at least was your view as conveyed to me.'

'France and Germany should jointly reorganise Europe politically; that is the only sensible solution. But defence against the Soviet Union is unthinkable without the Americans.'

'Now, of course, but not for ever.'

'For a very long time, at least. And I could foresee that a defeat would lead to a rapid maturing of the Americans, so that they would come back with greatly renewed strength; but who in Europe can wait and survive in the mean time?'

Maurice Mayer asked me as we left why I had not propounded my own views. 'I considered it quite useless,' I said. 'These officer types can only think in terms of hegemony, even when their own country is utterly defeated. Can one possibly expect such people to make the grand gesture of "*soyons amis*" that must now be made? I fear we are about to relive the experience of the 1920s.'

In Paris at that time one had to give up a hotel room after eight nights; since my return flight was not yet confirmed, I left my wretched room in

Claridges Hotel and moved in with Mayer. He was an extremely busy gynaecologist, and often had to go out on emergency calls during the night. I was astounded by the man's vitality; he seemed quite unmarked by the strains of his professional life. At about 2.00 a.m. on the third night of my stay, I was called and told that I should report at 4.00 somewhere in Montmartre for pre-departure check-in for the flight to America. I would not have been able to reach it if Dr Mayer had not hastily arranged a lift for me in an ambulance. At the check-in point, which was in a warehouse, we were required to undergo a series of hasty shots against various diseases, including a new one against the influenza virus. Nobody bothered to ask about possible allergies to the injections. The flight from Orly passed over the fields of Normandy, and was enormously appealing to me, who in the last few years had only flown over America's wide-open spaces. We had many long stops, and the flight to Washington lasted a full thirty hours.

May and my sisters understood immediately that we were at another turning-point in our lives. I would have to be in Europe for part of each year because of the bank; but the children had grown up in America, and it would have been better damaging to interrupt their studies. So we had to decide to spend part of our lives apart, hard as that was for all of us. Perhaps it would have been better both for me and my family if I had not begun to lead this life split between two continents; but then I should have had to give up my ability to form reliable judgements about world events.

Washington had changed fundamentally during the few months of my absence. Almost all the richly talented individuals who had been active there in the war years had returned to their peacetime positions and been replaced by mediocrities and intellectual provincials. Roosevelt's domestic policies were continued, but since the charm and social genius of the old master were gone, one saw only too clearly the amateurish and demagogic aspects of the system he had created. In all fairness, one could hardly reproach the new man at the top: the passengers in a car whose driver has never learned how to drive have to be happy if they do not land in a ditch. The American motor-car managed to stay on the road under Truman, even though one was always terrified, not least by the jerky motions of the driver. America, quite simply, had incredible luck throughout that period. The nomination of a Vice-President is not taken very seriously, and certainly never considered from the only point of view that matters, namely the possibility that the man chosen may one day have to exercise the gigantic powers of the Presidency.

Truman's nomination at the Democratic Convention in Chicago had taken place under circumstances that were unique even by American standards. The Northern Democrats were controlled by Sidney Hillman, a

Russian born in Moscow. He had first developed his great organisational gifts in 1905 during the Russian revolution of that year, in conjunction with the later leaders of the Bolsheviks. His choice was Henry Wallace. Wallace's fate is perhaps the most interesting in the history of American political parties. His outstanding personality, his originality as a natural scientist, and his training in economics all distinguished him from the general run of American politicians. But it was precisely his outstanding personality that ruined him: had he comported himself like the usual non-entity Vice-Presidents, he would have become Roosevelt's successor. But since he was not satisfied with the merely representational functions of his office, he aroused universal opposition. And so, at the most dangerous moment, Wallace became the Coriolanus of the Left. What paths the United States might have taken had a Henry Wallace, orchestrated by Sidney Hillman, become President in 1945-8 it is impossible to say, but in Chicago it was a very close-run thing. Roosevelt himself suggested James Byrnes, but the New York delegation decisively opposed that nomination: Byrnes, of Irish origins and a Roman Catholic, had converted to Episcopalianism just a few weeks before the election. That's America for you! A Catholic is almost automatically excluded as a Presidential candidate*; but an Irishman must remain Catholic! In their mutual dilemma, the left-leaning North and the right-wing Southern Democrats united in their choice of a man of whom little was known at that time: Truman.

A Negro hall porter in a resort hotel in Watkins Glen expressed his opposition to Roosevelt's fourth term when he discussed the elections with me: 'In Lincoln's time, only a few people went to school, but now that everybody's educated, anyone can become President. So it isn't necessary to choose the same man three or four times.' In New York, an ordinary physician must not deal with throat problems, the dentist does not extract teeth — those problems are left to specialists — but anyone may become President. Who would dream of arranging a game between a world chess master and someone who has never played a game of chess in his life; or who would consent to undergo a complicated operation at the hands of someone who did not know the first thing about surgery?

The magic wand of democracy nonetheless conferred such tasks on Harry Truman, and he carried them out far better than any ordinary man of any other country probably would have done in a similar situation; at the end of his seven years in office, the chess game was being lost, but it was not over; and the surgical patient was at least still alive on the operating table. If the results were not better than they were, the fault lies with

*Before the election of John F. Kennedy, this was still a valid claim.

those who raised this man to supreme office at such a time. Truman did not disappoint; on the contrary, he sometimes gave one pleasant surprises. He did recognise, even if belatedly, what the essential issues were, and when he did so he acted with energy and circumspection.

Truman himself had been brought up in one of the most politically corrupt parts of the United States, but had remained untouched himself; above all, he did not suffer from the American disease of putting his confidence in men who were unworthy of it. In the course of his years in office he acquired considerable administrative skills. Of course there was a wide gap between his abilities and his knowledge of what a President should have been.

However, the whole situation was tragic; for the conflict between the Soviet Union and the West that now began could not be resolved by force alone; the power of ideas had to play a much greater part. What ideas could be hoped for from the American petite bourgeoisie, who in taxing entrepreneurial gains all along the line were merely pursuing the same aims as Bolshevism? And how could a government fight the notion of the labour theory of value when, since Roosevelt's time, it had practically enshrined that very same philosophy?

In an address I gave to professors of political science and economics at Harvard, I said that the policy of trying to unify Europe by democratic means was a dangerous illusion. At that point an economist who was present, an adviser to the Treasury, left the room in protest — as an admirer of Keynes, he also took exception to my anti-inflationary views.

After the talk I went with Schumpeter to his house in Cambridge. I said I had grave doubts about the future of Europe: 'The Russians want to force us into unity under their leadership, and the Americans want to talk us into some kind of European unity, after they initially fostered the most extreme sort of nationalism. The Russians are way ahead in their game; but how can people here be brought to their senses? They seem to have no ability to use their imagination, and they cannot conceive of any model for other countries but their own. They keep trying to impose pacifism and disarmament at a time when war and eternal watchfulness should be our guiding principles. I can understand the notion of destroying the German and Japanese navies, but why, when the Americans have already decided to liquidate their own army, do they not at least take over the remnants of the German and Japanese armies and keep them going financially? Funds could not be better spent than for that purpose. The destruction of all the German and Japanese armed forces seems to me truly lunatic.'

'My dear friend,' Schumpeter said, 'you have remained young, and you are still tilting against windmills. If you start talking of war and

disarmament here, you will be attacked and beaten by the communists and their fellow-travellers — and nobody will come to your assistance. Up till now you have always been more pessimistic than I, and thus you saw the future with greater clarity. But now our roles are reversed — you believe things can still be altered here, but I have given up that hope. In ten or fifteen years we shall have the satisfaction of seeing the appalled faces of the Democrats when their Uncle Joe dominates the world; and it will be the only satisfaction left to us.'

'I do not believe in the world victory of communism. Devils were always more clever than angels, and people here still do not grasp Goethe's good advice to rulers, that they should from time to time also be devils. My warning may be a bit premature, but someone has to start sometime.'

'And why', I continued after a short pause, 'was your colleague so upset over my warning about inflation? Isn't he an adviser to the Treasury?'

'Do you remember my saying in currency discussions "A Krone is still a Krone"'? That drove me out of Austria. I had to say it then, against my better judgement. My colleague here still maintains the easy-money viewpoint; but what I had to say as a counsel of despair he teaches with true conviction.'

'Those poor students!'

An episode of the summer of 1946 shows how little attention European affairs commanded in the United States at that time. In the context of its reparations demands on Germany, the Treasury conceived the notion of forcing the neutral Swiss to confiscate German assets in their country. Even the most perfunctory diplomatic courtesies were deliberately omitted when the Swiss delegation arrived in Washington to discuss the matter.

Swiss assets and securities in America were finally freed from controls in 1948. A bloated apparatus of foreign property administration had been established to deal with Swiss assets, and for seven long years trade between Switzerland and the United States had been crippled, contributing substantially to the fall in the dollar that took place in the midst of hostilities.

Napoleon reproached the old Austria for requiring an entire year to understand political upheavals but America needs at least twice that time. The Russian advance against Poland, which was the most loyal ally the West had in Eastern Europe, should have been a sufficiently clear lesson. No reasonable person could imagine that Rumania, Hungary and East Germany would be any better treated by the Russians; and yet it was not till the Moscow Conference of 1947 that American eyes were opened. Only then did they realise that the price of further passivity might be the loss of the whole of Europe.

The then Secretary of State, General Marshall, gave an address at Harvard after his return from Moscow, on the occasion of being awarded an honorary doctorate. In that speech he proclaimed the necessity for American financial help to accomplish the reconstruction of Europe. I understood that both the idea and the speech itself came from Professor Mason, a highly gifted man who was Marshall's aide. The idea was good, but its execution was achieved at a frenetic speed that inevitably endangered its success. Washington had succumbed to one of its panics, and the Marshall Plan was rushed through Congress and the Senate in a way I had never seen before, certainly not with something of such importance.

The Marshall Plan was designed to achieve two goals, the political one of enabling Europe to re-arm, and the economic one of filling the dollar gap. For that purpose Europe was to receive 20 billion dollars in a few years. But in my view carrying out the Plan on that scale within such a short time was profoundly dangerous, even though the general outlines of the Plan were certainly sensible.

According to the principles of classical economics, the United States at the end of the Second World War should have done what Britain did a century before: establish a regime of reciprocal free trade and free immigration, with some controls over the latter for political purposes. That would have solved the dollar shortage, and introduced a gradual disinflation in the United States by exerting downward pressure on profits and wages — a very necessary development after a war. It would also have helped to restore the balance of trade between the United States and Europe through the remittances of immigrants to their families. The Democratic Party always had free trade leanings, but what individual would have had the political courage to introduce such measures? Will Clayton, a Southern Democrat, and years later Henry Ford, Jr., understood the demands of the times — but they remained isolated figures. The overwhelming majority of both employers and labour leaders were protectionist in sentiment. And every government since the Depression was frightened by any hint of deflation.

The widest possible opening of the American market would also have been a political necessity: for if trade between Western and Eastern Europe was effectively cut off, where should Europe turn to balance its trade deficit? The anti-colonial policies of the United States threatened to isolate it from its former suppliers of raw materials in such countries as India and Indonesia.

Given this state of affairs, even the enormous subsidies of the Marshall Plan could not close the dollar gap permanently. It was inevitable that

there would be a massive increase in prices; at the end of the Marshall Plan period, prices of a whole range of goods were higher in Europe than in New York, which had not been the case for decades previously. It was impossible to invest such massive sums as the Marshall Plan poured into Europe within a short four-year period. Moreover, there was no carefully prepared administrative cadre that could have overseen such investments within a short time and yet effectively.

Economists are misunderstood in our era: heavy pressure from political sloganeering, supported by a vast herd of job-chasers and journalists, made any kind of sensible criticism hopeless. Academic economists were silent, from either cowardice, misplaced patriotism or theoretical anarchy. And then among the supporters of the Marshall Plan there were also those who saw in it an effective counter-weight to the permanent threat of Soviet aggression. It was no wonder that the Russians themselves saw the Plan in that light too: they opposed it with all their might, for they feared that it would strengthen both West European prosperity and American influence.

I remained convinced, nonetheless, that this flooding of Europe with American money would delay the natural balancing process that could only come about through the removal of trade barriers. And then I foresaw that the Plan would be regarded by the European debtor nations as a permanent dole, and would ultimately cause the United States to be hated rather than thanked.

But outside Switzerland who wanted to understand my arguments or was able to do so? One of the most capable American diplomats was extremely upset by the opposition of a European conservative to a plan that was designed to save the European continent. I was once asked at the Swiss Legation in Paris by an arrogant young Frenchman, delighted with his sinecure at the Marshall Plan organisation, what interest I really had in trying to enlighten the Americans. The very notion of trying to assess the situation from the point of view of the world economy seemed to him old-fashioned or absurd.

What is the essential task of economics? To achieve the maximum results with the minimum of means. The way the Marshall Plan was put into effect achieved the precise opposite.

58. Two Letters from President Karl Renner of Austria; Czechoslovakia and the Turning-point in American Policy, 1947

Europe's true situation at that time emerges all too clearly from two hand-written letters sent to me by the socialist Karl Renner, then President of Austria:

Gösing, 7.7.47

Esteemed Dr Somary,

Your forename is an omen. You are fortunate indeed! Once a professional colleague of Schacht, you are safe in Switzerland, while he was disastrously involved in the catastrophe of his fatherland, though senselessly and not through his fault. Hilferding, another of our evening circle, came to a terrible end; but you, our Felix, move freely across the Atlantic between the largest and the smallest of the unbombed countries in this world. And I, another member of the circle of those days, though not ambitious, am bowed down by the burden of attempting to put a bombed-out, downtrodden, partitioned country back on its feet. You are fortunate too in your ability to run a well-established solid old banking house with many hidden reserves with a staff of only twelve, while the great Vienna and Budapest banks require staffs of 10,000 to look after their modest, depreciated deposits.

The Danube between Vienna and Budapest is a quite respectable river, and has become for very many the last resting-place — but we don't have the heart to recommend it to those 10,000 people. I turn in all directness to you: perhaps in your leisurely contemplation of the Atlantic you have come across some magic potion that might guarantee the livelihoods of those 10,000? But of course not merely the banks: every emergency office, every local and Federal government office, every municipality, each and every industrial and commercial establishment, is loaded with under-employed staff, a vast bureaucracy. It is quite useless to draw our attention to the malady; what we are curious about is the possibility of a cure. Have you a prescription, aside from the Danube or a Third World War, *pace* Burnham?

An economy that works, such as that in Switzerland and the United States, seems to do so of itself — witness your ability to run a bank with only twelve staff, and to spend half of each year abroad. But with us, the ruins must first be cleared away — that calls for bureaucrats — and then the new construction has to be planned and carried out — again bureaucrats. Austria's entire state apparatus has dissolved; those who ruled the country are dead, in exile or stigmatised as 'criminals', and so we need officials for normal services to be resumed, to clear away the ruins of all kinds, and for reconstruction. The old guard has been cut

down by two waves of purges, under Schuschnigg and then under Hitler; and those remaining must first be re-educated and sifted through. I read the *Neue Zürcher Zeitung* every day, and see the advertisements of highly qualified people who offer themselves, and assure prospective employers of their eagerness to serve: they all strike me as eminently suitable. With us in Austria it's quite different: the best people have to use all their wits just to conjure up some flour and oil on the black market to feed their families, and in order somehow to avoid having to spend money on illness and burial costs.

None of the problems of our country and people can be solved without the devoted efforts of a good class of officials, which is why I both need and value civil servants. But, similarly, the problems we face cannot be tackled without a valiant group of politicians who are not afraid to enter over-crowded, smelly pubs almost every day and to show the way out to people who are in despair, half of them just dumbly resigned and the other half about to explode in craziness. These politicians have to prepare the population for the measures that must be taken to get us all back on our feet. For fortunate people like you, everything is so obvious; for example, that deposits bear interest and are payable on demand. But suppose that just once things did not go right at Blankart, and you had to explain that to your depositors?

Currency questions; the experience of centuries; standard remedies — we know all that! I hardly need to tell you, the learned economist, that every solution merely sets contradictory interest groups against one another. Somehow to reconcile these conflicting interests is the problem.

Schacht, Hilferding, Somary, Renner — that was our evening discussion circle! What different fates we have had! As far as I am concerned, I should be so much less a prey to anxiety if I could be one of your twelve staff at Blankart & Cie., perhaps a book-keeper, rather than Federal President of Austria, which gives me the style of 'Excellency' and a salary in Schillings that seems astoundingly high — but in Swiss francs might come close to that of one of your senior staff.

The appalling fate that two world wars have brought to countries, peoples and individuals has made us all so different that we can scarcely understand each other.

Yours sincerely,

RENNER

From the second letter:

Murzsteg, 11.9.47

In the present state of negotiations, the Austrian State Treaty will leave behind, in the very best case, an exhausted and helpless Austria. Both the solutions that might have been conceived, the capitalist or the socialist, have been barred to us. It is cold comfort to reflect that Germany is in an even worse condition, and that Europe's entire position in the world is irretrievably lost. Marx's dictum that capitalism at the point of its highest development transforms itself into socialism

now has an ironic ring: the socialists have been invited to drag out their lives amid the ruins as mere administrators of almshouses and hospitals!

I would so gladly spend a few days with you in Switzerland, travelling incognito, so that we could consult together in order to sort out even a few of the soluble problems to our own satisfaction. I have the impression that even if someone here were in possession of the higher wisdom, nobody would pay the slightest attention to such wisdom coming from Vienna.

Versailles created Hitler. What and whom will Potsdam produce?

Hearty greetings.

Yours sincerely,
RENNER

These letters testify eloquently to the terrible anxieties of those years. Austria was able slowly to work its way back to salvation, although it was to be fully eight years more before the State Treaty was signed.

The United States offered the Czechs the opportunity to participate in the Marshall Plan, and the Czech Government would have accepted but had to decline under Soviet pressure. Thereafter, Beneš advised Renner — who informed me so privately — that Austria should also decline American help, because the Americans were good-hearted and would not hold it against Austria, while the Russians were hard and could be dangerous. It seemed to me at the time that Beneš was giving this advice at Soviet insistence — Austria, of course, did not follow it.

Capitulating to Soviet demands did not help Beneš; very soon he and Jan Masaryk, Foreign Minister and son of the founder of Czechoslovakia, were overtaken by a harsh fate. How Masaryk met his death we still do not know to this day — that is part of the political style of our era.

The creation of the Czech state is considered the great accomplishment of cooperation between Thomas Masaryk and President Wilson. But that creation meant at the time the dismemberment of the old Austrian monarchy. Czech independence was short-lived: after hardly twenty years, the state was subjected first to German and then to Russian domination. During the Hitler era the Czechs were crushed; and they used the short interregnum between the German and Russian occupations to expel three million Germans from Czechoslovakia.

As to which was worse for that beautiful country, Pan-Germanism or Pan-Slavism, future historians will have to decide. Since the Czechs ceased to be part of a great power, they have been the mere football between their larger neighbours. This highly intelligent people will learn two important things from their current position, which cannot last for ever: first, the danger of national isolation, and secondly, the consciousness that they belong to the West.

The fall of Prague in 1948 finally woke Washington from its political dreams. Berlin, Prague, Vienna in Russian hands — the retreat could not go one step further! Now that the Russians had the heart of the old Habsburg Monarchy in their hands, they began to exploit the situation in earnest. The only newly-established position which the United States could claim in Europe was in those sectors of Western Germany that the Morgenthau Plan was designed to castrate. America's political defeat in Europe could now be clearly seen; and the dangers in Asia began to loom over the horizon.

For the West, in its state of shock and perplexity, the Russian dictatorship began to appear as some super-power that had a genius for political conquest. For my part, I felt that the annexation of Bohemia was Russia's first great failure: it tempted the Russians too far out of their natural boundaries, and put an end to Pan-Slavism among the Western Slavs. It also prevented the economic healing of Europe from taking place at a time when, for the United States and especially for the Soviet Union, it was vitally important. Leaving hardly time to draw breath, the new era of rearmament began.

The arms race that now began put back for years in the Soviet Union the required improvement in living standards; this now gave way to the production of ever more complex weapons systems. In the United States too, there was no time for liquidating the financial heritage of the Second World War. This was a disadvantage, and a growing danger, for the whole world.

59. The Death of May, 12 October 1949

In the early summer of 1949 my daughter graduated from the Madeira School in Virginia, and shortly afterwards my wife and the children came to Switzerland, where we spent happy weeks at Pontresina and Saas Fee. May said occasionally that she could hardly keep up with the children on walks; unfortunately, I paid too little attention to these remarks. She was never ill, and I took that to mean that her health must be perfect. In September she returned to Washington with the children, and I was to follow in November.

On 12 October, shortly after noon, May was stricken by a heart attack and died within a few minutes. The two days that then followed must have been terrible for my children, who had been with their mother that morning; because of fog I was unable to arrive for two days. I found the children grown up far beyond their years.

In my shock, I found myself questioning God's will: why had my wife, who was so much younger than I, been torn away from me and the children? Soon I came back to my senses. Our marriage had brought me deep happiness in middle life. I had to be grateful for that, bowed down as I was by present sorrow.

I pressed the children to me. They tried to conceal their sorrow in order to comfort me.

60. Korea, 1950

Relations between the two great world powers deteriorated from week to week, and at last America came to realise the consequences of her short-sightedness in the last phases of the world war. In the absence of any constructive ideas, Korea, which had been taken from the Japanese, had been partitioned along a geographic latitude; such a partition could never last.

I received news of the actual start of hostilities while I was travelling from Zürich to Naples, where I was to meet my son Wolfgang, who had just graduated from Sidwell Friends High School. Sir Oliver Franks, the British Ambassador in Washington, had spoken to the graduating students and urged them to be hopeful, and to keep the example of Odysseus before them. Wolfgang had been deeply impressed by this talk, and I was able to show him in Paestum and Pompeii the ruins of ancient cultures that had been destroyed. He went on to Rome, where he was put up in a school near St Peter's that had been turned into a lodging-house for the Holy Year. I returned in haste to Zürich, concerned not so much by the military as by the economic consequences of the war.

There had never been a proper cleaning up of the political and economic debris of the Second World War. Rearmament had interrupted the natural course of economic recovery at its very beginning; now this local war, because of its great-power background, transformed the upward movement of all world markets into an overheated boom. The United States budget escalated to a world war level and patriotic slogans made any criticism impossible. Other countries supported the United States only half-heartedly, and smuggling to China began on a much larger scale.

The entire world order had slid into chaos: soldiers were sent into battle without formal declarations of war, indeed often without diplomatic relations even being broken off. The United Nations were involved in a war, and yet they allowed some of their members to be neutral or even to take the other side.

The United States was compelled to arm itself for a colonial war and a possible world war at the same time; if such a world conflict did not take place, the greater part of American armaments would rapidly become obsolete and have to be replaced. And when hostilities in Korea ceased, there would have to be a quick transition to non-military production; that in itself posed serious dangers. However, if the United States should again find itself in a crisis with its armaments obsolete, financing a rapid

rearmament would be extremely difficult. After the decisive American defeat on the Yalu River at the end of 1950 it was no longer possible to contemplate an early end to the war.

In 1905, Russia had fought a war with Japan over concessions on that same river, and now the United States had suffered a defeat at the hands of China. That was a heavy blow to America's entire Pacific policy: the country for whose sake the United States had originally broken with Japan turned on its own protector and gained a resounding victory.

Had not the English statesmen of my youth, Edward VII and Joseph Chamberlain, seen things in a truer light? In their view, the Western powers had only one natural ally against potentially hostile powers on the continent: Japan. After that time, the United States forbade Japanese immigration, forced the British to give up their alliance with Japan, and led the fight for Chinese self-determination which at San Francisco elevated China into the rank of a world power. An old Arab proverb says: 'I taught him how to bend the bow, and his first arrow hit me.'

Few contemporaries saw clearly what was at stake in all these events. I had been an active witness of the events of 1904 and 1905, and could therefore understand that Great Britain gradually let the reins of world power slip into the hands of her junior but more successful ally. The United States might still be capable of great technical feats; but matters of the highest seriousness, such as the leadership of the world, were no longer to be entrusted solely to Washington. This Icarus of a country was quite capable of hurling itself and its spiritual father's lifework with it into destruction.

In 1905 the United States had been the mediating power between Russia and Japan; in 1950 it could enforce no resolution of the conflict with China, that same China with which it could have done anything fifty years earlier without even needing to use armed force. It had seemed at that time that Japan, Germany, Britain and France would simply divide up China, but the United States refused to engage in the partition, insisting on the firm hope that a free China would be its best ally in the East. That was a profound mistake.

61. The Crisis of Democracy; Warning to America

Oh, the illusions of American democracy! How grandiose they were, and at the same time how very childish! The Englishman Mackinder had completely understood all that, but nobody in responsible positions in America had appreciated him. Now the catastrophe had come. After Korea there was a good deal of talk about America's political isolation; but in reality that isolation was the consequence of momentary loss of prestige. In the Second World War decisive victories more than made up for a few defeats.

Did the future belong to that country which had fought and won the battle of the Yalu? It was the same country that had apparently been written off by history; its very army had been created out of nothing only some twenty-five years before by a German, von Seeckt, who even then said that China had the best soldiers in the world. Some forty-five years before, the Western countries saw in Japan the future great power, and were frightened. Then Japan was totally defeated. Was China's victory on the Yalu a passing affair, or did it represent the beginning of a new era in world history?

Immediately after the deep impact of the Yalu River defeat, on New Year's Eve 1950-1, I wrote a memorandum (see Appendix, pp. 284-91) and sent it to a number of figures in Washington. The reaction was largely one of puzzlement. How could one talk of a defeat? At the most the Yalu affair was a small reverse in a colonial war! How little they knew of what was really at stake! I had observed in other great powers many failures in judgement stemming from arrogance, vanity, insular stubbornness or plain barbarism, but never had I encountered such lackadaisical indifference. For surely the issue here was not a mere colonial war but three vitally important matters: the containment of Communism, the salvation of Japan, and the entire prestige of the West in Asia.

I was dissatisfied with all the vague reasons usually given for the Americans' indifference in world affairs: a young nation, preoccupied with domestic matters, spoiled with material affluence and unaccustomed to war. All these things contain a grain of truth, but they do not tell the whole story. Of course the Americans were not suited to the tasks that befell them as the largest world power, but was that really the fault of the country as a whole?

A century and three-quarters earlier, the Americans had risen up to fight a war which to the rest of the world appeared hopeless. How critical all

observers were of the colonial Americans! They were only some two million, with very little purchasing power, and able to pay their way only in good years; they were a people made up of adventurers and nomads. Adam Smith, the wise founder of modern economics, said that a good trade treaty with France was worth far more than the possession of the American colonies. He was no idle chatterer, but how wrong he was!

A great man can make mistakes that in retrospect seem absurd — but how small was the significance of Saratoga or Yorktown compared with the battle on the Yalu! The American revolutionary war was a civil war among Europeans; in Korea it was a struggle with Asiatics, and the Yalu River was the second such defeat for Europe in a single life-time. America was responsible for both those defeats, without admitting it; indeed, without even knowing it. For the United States had forced Japan out of her self-imposed isolation, and then later denied her any possibilities of expansion; it had then encouraged Chinese nationalism and subsequently become its first victim.

The Americans still spoke as if they were their own ancestors of 150 years before: using the arguments of a small people feeling oppressed by the great powers; of poor debtors *vis-à-vis* important creditors. Yet the United States had meanwhile become the greatest and richest country in the world: it had won two world wars, not by greater gallantry or training for war, not through greater intelligence, but simply through domination of the seas, financial control of the American continent (including South America), and access to the raw materials of the entire world. America's anti-colonialism and anti-imperialism, her cultivation of nationalism throughout the world, had become dangerous for her and for Europe, and represented a tragedy for democracy in general. Living as I did between two countries that are considered the foremost examples of democracy in the world, I could see clearly the limitations of that form of polity: it enabled Switzerland to maintain permanent peace; but in the huge United States, democracy failed precisely because of wars. And now two great nations, Russia and China, had been dragged into tyranny under the aegis of democracy; and there were plentiful signs that other countries were moving in the same direction.

America's opponents have reproached it with the label 'imperialist'. The opposite is true: the United States does not know how to rule, and yet its fate has been to dominate the world, for it must unify Western and Central Europe, and that cannot be done by democratic means. In their time both Rome and Britain understood their mission clearly; however, the United States is still full of inapposite Jeffersonian memories that are

out of place in today's world. Every five hours (if we calculate the dollar at one-third the value of the 1802 dollar) the United States consumes more in value than the entire sum expended on the vast Louisiana Purchase. Using the guiding principles of that time in present-day circumstances is absolutely suicidal. These critically important questions had to be aired, I thought, putting aside the concerns expressed by my friends over the possible consequences of publishing my warnings. I expected, of course, the opposition of communists and various hues of nationalist, but also anticipated the sharp rejections of honest Democrats, who were doubly sensitive because of the critical situation. They simply did not want to acknowledge that democracy had decisively altered its nature in the past forty years, and that the way to recovery would be one of severe hardships. Whether such a recovery was in itself worth attempting was not, for the moment, the real issue.

I was treated like the doctor who is attacked by the patient whom he accurately diagnoses. We no longer have the luxury of choice, as we once had, between political systems; that was evident to very few people. The representatives of one system had reduced consumption to an absolute minimum, just this side of starvation; those on the other side had increased taxes so much that just a few more notches and the private economy would be strangled altogether. Neither side had the financial means to fight a long war, for which nonetheless both were preparing. Even if there were formal consents enshrined in both systems, the Russian people had not consented to be starved, nor had the American freely consented to be taxed at such levels; to speak of democracy in these contexts is a mockery. Just like the French after their revolution, the Americans preen themselves on having discovered the ideal polity, and try to convince the rest of the world accordingly, in all good faith. In contrast to the Russians, they do not force their ideas on others, but prefer peaceful persuasion. Since America is the leader of the West, it is important to tell the Americans that such an enterprise is fruitless: democracy cannot be improvised. I kept trying with all my powers to recall to the Americans just where they stood.

The world's oldest democracy, Switzerland, understood my alarm, and there was a strong positive reaction to the warning. Germany, on the other hand, was little interested in problems of democracy. France saw in my remarks a frontal assault on the French Revolution, and she feared the consequences. As for the United States, I experienced what Richard Wagner had undergone at the première of *Tannhäuser* in Paris, where the audience started to hiss even before the first notes of the overture. The not very numerous intellectual élite of America did struggle with the

problems I raised, in full awareness of the fact that my views shook the foundations on which their government was established. But 'lazy knowingness that knows how to conceal ignorance behind an attentive demeanour' rules the roost; and just as the German press failed so utterly to foresee the arrival of Hitler, so most of the American press was unable to perceive the early lightning of the oncoming storm.

America wants to be rich and loved at one and the same time. It gives generously to the needy, but cheerfully reminds them of their obligations. It is a mild opponent and an unpleasant ally. It never knows where it stands, is easily misled by smooth-talking confidence men, and has an instinctive aversion to really outstanding personalities. To be sure, we can see the beginnings of an intellectual élite in the United States, far more so today than in the second half of the nineteenth century — but it is scarcely able to establish itself.

The history of the Greeks and the Jews affords examples of men who dared to tell the truth to their people: the warnings of the Jewish prophets were dire, and they staked their lives on them, just as the Athenian philosophers did theirs. Such examples are not to be found in American life. The herd of sycophants is infinitely large. 'People here', Paul Warburg warned me when I was a young man, 'want to be flattered, and do not take kindly to criticism.' But is that still true today? How many young Americans have I seen groaning under the burdens with which they have been saddled by the manufacturers of public opinion — those manipulators of the public mind, an army of greedy clerks piously cloaking themselves in idealism, but degrading history to mere chronicle, and religion to some feature of the Christmas market. The immense volume of completely worthless erotic publications is the consequence of the limitless commercialisation of intellectual life. One of these wretches, when asked the serious question what makes a good book, answered 'The number of copies sold'.

Of course, one also meets more sense of community and readiness to help and make sacrifices for others in America than in any other country; and obviously there is also heroism and deep respect for life's problems. But the representatives of these qualities shun the limelight, and do not advertise their virtues. Anyone who knows the United States only through its advertising could easily regard its women-chasing soldiers or drunken wives as typical of the entire country. That is one explanation for a remarkable and serious phenomenon: great generosity has only increased the antipathy felt towards it in Europe. The prime motivation for this was not fear of American superiority, however explicable that might have

been; on the contrary, in spite of its unequalled contributions, the United States suffered a loss of prestige. Precisely because of its achievements in the war, it was looked to for the solution of all problems that might arise in such critical times. And then, heedless of the consequences, the United States promised the world freedom from fear and hunger. The whole world took it at its word, took its contributions as mere payments on account, and looked critically at all its weaknesses.

The Americans might have been indifferent to all that; after all, what did the world's opinion matter to them? A creditor can always reject the opinions of a dilatory debtor with a laugh. But in this case the leaders of the Western world's fight for survival were involved; it was not quite so easy to ignore their opinions and the sharp decline in respect for America that they expressed. For the United States was no longer in a position to risk early defeats in the certainty of final victory — the opportunity to recoup the early losses might never arrive.

There was another strand in the hostility felt towards United States, in addition to its too numerous and too generous promises: the gap between official doctrine and reality. The Americans preached free trade and the abolition of all cartels to others, and then enacted all kinds of protectionist measures themselves. Lip-service was paid to a free-market economy, and an unprecedentedly bloated bureaucracy was created to oversee it; there was supposed to be world-wide struggle for freedom, yet in America itself the area of freedom was steadily contracting.

On this occasion I had to be satisfied with expressions of agreement from Yale, Princeton, Harvard and a series of other observers of standing. I decided to leave attempts to influence American public opinion to another time.

62. Why Are You Still Active?

'Thy thoughts are set on what conditions fit the State; anxious art thou for the City, fearing what the Seres may be plotting, or Bactra once ruled by Cyrus, and the discordant tribes on Tanais' banks. With wise purpose does the god bury in the shades of night the future's outcome, and laughs if mortals be anxious beyond due limits. Remember to settle with tranquil heart the problem of the hour!' (Horace, *Odes*, Book III, 29, transl. C.E. Bennett, Loeb Classical Library, p. 275)

Many readers may well apply to me the verses that the great Roman Epicurean wrote to Maecenas. Just as the great misfortune came to Rome several centuries after Horace's time so perhaps it may only come to us far in the future. Why then should I always be sounding the alarm? Melancholy seriousness ill becomes a native of Vienna, where they have sayings like 'A true Viennese never is down for long' or 'What's the use of hanging on to your money? You only live once.' These and other such sayings give Viennese men, and perhaps Viennese women even more, a quiet cheerfulness that enables them to survive many vicissitudes in life. I appreciate that quality in people, but I also consider Horace one of the wisest of all writers.

However, our present situation is so serious that if we do not somehow mobilise all our strength, we are destined to sink in a single generation from the status of lords of the earth to abject servitude. Only at rare moments in their lives are people capable of understanding the full implications of such catastrophes — and they are certainly far from that realisation now. I find this astounding. An Egyptian of the third century A.D. wrote on a papyrus fragment cited by Rostovtseff, 'If I choose to become a beggar, I could succeed in fleeing.' Only those who can keep company with pickpockets in the full knowledge that their pockets are empty are truly freed from anxiety. But we are not threatened by dangers such as territorial losses or inroads upon our property: what we have to fear is political, economic and cultural destruction.

And here I come back to a question that is so often whispered behind my back by nationalists and dim officials: 'Why does that man fuss so much over world problems? What concern are they to him?' These murmurings have a far less pleasant sound than Horace's ode to Maecenas.

Let us imagine a fairy story, in which a passenger plane runs into a tremendous storm, and the pilot loses his bearings. One of the passengers comes forward and offers him advice; he cannot take the pilot's place because the airline has not hired his services. After a safe landing, the

passenger goes away quickly, unknown and unthanked, happy not to have to deal with official questions about his pilot's licence. If asked what is his profession, he would answer that he is a meteorologist. Storm-forecasting is his speciality.

My deepest inclinations and my fate have combined to make me a political meteorologist. But people these days only listen to such forecasts when they come from institutional sources, from those weather forecasters who are 'official'. Unfortunately, by the time these forecasts arrive, they have lost their usefulness.

Before a profession is vulgarised by becoming routine, theory and practice are still intimately linked. I was not therefore content merely to predict hurricanes: I gave the captains my advice whenever it seemed to me appropriate. That was a natural consequence of my profession; fame and gratitude were and have remained matters of indifference to me.

But like the weatherman-passenger in my little story, I have helped the pilots in my own interest as well. The fashion in the twentieth century is to assume the air of a total altruist: but I freely and openly admit that in critical situations where I saw incapable pilots, I intervened in my own interests.

I am not impressed by any name, no matter how often it resounds from daily advertising; and I do not bow down before the idols of our century. I am not afraid of nationalism, or of communism, or of the atomic bomb. None of this can harm Europe if it again recovers its own strength. But the West has to contend with a dangerous internal enemy: the cult of the masses and its twin consequences, the police-state ideal and inflation.

We must return to our own tradition here in Europe: to individual responsibility and to the state of law, not men; and we must somehow bridge the gap between labour and the middle class. If we succeed in these aims, we shall have nothing to fear, nor will our children. But before these high goals are achieved, let nobody who really cares about the salvation of the West relax into passivity.

Appendix A

Warnings on the Coming of World Danger

To Germany about the first World War (1912)

From 'Die Erfahrungen des letzten Jahres für die Kriegsbereitschaft des deutschen Geld- und Kapitalmarktes', in *Schmollers Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft*, 1912, pp. 557 *et seq.*

In the past year, 1911, we have seen for the first time in many years the possibility of war between the great European powers. Even at the beginning of the year, political issues coloured the loan negotiations with the Hungarian and Turkish governments; in August and September, in reaction to foreign problems, a large part of the foreign assets invested in Germany and Austria-Hungary was withdrawn. In the 1850s and 1860s considerations of a possible conflict still played a significant role in people's calculations, but since then an entire generation of peace has practically eliminated war from the consciousness of those who have to make economic decisions.

I am quite well aware of the political hazards inherent in even an entirely economic consideration of the developments of the past year. It is however entirely wrong to assert, as we so often hear, that the shortcomings of our credit should not be aired lest that give aid and comfort to our foreign enemies. Every observer must be aware that the financial situation of both Germany and Austria in the autumn of 1911 was not very satisfactory, however exaggerated hostile press reports from abroad may have been on this subject. If the causes of present conditions could not be altered, silence would be a duty. Since, however, that is not the case; since indeed we are dealing with factors that are not God-given but alterable by conscious adoption of sensible economic policies; and finally, and most importantly, since it would be highly dangerous to permit a repetition of the situation in which Germany found herself last year, it is very important to eliminate the causes of her weakness.

In the first half of 1911, the upswing in industrial production continued. It is true that this general economic upturn, in which recession seems to become a phenomenon of the remote past, is a sign of considerable strength; but unfortunately we see excesses on every hand, and concern for liquidity becomes quite secondary in the race for increased profits.

True reform and strengthening of the money market cannot take place without some sacrifice. Those sacrifices will and must be made, if there is a general conviction that the deep organic weakness of the money market, as it was revealed last year, represents a serious danger for the Empire in the event of political crisis.

To Germany about Submarine Warfare and its Consequences for Empire and Dynasty (February–March 1916)

Memorandum against the escalation of U-boat warfare, written by Max Weber with Felix Somary, published in Max Weber, *Collected Political Works*, 1921, pp. 64 *et seq.* Portions written by Somary are within square brackets.

Increased submarine activity may offer a road to peace, that is to say an earlier peace than otherwise to be expected, only under the following circumstances:

- that America's entry into the war is not thereby provoked;
- or that, if America does enter the war, her co-belligerence does not tip the balance of forces and endanger our position;
- or, finally, that America's contribution to the war effort will be certain to come so late as to enable us before then to compel British surrender.

It should be noted concerning the foregoing that:

- [1. It is unfortunately true that America risks practically nothing by joining the war, and that she can continue fighting practically without time limits.] The entry of the United States into the war, in alliance with England, would be the best possible insurance against the Japanese danger.
2. Anyone who knows America must reckon with the probability that it will conduct a war with at least as much stubbornness as England; and that in case we fail to continue the war, we shall be forced to accept extremely ignominious conditions.
3. If a quite rapid British surrender cannot be forced — a piece of luck of which we shall speak later — then American intervention means a prolongation of the war for several years.

[We need not discuss here how such a prolongation of the war might be survived by us:

- financially;
- with relation to our supplies of war materials;]
- with reference to the gradual exhaustion of our troops both physically and psychologically;
- with reference to the possibility of a separate peace by Turkey, which is always possible because of the political irrationality in the Turkish Empire and the fact that we for our part are attempting to annex territories, while Turkey offers none with which it wishes to part. Such a separate peace seems probable if the war is indefinitely prolonged. [(Finances! Shortages of food supplies and of front-line workers!)]

[One thing is certainly true: American intervention, whether soon or

somewhat later, would equip our enemies with the material and psychological resources to continue the war for a practically indefinite time. The mere possibility that coincidence could bring about American intervention will enable our opponents to keep going, despite severe setbacks, until that chance of America's entry into the war has been eliminated.]

Moreover, we see the following picture if for the time being we do not assume British surrender, and therefore must reckon with a prolongation of the war:

I. After the war, without the import of any neutral capital, England's most important war aim will have been realised: the destruction of Germany's ability to compete in world markets. There would ensue as a consequence of our inability to re-establish our industries the severest economic depression imaginable, with social tensions of the most dangerous and unprecedented kind. Joint war with its British ally against Germany would make American capital as closely identified with the interests of the City of London as if it too were 'enemy' capital.

II. It would be all the same to us if England's decline caused the City to become a dependency of New York's capital markets: that would merely strengthen the power of capital interests inimical to Germany. We should thus have lost the war in economic terms, no matter what were the actual peace conditions. The close social and financial relationship between America and England that exists even now cannot be compared in the slightest with the virtual identity that would exist after an Allied victory.

III. Subscriptions to our war loans would be seriously endangered by unrestricted submarine warfare. [With a prolongation of the war, the issue of increasingly worthless paper — quite like assignats — and a dubious outcome will lead private investors to shy away from subscribing to war loans, as surveys now reveal.] Such a decline in subscriptions could become catastrophic if America entered the war. [Rolling over of issues as they mature is one source of subscriptions that is elastic, but has certain limits; any general avoidance of war loans would affect these decisions too.]

IV. Nobody can seriously maintain that these fears are absolutely groundless. To continue our paper economy while cut off from access to any neutral funds would mean that England would have reached her economic war aims. Even in the worst case, England would have at her disposal for re-establishing her currency after the war both domination of gold-mining, and the financial power of America, intimately linked with her own. The domination of New York banks over the City would hardly represent a turn for the better from our point of view; we should have forfeited our world standing for an unforeseeable period.

V. If America chooses to wage war by subsidising her Allies, she would manage to put a stop to the steady decline in Italian currency; and also spare France and England the necessity for imposing measures that might otherwise have to include a partial moratorium on debt payments.

On the other hand, the final downfall of the Austro-Hungarian currency

would be absolutely assured by the entry of the United States in the war, quite aside from the question of Turkey; and Germany's currency would be crippled over the long term. After the war, all credit-hungry countries would in any event be dependent on the goodwill of our enemies. Thus the war would be lost from our point of view, no matter how favourable peace conditions might seem.

VI. If our enemies do not suffer annihilating defeats in the course of the conflict, they can constantly renew their stocks of munitions and top up their military reserves, without undue strain and by calling on the enormous network of American advertising. Anyone who knows the United States must reckon it highly probable that a very large number, perhaps several hundred thousand well-equipped, physically robust American volunteers can be mobilised for duty on the Western front. And that is quite aside from the fact that a business recession even in America should liberate manpower for these purposes. There are people in all classes of American society who would regard war service as very appealing; and it would be extremely foolish of us to assume, as we did before the war when assessing the willingness of upper-class Englishmen to fight, that the Americans too are unwilling to join the combat.

The possibility of a breach with America over submarine warfare would therefore be extremely dangerous for our future prospects even if there were a possibility that England could be forced to surrender, even within a few months. The question whether there is such a possibility is however weighed down with so many political and economic assumptions that it cannot be answered with certainty, and surely not by experts on naval warfare, no matter how gifted. These experts must free themselves completely from emotional and wishful thinking, must attempt a very sober calculation, before any measures are taken to intensify submarine warfare.

I. In such a sober assessment, one should start with the assumption that if England is threatened by a blockade, she will take the same measures to assure her continued supply as we have — despite the hasty notions of some that she might do otherwise. We must make the further assumption that the present level of consumption that we have managed to maintain could also be maintained in Great Britain. [Rationing, price freezes, nationalisation of the merchant fleet, the forced closure of all non-essential industries, at least those whose working requires substantial shipping capacity.] Foodstuffs would be imported in a form that requires minimal shipping volume: flour, frozen meat, tinned foods. Such a supply system could be in place and functioning within four to five months, albeit with considerable difficulties and high costs; but it would be eminently feasible and would be carried out as soon as England is convinced of its necessity for ultimate victory; and in the certainty that the slowly increasing pressure of the Americans would also be mobilised on behalf of the Allied cause.

[Consequently, a calculation should be made of the minimum shipping capacity England would need, given the foregoing assumptions. That figure will

be quite surprisingly small, and every shipyard in the world, with the exception of Germany's, will be available to help supply it.]

Britain's very limited import needs could moreover be shipped by southerly routes using ports in southern France, Portugal, Spain and Italy, and transshipping the supplies up the French coasts by rail to the Channel ports. The objection that there are insufficient freight cars available for this route is not tenable.

II. In connexion with all this, we must try to ascertain to what extent the Channel passage itself can be cut off between France and England. Can it be cut also at night? [Which is not presently the case.] Or even if the British should choose to use a fleet of many smaller transports, which would make a torpedoing of all the supply ships unfeasible [as is now the case]? Or whether we could wage such a campaign even if transports are escorted by enemy torpedo boats? As is well-known, because of these difficulties we have not succeeded in blockading the Channel even for troop and munitions ships going to France; and such a blockade is not considered practicable in present circumstances. But to the degree that such a blockade is possible or impossible, we must reckon the chances of submarine warfare in general: for it must seem unlikely that submarines could patrol all the southerly routes in addition to blockading England herself. [We may calculate with a fair degree of certainty the technical limits of submarine construction in Germany; we also know pretty clearly the very important figure of the minimum time it takes to build a submarine. Thus we arrive at an approximate figure for the numbers of new submarines and when they might come into commission; and if these figures are even approximately accurate, it would be utopian to reckon on any real blockade of the English coasts, unless quite new and unknown factors come into play.]

III. We must furthermore bear in mind that should America enter the war, all the confiscated German shipping capacity will immediately be at the disposal of the Allies; and it will presumably be several months before the tonnage available for England's supply can be reduced by torpedo to even the figure now available to her.

Whatever happens, we should be aware that England, even if she herself should suffer severe shipping losses, would accomplish one of her war aims: a terrible decimation of our merchant fleet. England herself would be in a position to re-establish her own merchant navy relatively quickly after the war; and America would have equipped herself with part of our fleet at no cost. One must hopefully assume that all these factors have been taken into account by the appropriate official planners in various Reich ministries.

IV. Some consideration should also be given to the issue of whether the most necessary imports would not be convoyed by torpedo boats or other warships, thus cutting the effectiveness of submarine warfare; and also that the merchant ships themselves would be better equipped to fight off U-boat attack. But it is in any event highly dangerous to base decisions that concern our entire future on a weapon that is available only in limited quantities, that cannot be rapidly replaced,

and that is vulnerable in terms of both its own construction and the possibility of technical countermeasures.

V. If America should enter the war, England would cease to have to reckon with a possible rise in her shipping and insurance costs such as the press [unbelievably] still discusses. The more so, since she will have our confiscated shipping to add to her capacity.

VI. We must assume as a certainty that the issue of American pressure on the neutral countries [Holland] will increase over the long term, and will take on the most extreme forms.

VII. One hopes that it has been established beyond any doubt what raw materials and food supplies, despite all counter-measures, are now being imported into Germany from neutral countries; which of these would be cut off in the event of America's entry into the war; and what the consequences of their absence would be for our ability to continue the war for several more years. According to information available to us, these quantities are not all that small.

The harsh tone in which discussions on the submarine warfare issue and the possible intervention of America have taken place in all sections of the press has already severely damaged our interests, and in two principal ways:

I. The very first question about submarine warfare, 'Is there any other way to peace?', aroused among our friends, our enemies and the neutral countries the same doubt: that we are materially or psychologically in a position to obey the Kaiser's injunction to hang on as long as necessary to convince our enemies of the hopelessness of our defeat. In other words, submarine warfare appears to be a counsel of despair on the part of the German military.

II. The discussions have given this very worst of impressions also to large numbers of people within Germany, and even in the armed forces. The abruptly excited, often almost hysterical cries of a 'way to peace'; the touchy refusal to go into any careful analysis of facts; the sudden change of opinion within a few weeks among the most influential circles — and without, as it turns out, any sort of new information — all of these were frightening and, quite objectively, very dangerous phenomena. One only has to make clear what a blow it would be if that 'sole means to peace' does not achieve its object. And it must also be said that the moral cowardice that made opponents afraid of appearing defeatist played an especially contemptible role in the discussions. The [authors of this article] have from the beginning of the war felt confident that we would emerge from the conflict with honour. Because of the phenomena mentioned above, and the possibility that America may be drawn into the war as a consequence, they feel for the first time serious concern for our country and indeed the future of its ruling dynasty.

We have seen recently the same phenomena here that could be observed at the time of Italy's conflict with Austria. Influential and supposedly well-informed sources assured us at first that Italy was only bluffing, although those who knew

Italy well were convinced of the opposite. After the declaration of war, the same circles confidently said that the war had been a sure thing from the start. People tend to forget that saying of a great power that it is bluffing in itself represents a deadly affront; equally overlooked was the fact that our policy of urging Austria to make concessions would be considered unforgiveable foolishness if any one of the assertions, no matter which one, on which it was based had come true. Just as they did then, the opinions of the same politicians are wavering as to America's intentions. That must lead to exactly the same consequences, and the responsibility for it is the more serious, because this time at least neither of the two assumptions made about American policy is correct. One thing, however, is certain: that simply letting things go on, and lurching between a conciliatory Government policy and whipping up hysteria in the German press, with its policies based on street and platform emotions, will ultimately meet a counter-reaction overseas. Then the leading party bosses engaged in the American election campaign will have no other possible policy than to push for a substantial humiliation for Germany, or indeed to have America enter the war. As far as we know, things in America have not quite come to that point; although the optimism we hear on all sides about Congressional voting is entirely unfounded. One further matter is clear: the situation will be truly hopeless if the German public deals with this highly complex and difficult matter as if it were a point of personal honour, and thus forecloses all possibilities of a graceful retreat. We must unfortunately reckon with that possibility; and with its corollary, that because of our misplaced patriotic zeal England's enterprise may flourish.

Thus the leaders of all parties have a duty, despite the Government's refusal of information on security grounds, to request formal assurances on the following points:

1. that no steps are taken or permitted that may lead to direct or indirect conflict by engaging our national honour, without first making all the necessary calculations for a decision with the utmost measure of caution;
2. that it be made quite unequivocally clear which officials are responsible for each aspect of these calculations; and that their assumptions and methods as well as their names be part of the official record. For if even one of the variables in this highly complex equation is incorrect, all the bravery of the front-line troops cannot prevent our economic collapse during the war, and our economic strangulation after the end of hostilities.

[The internal political consequences of such an economic defeat and the loss of the war because of America's intervention — foreseeable on grounds of some possible 'incident' — must be highly unfavourable, and cannot be compared with any disasters that might befall us in the absence of American intervention. For everyone in Germany is now prepared for the fact that such intervention will make prosecuting the war that much harder, and perhaps will require even more radical economic measures.] Equally, everyone should reckon with the possibility,

however remote, that our overall situation might someday be less favourable than it is today. [Nobody will make the Government and the occupant of the throne responsible for the ordinary vicissitudes of war. But they will assess blame, whether rightly or wrongly, for the consequences of a policy *vis-à-vis* America which, if it fails, will afterwards be seen by large parts of the populace as a highly speculative and reckless policy.]

To Germany on Uncontrolled Inflation and its Consequences (1920)

From a speech to the board meeting of the Verein für Sozialpolitik in Freiburg im Breisgau, 1920. Closed meeting, chairman Prof. H. Herkner: with German and Swiss board members present.

I have asked Professor Herkner to convene today's meeting, because I am filled with urgent concern about the fate of the German and Austrian currencies. If things go on as they are now we are threatened by the danger of a complete collapse of both currencies, with all the consequences that would entail for international payments and internally.

Nobody will be unaware of the difficult position of an empire after the loss of a world war. But the continuation of unchecked inflationary policies after a war must ruin the entire economy. I should gladly have carried on this discussion in a public forum; I regret that my request to do so was refused because of fears that the country would be alarmed. Alarming the country is precisely what I feel is necessary.

We must today have the courage to be unpopular. I cannot bear it when economists fuss over questions of insignificant detail, as if we were living in normal times, and choose to pass over in silence the great misfortune about to befall us.

The doctrine of cheap money is preached at us from all sides: the real income of farmers and workers must not decline, they say; social benefits must not be touched. And the authorities do not even dare to raise the bank rate at a time in which the expansion of the money supply ought to be punishable by criminal penalties.

If matters go on this way, within a few years the entire savings of the German middle class, as well as the capital reserves of the social security system, will have disappeared completely. I beg you to concentrate all your intellectual efforts on the fight to stabilise the value of our currency. It is a matter of life and death for Germany and for Europe.

About the World Depression (1926)

From 'The Future of the Currency', a speech given on 10 September 1926 at the University of Vienna, in the series of lectures on International Social Studies.

The overwhelming majority of bankers and industrialists see in the granting of the League of Nations loan to Austria and in the provisions of the Dawes Plan the beginnings of a period in economic history that will take the same shape as we knew before the war: a recovery phase, followed by boom, a crash and then a depression, and so on. Young economists joyfully rush into research studies on the business cycle, armed with much more data and much less understanding than old fuddy-duddy Juglar.* The Stock Market departments of the banks enthusiastically proclaim the era of permanent upward progress, and private industry as well as the public sector compete in their eagerness to make capital investments, as if they had not sufficiently indulged that during our inflation.

If, however, we do not choose to stumble blindly into our economic future, we must try to attain a clear picture of developments to come, and should pay attention to the beginnings of our current economic phase. We have just lived through an inflationary period which has destroyed the savings of an entire generation of the Central European middle class. The currency was sacrificed to the lunatic notion that international relations and the unofficial economy could thus be saved somehow. Such a process is only possible once in a generation; one must fear that in the next crisis the economy and international relations will be sacrificed in order to maintain the integrity of the currency.

And if you ask me why I am speaking of the next crisis when stabilisation has scarcely begun, then permit me to reply: I see that people are behaving as if we were in the middle of an upturn, while on the contrary the international economic position is far graver than at any time in the past generation. If there is any comparable period at all, I would say it is likeliest to be the time from 1825 to 1830 in England, or from 1866 to 1873 on the Continent; but the present situation seems to me yet more serious.

The world war completely altered the relationship between creditor and debtor countries. The United States, before 1914 the greatest debtor, has become today the greatest creditor in the world. Europe was able to cover its payments deficit with the United States through interest payments on capital invested in America, and the remittances of immigrants. But European securities holdings in the United States — with the exception of France, Switzerland and the Netherlands — have declined substantially, and yield only a much smaller fraction of income than they did a century ago. The decline in immigration, and the permanent settlement of former immigrants, with a consequent weakening of family ties to the Old World, has also diminished the stream of remittances. But the balance of payments deficit of Europe *vis-à-vis* the United States can hardly grow smaller, because in all sectors of the economy, newly-established industries in the United

States have won market and technological advantages that Europe can hardly match. The advantages of an enormous internal market and cheap capital cannot be matched by a Europe divided into many states, and burdened with high interest rates.

The situation, which in itself is very delicate, has been worsened by a factor that was unknown in the pre-war period, namely international political debts, whose effect is to make the entire position much more dangerous. The result is to increase the credit side of the ledger strongly in America's favour, and thus increase the burden of continuing payments obligations for many European countries which would in any event have been running substantial payments deficits *vis-à-vis* the United States.

Shall we not anticipate significant upheavals if in the United States itself there is a stronger heating-up of the economy, and if the cheap money there leads to a stock market boom? Such a boom would lead Americans to invest their liquid capital in more profitable ventures in their own country. And cannot the return of vast sums of French money to Europe in the context of a revaluation of the French franc — which must come soon — cause upheavals in the short-term capital markets, if these sums are not re-lent to the same debtors? Can we really rely on a continuation of the gold exchange standard even in a crisis? And would not the changes that should occur if the still unproven gold-exchange standard is renounced have decisive influence on international capital movements?

And yet, would that French capital were withdrawn and the gold exchange standard renounced as soon as possible, so as to avoid excessive liquidity in New York and the danger of a stock market boom! For if both those developments should take place only during a boom, or even in the middle of an American panic, then the dimensions of the catastrophe for Europe hardly bear thinking of.

We thus conclude that Europe needs the utmost caution and liquidity. There must be no construction on the basis of short-term credits, which are granted by so untrustworthy a creditor as the United States, which may withdraw them all too probably at the worst moment. I had rather see the ruthless cutting-back of state expenditures, and a slow reconstruction of banks and industries than the development of an economic upswing that must end with the bankruptcy of governments and the destruction of banks. Limit your expenditures, you young democracies; make as few investments as possible, you entrepreneurs and bankers! Those who do not follow this advice will face disaster when the seven years that Juglar prescribed for the long-term business cycle come to an end. For this time a crisis will not mean merely a recession in government income and a reduction in dividends. It will mean bankruptcy — in the international balance of payments, in inter-governmental financial relations, and throughout the banking sector. And the recovery later will be harder for Europe than after any crash of which we have yet heard.

To England about Hitler's Rise to Power and the coming Second World War (1 December 1930)

'The American and European Economic Depressions and their Political Consequences', a lecture given at the Royal Institute of International Affairs, London, and published in *Journal of the Royal Institute of International Affairs*, March 1931.

We come now to the darkest part of the current situation. I know very well that responsible British political opinion is much less exercised about this question than Paris, Rome, Moscow or Berlin. I hope that my English friends are right; but suspect it is just in these issues that the Continent has the surer grasp, for on the Continent war has become almost a hobby. I am very much against the notion that the world depression has increased the danger of Communism; but I must admit that it has tremendously increased the dangers of war. The Depression gives autocratic rulers the opportunity to demonstrate economic successes, and may seduce one or another of them to engage in foreign political adventurism. Today we have one-man rule in the majority of European countries — they differ from one another only in whether the opposition is killed, imprisoned or merely robbed of its property. People in England have no clear notion of the bitter hatreds and the savage struggle for mere existence that rage in Europe. In countries as radicalised as Germany, Socialism is considered almost conservative. At the time of the Locarno Pact, that had no meaning in foreign policy; but now the internal situation in Germany is beginning to make itself felt as a danger outside the country, particularly since that old rooted hostility between the neighbours on the Rhine is beginning to revive.

Political considerations of the first importance demand a quick end to the world depression. What could contribute to such a solution? Many hope for a solution from a reduction in American trade barriers, or an international moratorium on debts. Both of those will be unavoidable steps in the long term, but I very much doubt they will come in time. What is necessary is quick action, and in that context I see only two possibilities: the first is some harmonisation of the prices for finished goods with those of raw materials, by lowering the price on manufactures, and keeping the prices of commodities from sinking further. The commodities market, whose collapse ushered in the crisis, can be revived by an effective system of government purchases. Of course that can only represent an exception, for this emergency. If it is objected that this is merely a new attempt at pegging commodity prices, I reply that the timing of purchases and the identity of the purchaser make the decisive difference; for I would not, as was formerly done, have the purchasing carried out by the producing countries but by the consuming countries. Acquiring agricultural commodities and industrial raw products at cheap prices would enable these countries to reduce the prices on their manufactured goods — for which by the way it would also be necessary to insist on wage

reductions and compliance by the cartels and syndicates.

The second condition for ending the world depression is the re-establishment of political confidence. Europe has no lack of capital; what it requires is credit. It is Great Britain's task again to assume leadership and help reconcile France and Germany. If England has neither the strength nor the will for that task, the present crisis will be merely the curtain-raiser for a fateful period that historians of the future will call 'the period between world wars'.

To America of an Imminent Conflict with the Soviet Union (17 April 1946)

From a memorandum sent to Senator Alexander Wiley, Washington

The political boundary line in Europe is between Communism and anti-Communism; this division is the prime question of our time. American government circles do not understand these issues correctly, for they hope to export the New Deal to Europe, where the social security system was established over sixty years ago, and since has proven itself a mistake. For these purposes they have installed in Germany and Italy a number of refugee administrators without a local following. At a time when some effort is required to resist Communism, America stands by indecisively and hesitantly.

Here are my concrete suggestions:

1. The United States should confine its political and economic aid to those European countries that do not lie in the Russian sphere of influence.
2. Even to those countries where aid is freely given, it should be reduced to the absolute minimum. Credits should be extended in instalments rather than all at once, so that they may be cancelled in the event of alterations in the political situation.
3. Countries that expropriate American property should be excluded from any financial or trade relations.
4. The United States should not endeavour to be everyone's friend, but should concentrate all its economic and financial power on those countries that fully earn its confidence.
5. American broadcasts to Europe should be limited to two days a week, should be on the highest level, and should be free of all Communist tendentiousness. Reporting of the Office of War Information and the so-called psychological warfare office were not successful in Europe.
6. It would be best to deal solely in realities, and to liberate American policy from prejudices. As far as Germany is concerned, efforts at the moment should be concentrated only on the task of unifying the three Western occupation zones as an economic unit with a new currency, and the concomitant reconstruction of

banks and industrial organisations.

7. Grandiose slogans and empty promises should be avoided. It would be most helpful to proceed with the slow cultivation of carefully selected friends; to support farmers, the middle classes and skilled workers, and to make contact with their organisations.

As to your question whether the United States can achieve a rapprochement with the Soviet Union, I shall answer: as long as the Russian Revolution has not yet ended, the United States cannot dare for a moment to remain unprepared. One single moment of inattention can have the most fateful consequences. Never since 1812 has the United States been in as dangerous a position as that in which she finds herself now, after the Second World War.

To America on the Dangers of her Position in the World (29 December 1950)

Memorandum, 'From Portsmouth to Korea, the Balance Sheet of American Foreign Policy', sent to a circle of friends; anonymously translated and published in the *Neue Schweizer Rundschau*.

The name 'Yalu' has an unfortunate ring: this river is the Rubicon of the twentieth century. It divides Manchuria, the classic invasion path to China, from Korea, which in its turn is the springboard to Japan. After three hundred years of consistent defeats, the East won its first victory on the Yalu in 1904, when the Japanese beat the Russians; and its second victory when China defeated an American-led army.

People tend perhaps to over-value battles that have been fought in their own lifetimes; and yet only few battles in world history have had such far-ranging consequences as the two mentioned above. After three hundred years of undisputed dominance, the West was twice defeated by the East, twice in one generation. With the first victory, Japan attained the status of a world power; and with the second, China achieved the same. Its defeat in 1904 meant for Russia the beginning of a political crisis and a leftist revolution; the battle in 1950 represented a victory for Russia, won behind the scenes. The same empire that forty-six years previously appeared as the champion of Europe against the 'yellow peril' is now the protector of Asian nationalism as China's ally. And this same China, that in 1904 stood aside from the conflict, sunk in utmost apathy, is now taking its part in world politics with a surprising *élan*. Japan, however, which fought tooth and nail for Korea, Japan must stand aside.

But revolutionary as these events may appear, they must still take second place

to an incomparably greater phenomenon: the completely altered position of the United States in the world. In 1905 the United States played the enviable role of arbitrator between a victorious Japan and a defeated Russia. In 1917 the United States joined the world war toward its end, with only a relatively small army. In the Second World War it participated two years after the outbreak of war, and with a much larger army. And today the United States is again embroiled in an armed conflict, in which it has undertaken the greatest risks, and is straining to build up an enormous army, navy and air force. America gained no advantage from any one of these three cases. In Portsmouth it stood aside as non-partisan, and without undertaking any risks was able to intervene even without an army; but today it stands in the very eye of the storm.

This situation is at first glance hard to explain, for in the period between 1905 and today the United States managed to force all its enemies to surrender — and they included four great powers — and saved three world powers from destruction. And despite all that, America derived for itself neither territorial nor financial nor trade advantages from these astonishing, indeed unique accomplishments. On the contrary, it failed to improve its world position and indeed exposed itself to considerable risks. By a strange quirk of fate, the United States gave up its neutrality and took part in world politics in the same year that Russia left the world-political scene. What a huge difference there was at that time between the two rivals: America, the lord of the world, deciding the war's outcome simply by choosing to intervene; and Russia, weakened by fearful internal unrest, and humiliated in two massive defeats. Although Russia to this day has not entirely recovered from the effects of the Revolution, the enormous difference between her and the United States has steadily narrowed. America itself contributed decisively to this development, because it extended vital help to Russia throughout four decades.

If I now survey Russia's development since 1905, I ask indulgence for a perhaps all-too-brief summary of well-known facts. When Russia was defeated in the East by Japan, she turned to the West; she provoked war in the Balkans against Turkey, and through her ally Serbia came into conflict with Austria. In the war that followed, the Triple Alliance of Austria-Germany-Turkey defeated the Russians, but shortly thereafter lost the war against Russia's Western allies, England, France and the United States. The Austrian Empire was partitioned — principally at President Wilson's insistence — and transformed into a series of successor-states, democracies whose shakiness was from the beginning plain enough. Germany, which the victorious Allies treated much less harshly than Austria, managed within twenty years to rise again, and allied herself with Japan, which had exploited Russia's temporary weakness in order to overrun Manchuria and attempt to subjugate China. The war that followed saw both Germany and Japan compelled to accept unconditional surrender. The United States occupied Japan and, with its Western allies the western part of Germany. The Russians occupied the eastern zone of Germany and the largest part of Eastern and Central

Europe. Almost immediately after the cessation of hostilities, a bitter conflict broke out between Russia and the United States, which thwarted the signing of peace treaties. The Communist party came to power in China and allied itself with the Soviet Union.

The coming of a Russian-Chinese alliance was predicted by Count Gobineau one hundred years ago. He said that Russia would use the Chinese to dominate Asia; that the Russians would propagate pan-Slavism in Europe itself and thus bring about the decline of Western civilisation. This coalition has now become reality. In Gobineau's time, America forced Japan to open up its ports; now half Europe and all of Asia are barred to the outside world, and there is no second Perry to force access.

When in 1917 the United States gave up its neutrality, and with it the great guiding principle of its foreign policy, and instead turned to an interventionist policy, its most effective battle cry was 'Down with the Berlin-Baghdad Railway!' Today, the new Russian-Chinese alliance possesses a territory that begins thirty English miles beyond Hamburg and stretches all the way to just south of Canton, that is to say 5,000 English miles beyond Baghdad.

Shortly after the Russo-Japanese War a rail link was opened between the Belgian Channel port of Ostend and the Korean harbour of Pusan. The journey lasted twelve days and nights. If a train were to traverse the same distance today, travellers would spend only one night in Belgium and West Germany, and six hours in South Korea; the rest of the entire journey, eleven nights and eleven and a half days, would run through Russia or Russian-occupied territory. There are only 400 miles between the western boundary of the Russian-occupied zone in Germany and the English Channel; and the air line between the eastern front and the port of embarkation for Japan, Pusan, is less than 300 miles. The distance between the western and eastern frontiers of Russian-occupied territory, however, amounts to nearly 7,000 English miles. That represents a terrifying obstacle to any attacker, but is a splendid defensive position.

From 1812 onwards the entire world believed Russia was invincible. And yet it was beaten by the Japanese in 1904 and by the Germans in the First World War; and it would have been beaten in the Second World War too if it had not had the benefit of a neutrality pact with Japan and American assistance. Russia was twice rescued from total defeat: the first time, after the First World War, when the United States drove Japanese troops out of Vladivostok; and the second, during the Second World War because America, which since 1931 had been Japan's principal opponent, engaged all the military might of Japan. Thus during the most decisive moment of the war, the battle before Moscow, the Russians were able to draw on their reserves in the east, not having to fear a simultaneous attack on their western and eastern fronts. In the First World War the Japanese were Russia's allies; in the Second they were neutral; Americans, British and Chinese were allied in both wars. Had she been subjected to a simultaneous attack in the west and the east, Russia would have been forced to surrender.

American and British statesmen were fully aware of Russia's dangerous ambitions around the turn of the century; but their attention was distracted by German and later Japanese imperialism. From 1914 onwards, the Anglo-Americans supported each other without reservations in one war after another, first against Austria, Germany and Turkey; then against Japan and Germany. They thus destroyed all the opponents of Russia; no Russian ruler could more efficiently have eliminated his enemies than the White House did. And at the time when Russia threatened directly to confront America, the entire former Austrian Empire was in Russian hands — 52 of the 55 million population found themselves in Russian-occupied territory — and Germany and Japan were prostrate. America played the decisive role in the destruction of no fewer than 200 million of Russia's enemies; and no sooner was that done than she had to arm herself to prepare again for a struggle with the same Russian empire. If some good fairy could appear and grant one wish to the leaders of American foreign policy, that wish would doubtless be the restoration of the world's political map before the First World War. For in the final reckoning, all battlefield victories are meaningless: it is only the result that counts, and the results of the past 34 years of American intervention in Europe have been, to put it mildly, certainly no success.

No other policy could have achieved such devastating consequences. Neither Germany nor Japan, with their limited productive capacity and nationalism restricted to their own countries represented a real danger for America. But a Russo-Chinese alliance with its inexhaustible resources of manpower and matériel, and its appeal to the Asian masses is a truly serious threat. And because America first destroyed all its possible allies, it created for itself a giant handicap *vis-à-vis* a truly strong opponent.

As matters now stand, the United States must prepare to lead all the wars against Russia that were formerly fought by Japan and the German-Austrian alliance — only it now has much less favourable circumstances to deal with.

In 1904 Japan fought alone against Russia, since it had earlier defeated China. Because Japan is directly opposite Korea, it has the great advantage of accessible bases for troops and matériel; Japan's soldiers were the least expensive in the world to put into the field, and they fought fanatically because they were defending their homeland. America's present position in reference to all these factors is much less favourable: she must send men and war matériel across the entire expanse of the Pacific in order to fight an enemy whose own resources are right there in its territory. American troops are the most expensive in the world to arm and maintain, and they must fight on fronts far from home. National feeling works in favour of the other side.

The same situation obtains in Europe. The Germans found themselves in the Second and First World Wars nearer to the Russian breadbasket and centre of industry, the Ukraine, than the Russians themselves. During the First World War no fewer than 200 fully-equipped, well-trained and inexpensively maintained German and Austrian divisions defended their homeland. To replace those

resources with Americans is a very hard task. The transport of men and material is much harder, costs are extraordinarily high, and the fighting spirit of individual troops is of course quite different. Just a few years ago, American troops were fighting the populations of Austria and Germany, and were fired up to do so by all sorts of propaganda; and now they are expected to defend the same people they were taught to hate!

Thus we come to the essential problem of the present situation: the United States must defend countries that it has occupied. It must at the same time be the occupying power and the defender. America must defend countries whose defence is not its business, but the business of Japan and Germany — and those are two people whose war potential and fighting spirit have just been destroyed by the United States.

How can American troops fight on German or Korean soil with true conviction? To win over a defeated enemy seems to me a labour of Hercules; but to do so in the case of Germany and Japan, two proud nations, seems to me infinitely harder. Their bitterness towards America is far more outspoken than their feelings towards Britain and France. In the case of Germany that is especially noteworthy because in the last war they were attacked by the French and British: but themselves declared war on the United States, and were also the beneficiaries of a large-scale aid programme mounted by the United States after the war. The causes of this deep resentment are the same in Germany and Japan: their remarkable rise to power was suddenly cut off, and all fruits of their earlier victories snatched away — and this time through the decisive intervention of America.

Here many Americans may interject: have the Germans forgotten Hitler, and the Japanese Pearl Harbor? They were the aggressors after all, not us! I do not wish to go into the question whether this war could have been prevented, and even less into the problem of whether it made any sense. I prefer to concentrate my attention on one point: has the victor done everything possible to assure a lasting peace, or to make friends out of defeated enemies?

Wars can be ended by destruction or annexation. These are the simplest and most effective methods; but they do not conform with American psychology. When America concludes peace, it is inspired by two notions: the spread of a democratic political system, and the self-determination of peoples. Only too often these two noble principles directly contradict each other.

In accordance with tradition, the American always fights for democracy. He somehow expects that the victor (in this case the Russians) as well as the defeated (here the Germans and Japanese) will become democrats. But wars seldom have that outcome. The Americans try to install democratic regimes everywhere, and that is their most fatal weakness.

A democracy cannot be decreed from above. Swiss democracy required six hundred years to reach its full development, and everyone knows the very long history of the Anglo-Saxon constitution. It is more than one hundred years since a new democracy came into being; and the increasing influence of Marxism has a

negative effect on the democratic spirit. Love of freedom is not innate in mankind: it flourishes only in times of peace, and under the favourable conditions afforded by widespread independence. The United States of America can happily congratulate itself, because it owes its constitution to a union of large property owners and free merchants in the eighteenth century, a time of philanthropy and a sense of world citizenship. Freedom of thought and of speech are the very heart of the independent individual; they mean nothing to the coolie or the *muzhik*, and alas nothing also to people in large masses in the big cities: the industrial workers, soldiers, and petty officials. Today really democratic countries amount to less than 10% of all the world's countries; and no other country seems ripe to try democracy.

American doctrine rests on the assumption that all men are born free. The sad experiences of our present world confirm the thesis of Aristotle and not the words of Archidamus: the large majority of humankind seem to have been born slaves. Even when they have been liberated, they soon revert to servitude, and gratitude to their liberators is the exception rather than the rule.

The American crusading spirit is responsible for the tendency to try planting democracies everywhere. Who in the United States is capable of understanding the policy of the great French statesman Cardinal Richelieu, who as a Cardinal in the Catholic Church nonetheless made alliance with the Protestant powers of Europe in order to combat Catholicism in Germany; and who simultaneously fought Protestantism in France? And Bismarck followed the same political line when he encouraged democracy in France, because that in his view was the least dangerous and externally the weakest form of government.

The iron rule of all statesmen should be: have weak governments on your own frontiers, and strong ones surrounding the frontiers of your enemies.

Totally disregarding this principle, President Wilson established on the Russian borders over a half dozen weak so-called democratic governments. The same happened in Korea after the Second World War. Only one arrow in the quiver!

Tradition and schoolboy memories play all too great a role in American foreign policy. The fight against kings, aristocracy and the Catholic Church retains its popularity even in our times; America is conservative — and has radical traditions. It proclaims its non-belligerence as if it were the Holy Alliance; but when it is engaged in conflict, it has the instinct of a revolutionary, which has been reinforced by school teachings. The people with the highest standard of living in the world try with all their might to be the leaders of the Left — but that position is now occupied by the power that until 1917 was the leader of the Right. And the Right is today leaderless.

It was England that started the series of European revolutions in the seventeenth century; in the next century it had to fight two wars, one against its own colonies, and the other against France — and both those colonials and the French based themselves on principles of the Glorious Revolution. In just the same way, America and France, the revolutionaries of the eighteenth century, have had in the past thirty years to fight their own newly-fledged pupils and youngsters; for

all conflicts in Asia and other colonial areas are an echo of the American Revolution, and nationalism and communism both have their origins in the French Revolution, which was a radical interpretation of the principles of self-determination and equality. The United States must understand that it ended its revolution four generations ago. It cannot be the leader of the conservatives in the world and at the same time flirt with atavistic revolutionary notions.

American people are the most peace-loving in the world. They can be prepared to wage war only by the most intensive propaganda. But during a war feelings of hatred go deep, and attain a fever pitch towards the end of the war and beyond, with the most ominous consequences.

Far-sighted statesmen should understand by the middle of a war that the enemy they are fighting today should become the ally of tomorrow. If that is so, then obviously the stronger antagonist will defeat the other, but should avoid humiliating him. The demand of unconditional surrender is the most humiliating of all, and makes the victor completely responsible for the future consequences. Grant's attitude at Appomattox should never be cited as an example worthy of emulation. How different the twenty post-Civil War years might have been, if a freedom based on fraternal negotiations had been achieved.

The last phase of a war, and the immediately following months are the decisive point when an alliance with an enemy could become a possibility. That alliance should be concluded at a time when the defeated country would regard it as a gift, and not a necessity for the victor. The end of hostilities coupled with an alliance eliminates all hatred, and forges a lasting friendship between victor and defeated. No other country had a better opportunity to accomplish that than America, for it neither coveted territory nor had any other demands on Germany and Japan — and no other country failed in this context with such consistent regularity.

The Americans treat individual citizens of the former enemy countries without distrust — in utter contrast to their official hostility towards governments in those countries. The American authorities willingly grant the citizens of occupied countries the right of self-determination as soon as possible, without fear of opposition or revenge. When a prize fighter is knocked out, that is usually the end of it; but people go on forever, and the first reaction of a defeated people, as soon as it has got its strength back, is to demand revenge. A particularly dangerous aspect of the right of self-determination is the tendency to unify in one country all people who speak the same language. Every newly-unified country is aggressive.

The victorious country in our days has only the choice of two options: an alliance or some kind of annexation. To grant self-determination means a complete lack of imagination. Would America have maintained its China policy of the past thirty years if it had known the result? Who can guarantee that a country will not suddenly switch sides? Who can predict what direction even the policy of a united Europe might take in the next ten years?

Both world wars were decisively won by America — yet today America is in a

critical situation caused by both countries, Russia and China, that it rescued a few years ago from deadly danger. How could that happen?

Democratic principles, self-determination and generosity are not enough to establish an enduring peace.

Everything America has done since 1917 has been unrealistic: entering the war without clearly established war aims; the destruction of the Austrian Empire, and thus the entire balance of power in Europe; driving the Japanese out of Vladivostok; the policy of the 1930s against Japan, which deprived her of any possible expansion; handing over Warsaw, Bucharest, Budapest and for all practical purposes Berlin, Prague and Vienna as well as Manchuria to the Russians; undermining European colonial empires without the slightest knowledge of how Asian people would react. And even more unrealistic were American expectations and hopes that rested on international organisations and the principle of self-determination in international affairs generally.

The result of this policy is that America now confronts the same task as Great Britain when Wellington advanced from Portuguese territory to reconquer Europe. America is now in the same position as England in Napoleon's time: it has only a small land base in Europe. It has only one strong political asset: the men who rule Russia may be able to unleash revolution, but they have not the power to end it. Their divisive policy of unlimited expansionism can be America's secret ally; Russia's policy is also unrealistic. But that is insufficient comfort.

At the beginning of the nineteenth century, great Americans prided themselves that their country was free of compulsory military service, taxes and debts. These three freedoms have now vanished; American political, social and economic security, once unique, is endangered — and even decisions on matters of war and peace are no longer exclusively in American hands.

Thus when we finish surveying the consequences of 34 years of American intervention in world politics, may we not fully understand that there are Americans who find it might have been preferable to remain in the position of honest broker rather than actor on the world stage?

To America on the Coming of a New Depression (4 November 1954)

From a letter to former President Herbert Hoover

The economic situation in America today seems to me at least as dangerous as twenty-five years ago. My American friends remind me all too often of the difference. I know it from personal experience: in 1929 the New York big banks paid my bank 19% for call money, and today they pay practically nothing. But this difference does not mean much.

The real cause of the crash of 1930 was the difference between agricultural and industrial prices. Today we have the disparity between peace and war production in addition to that.

Nobody dares to apply the brakes: the Federal Reserve System was established at the time to disconnect the creation of money from the national debt. And what has happened since?

If the present boom continues, there is grave danger for the stability of money values. Can the free world afford that in the present political situation?

A dangerous slogan is sweeping Europe: 'Buy American shares, because there is imminent danger in America of a decline in the dollar.'

Appendix B

Do Depressions belong to the Past?

Lecture given at Harvard University, April 1956

In the summer of 1954 the *Frankfurter Allgemeine Zeitung* raised the question whether another crisis like that of 1930 could recur, and appeared to deny that it could. At the time I sent a private letter to one of the editors of the newspaper in which I took the opposite view. The publication of that letter caused a flood of opposition. I refused the many offers I received to discuss the issue in public, because I was urgently requested by official quarters to maintain silence so as not to shake public confidence. Three decades previously I refused to listen to such warnings. This time I wanted to be more cautious, and follow the advice of the Prince de Ligne, who was considered the wisest man of the eighteenth century: he said that he who sees a crisis coming does well to be silent.

My change in attitude cannot be attributed to my being older, nor to increasing cowardice; and also not to the fact that I had well learned the cost of frankness: out of 100 people, one makes enemies of 80 with warnings of a crash — people whose interests or peace are disturbed; and the other 20 usually become enemies if one has been right. But I did want to take account of the very serious political situation abroad, and stayed silent, to the disappointment of many.

Then in December 1955 the *New York Times* published prominently a statement by Sumner Slichter in which he said: 'The days when this country can experience anything worse than moderate or possibly mild depressions are gone forever.' I myself had not read the article, but was made aware of it from all quarters, sometimes in a questioning and sometimes in an ironic tone. I felt that some sort of answer was required to a statement that had so wide a circulation.

Whatever consequences a warning of a crash may have, they seem to me less significant than the appalling danger of a false sense of security. I have therefore decided to set all agreements aside, and here at the pinnacle of American social science to deal with the question: are depressions a thing of the past?

1. As you know, this question is not a new one. At the turn of the century, when I was seventeen years old, members of the seminar in economics in Vienna argued the same question; several of my then colleagues — Schumpeter, Mises, Lederer — later taught in America. At that time the French economist Juglar's theory of regular fluctuations in the business cycle dominated theoretical discussions. Do not fear that I shall bore you with antiquarian rubbish. Permit me, however, a moment of memory that may perhaps interest you.

At that time, around 1900, people looked back to the crash of 1873 with its market collapse and complete paralysis of economic life as something frightful and unique; and many asserted that such a catastrophe could never be repeated.

2. The crash of 1873 put an end to the 'Gründerjahre', the boom times that

Napoleon III inaugurated. In a pamphlet published in 1847, the future Emperor proclaimed four slogans: the elimination of poverty; the sovereignty of the masses; the replacement of the liberal programme by a new social programme based on what the state was to provide its citizens; and finally the financing of all that by incurring debt, for government debt is not deemed a debit but something for the asset side of the economic balance-sheet. I believe we have recently heard similar views as if they were something new. Joly's critique of the time may strike us as even more contemporary. He said that Napoleon was building his personal tyranny on the basis of an economic boom composed of three factors: preparations for war, grandiose public works projects and full employment. Catchwords for the biggest crash of the nineteenth century! And old memories that have a surprisingly new sound.

3. The slogans of the last years of the 1920s also sound as if they had been written today. I shall quote verbatim from the voices of that time: 'The Stock Exchange is merely reflecting technological progress in all spheres. Poverty will disappear. The Republican victory means four more years of prosperity. The only requirement is that consumption be broadened: one automobile per household is insufficient, two should be the goal. Surplus income should be invested in shares, and these should never be sold. To give neophytes a chance to invest, investment trusts should be created (in very short order, no fewer than 500 were established). In order to give opportunities for the middle class to speculate, shares should be split frequently. In order to increase consumption as much as possible, hire purchase trade should be expanded indefinitely.'

Frederick Allen described the period in a humorous vein shortly after it ended: 'The American visioned an America set free from poverty and toil. He saw a magical order built on the new science and the new prosperity, airplanes darkening the skies — and smartly dressed men and women, spending, spending, spending with money they had won by being farsighted enough to foresee, way back in 1929, what was going to happen. The everlastingly reiterated phrase of the day was "Conditions are fundamentally sound."'

And some of you will remember the prediction of the Harvard Economic Society of 29 October 1929: 'We believe that the slump in stock prices will prove an intermediate movement and not a precursor of a business depression. If recession should threaten serious consequences for business (as it is indicated at present), there is little doubt that the Reserve system would take steps to check the movement.'

That all sounds so much like today — just in the past few months, I have received from no fewer than fifteen brokers the unsolicited assurance that 'the situation is sound.' Just as in the 1920s, industry and labour leaders proclaim the same gospel; they consider the upward movement somehow their personal success.

4. Just like a quarter century ago, agriculture is not participating in prosperity. When I expressed misgivings in 1928 to the Verein für Sozialpolitik in Zürich, they rejected my warnings, saying that the cost of living index had not risen. But

now the gap between agricultural and industrial development gets larger — on both sides of the Iron Curtain. Moreover, we now have the difference between peacetime and war industry — 1930 was a time of relative external calm, while today it is the war budgets of both Washington and Moscow that give the business cycle its dynamism.

5. Demand is by definition unlimited when it comes to war matériel; amortisation is short-term, and weapons are replaced as soon as one or another side discovers a better system. Often such weapons become obsolete between the time of procurement and actual delivery. Research and development are nonetheless pursued avidly regardless of cost. In the weapons sector there are more innovations in a few years than used to take place over the course of decades; there are no economic constraints on this growth. Official statistics consider these weapons capital goods, but that is incorrect: they should be carried on the national books as liabilities, for that is what they are in relation to the overall economy.

Let me cite the radical example of aviation. Part of the American aircraft industry works exclusively for defence purposes, and the rest of the industry between 80% and 95% for those purposes. Aircraft production companies are therefore the chief beneficiaries of the boom, but airlines are much further down in the queue.

6. The civilian sector shares the hectic pace that characterises the defence industry: a few weeks ago, all the transatlantic airlines ordered a new model air transport, at enormous prices, that does not yet exist and whose risks are completely untested. It is astonishing how easily people are willing to assume these risks. Since air passengers even now — at least on the routes from Paris or London to New York — lose not one hour of business time, since they leave Europe in the evening and arrive in America in the early morning, shortening the travel period at such enormous cost makes no economic sense. With our mania for setting records, such pressures require all airlines to write off their existing fleets long before they need to.

7. When higher military expenditure is required because of enemy pressure, it should be an elementary economic rule that other expenditure must be drastically curtailed. But the direct opposite is taking place. Governments attempt to accelerate the pace of development in all important sectors of the economy. For example there are the enormous sums spent on guarantees for veterans' housing which do not appear in the budget — long-term credits for cheaply built houses, with mortgages for practically the entire value of the property, and granted without any real investigation of the homeowner's creditworthiness. And that is only one of many cases. If you add all the off-budget guarantees, I am convinced it is no exaggeration to say that they will nearly reach the total of the national debt.

There are two dangers that lurk in this artificial stimulation of a peacetime economy through subsidies and guarantees: the financial advantage America has compared with Russia is diminishing; and if an arms limitation agreement should

be concluded, it will not be easy to cut back defence industries and integrate excess capacity into a peacetime economy.

8. The policy of cheap money is more dangerous for the general economic situation than the growth of subsidies and guarantees. Low interest rates drive share prices and property prices upwards. In 1955 share prices in New York rose by an average of 25%, and mortgages were between 3% and 4%. Property speculators were not ashamed to press for even lower rates; they demanded cheap credit as their right.

9. How did the money market grow so fast? It was fed primarily by that part of the Second World War national debt that was short-term. Today, ten years after the end of the war, that debt still has not been redeemed, and the attempt to consolidate even 1% of it into longer-term bonds was a failure. This debt lives on as Treasury Bills, a euphemism for bills that are automatically rolled over; their ultimate redemption can only take place if there is a very sharp reduction in the value of money.

10. Who today recalls the period when the Federal Reserve System was created? Banknotes were issued at the time by individual state banks on the basis of public debt (not of the Federal Government) and the Government wanted for good reasons to base the money issue on trade bills. Now we see that the same debt that was then outlawed as the basis of money issue has become the very foundation of the issuing system, but one hundred times the volume of 1910, and even with a theoretical justification for such issue. Like the Dutchman Pinto in the eighteenth century and Napoleon III in the nineteenth, many newly prominent economists see the national debt as somehow on the asset side of the balance sheet.

In addition to these Treasury bills, whose interest rates fluctuate between 1½% and 2½%, and which are really interest-bearing notes, we have a tremendous volume of commercial paper: industrial acceptances of individual companies in the amount of several billions. This form of financing has always been regarded as exceptionally dangerous, because commercial paper has only the appearance but not the true nature of a trade bill: commercial paper is really cheap creation of money, without justification. We thus have a money market of a quite different character from heretofore: vastly extended, and built on debt. It is like skyscrapers that are built on swampy ground. That is a very serious simile, and please believe that I do not make it lightly.

Hans Freyer came to a remarkable conclusion in his theory of current geology: the world's surface has changed more in the past thirty years than in millions of years previously. I do not wish to claim as much for the economy. But after presenting an analogy to the last depression, I must devote some attention to the shape of things to come, which appears scarcely to have reached the consciousness of most of our contemporaries.

11. Those directly benefitting from boom times have always been a large group: they include entrepreneurs, labour unions, a large part of the mercantile class and above all debtors of all kinds.

Here we find a paradox: one might assume that the volume of debt grows in a depression and declines in times of good business. But in reality the opposite is true, since the more overheated the economy the greater the gap between profit expectations and interest rates. People who owe money — margin traders, property speculators, instalment buyers — form an enormous group directly interested in debasing the currency.

It was the government that used to oppose such groups — in England, from a centuries-long tradition of solid money that was to benefit all classes. On the same sound-money side were those who had large or medium-sized fortunes, in addition to savings, insurance and pension funds. Also belonging to this group were the independent middle classes and the farmers.

With the exception of the last two groups, all others have leapt into the ranks of the inflationists, and particularly is this true of governments.

The power that now dominates the world, the United States, has never — in contrast to England — had any tradition of sound money. Odd as it sounds, debtors since the eighteenth century have always been a majority in America, and they are more so now than ever. However, the Federal Government, which till the beginning of this century was relatively unburdened with debt, has since taken on a national debt of such gigantic proportions that it must share the interests of all debtors. Here and there one hears official assertions to the contrary; but they are only well-meaning paper threats, and the reality is quite different.

Thus the currency has lost its real support. Chicanery and inflation have lost their negative connotations and become respectable. And a large part of the fraternity of economists have twisted their theory to conform with that new respectability. Even those who possess large fortunes are on the side of inflation, and that is a result of tax legislation.

The Federal income tax leaves a person whose income is \$100,000 with only \$25,000; and of every further \$100,000 he gets, he is able to keep only \$8,000. Therefore, investment capital can only come from profit reserves retained by corporations and investment institutions; while the individual capital-owner is practically forced to look to gains on securities transactions if he wants to increase his income or fortune. If that source dries up, he can retain only a small fraction of his income to live on, and that is all.

12. Thus in addition to the rigidity imparted to the economy by the wage factor — wages, as is well known, can only be increased, never reduced — we have another, the need for gains on securities transactions. They are practically the sole remaining element of individual capitalism. In half a generation, income tax has been developed practically to the point of confiscation.

Government, individual citizens, entrepreneurs, workers, all are interested in the continuation of inflation; and parliaments and governments obey them. Government is supposed to ward off depressions, but that is not enough; it must also assure the stability of the economy. Then that too is not enough — it must also guarantee full employment. Not enough again: government must make

eternal prosperity for everyone. It must do it, it can do it, therefore it will do it.

Those are the catchwords of our time. There is not much difference now between East and West in their belief in the omnipotence and omniscience of the state. But if we strip it of window-dressing, what the programme comes down to is assuring the stability of the economy by constant downgrading of the currency. And since depression is taboo, inflation has become the great fashion of the day.

13. It is usual to reproach the men of 1930 because they failed to deal with the crash by tinkering with the money supply. Now we know much better how to manage these things: we just overcome all dangers by injecting a little inflation into the economy. We claim that people in those days were just a bit timid about inflation, and did not know quite how much of it was helpful.

I have no reason to defend the men who ran world governments at that time; but the reproach heard against those men of 1930 is as unjustifiable as, unfortunately, the confidence that present-day statesmen enjoy.

On the European continent we know the price of inflation all too well. Inflation led to Bolshevism in Russia, and Lenin prided himself on asserting that Communism no longer had to wage war: inflation alone could do the destructive work quite adequately. Inflation destroyed the middle classes in three great Continental countries, and that is still fresh in all our memories. You can present inflation as a panacea to Britons and Americans who believe the experiences of others do not apply to them; but you cannot fool people who have personally experienced the dubious blessings of permanent money debasement. They reject the 'remedy' of inflation not because they are ignorant, but precisely because they know it so well. That this 'contagious plague', as Mirabeau once called it, should have overwhelmed the one country of all our hopes is one of the most painful elements of the situation we are living through.

14. Many Americans will, of course, object to the foregoing.

(a) Some deny the fact of inflation by referring to the stability of food prices. The same was true in 1928. Agriculture in most areas cannot imitate the rapid growth of industry, especially war industry. That is so not merely for the obvious technological reasons, but also for another reason that may at first appear paradoxical: demand for agricultural products is limited by the purchasing power of the population, but the demand for war matériel is by definition infinite. One demand is conditioned by economic factors, the other not. And so for the second time in the same generation, farmers on either side of the Iron Curtain have become victims of the business cycle; that is a development tending toward depression, not strength.

Capital goods are of infinitely greater importance than goods for consumption; and for this category of goods, prices have risen incredibly and in a very short time. That, by the way, is true throughout the Western countries. Typical manifestations of a boom economy — high prices and poor quality — will persist for a long time.

(b) Another objection to the fact of inflation will be made by those who argue the proportional rise in actual production of goods. But people also include war matériel in that category of total production; and war products are not goods in our sense. Furthermore, the essential thing is not physical production of goods but whether they can be sold — an entirely different notion. But even if, for the sake of understanding my argument more easily, we assume growth in production, we must compare it with the rise in share prices in order to measure inflation.

American production rose some 7% in 1955, after we deduct defence-related production of about 5½%. In the same period the level of shares quoted on the New York Stock Exchange — without preferred shares — rose no less than 24%. Such a rise cannot be explained solely by reference to transfers from the money market to share investments, or switching from bonds to common stocks. It is here, at the most delicate point in the economy, that the traces of inflation are unmistakable.

(c) Two further groups concede the fact of inflation, but consider it either not dangerous or indeed useful. Some say America with its dominant world position can afford inflation; others say that the Government can monitor inflation with a range of sophisticated techniques at its disposal.

Inflation in other countries, they maintain, means a creeping loss of currency to other countries; but for America that is out of the question. With what other country could America possibly have a disadvantageous balance of payments? There was once a deficit in payments with Canada, but that was temporary and never very high, and subsequently disappeared. In Switzerland, the only country with which the United States could suffer a negative trade balance, export interests would make quite sure such a development could not occur. They argue moreover that the entire West will be drawn along by American boom times; and in any event that gold no longer determines the value of the dollar, but vice versa.

Then the others say that the American Government can intervene at will, pumping in liquidity when a recession threatens: it can either put on the brakes if the boom threatens to run away, or prevent any downward slide. The weapon for this is the discount rate, to be maintained at easy-money levels, say between 1½% and 2¾%. The same people say how splendid a contrast this affords to those 'dark ages', 1929 or 1907, when the rate for call money was 20% or even 100%.

Above all, however, this group believes that it is government that can so influence the economy through wage rises, subsidies and guarantees of all kinds that nobody need suffer any adverse consequences from inflation. If that were true, however, nobody need start an inflation! Inflation is effective as it expropriates large or small groups within the economy.

Only the future can tell us if the balance of payments position of the United States is rock-solid; its political leadership implies that the balance of payments cannot be strong enough. And people appear not to have noticed that Switzerland, Holland and West Germany together, with only 40% of America's

population, have as much gold as the United States — if we deduct foreign holdings.

(d) The largest group is the fifth, whom we might call the realists. They agree that inflation exists, but do not trouble themselves over whether it is a blessing or a plague — they simply consider it unavoidable. It is easy, and politically popular, to start an inflation, but very unpopular and hard to slam on the brakes when it has taken hold. In former days one could rely on Republicans to hold down inflation, but now both parties continue this easy-money policy. Inflation will take the same course in America as everywhere else; only because of America's underlying strength, it will take longer: that is why people of seventy see the period as lasting ten years, people of sixty, twenty years, and people of fifty some thirty years. None wants to be around to witness the bitter end.

This fifth group is guided by the idea that the solution is to liquidate cash and bonds; and to invest the proceeds in industrial enterprises and shares. They assume high burdens of debt to make these purchases, in the confident assumption of repayment in devalued currency. In short, they merely follow the old usage of Vienna, Berlin and Paris.

For those who look forward to the continuing erosion of the currency, no share price is too high. The people of this group not only contribute to the artificial stimulation of prices, but to the rapid increase in share turnover and the velocity of money supply: they are literally afraid of money: as soon as some comes their way, they hastily invest it. Money that a debtor himself lends has the fastest velocity of all, as everyone knows.

This group does not often express its opinions, but it is very widespread; and up till now it has had the greatest successes. Great fortunes have been made in a very short time, and that has increased the numbers of people interested in the success of inflation. People of this persuasion have one powerful argument in their favour: as long as large sections of the population wallow in inflation and benefit from it, it takes great courage to lead them out of their illusion into reality. Governments — the American and most others — seldom have that courage.

15. Three and a half decades ago, I had a sharp controversy with several European governments because I advocated an immediate adoption of strict financial measures to control inflation. Arguments that were made against my view were unsound; the true reason for opposition was that such measures would have to be carried out by the governments of the day, but they would not have survived to reap the benefits. In an election year, no government was going to undergo the risks.

Very few governments of themselves admit the true situation; but they drag in the spectre of Communism to avoid any effort at putting on the brakes. Even in the great depression, I said that that alleged danger was nonsense; and subsequently Bolshevism has lost its appeal, since it has amply proved its inability to solve any problems. Who in America could seriously advocate Communism, and sharing the fate of the Asian and African masses?

16. Why then, ask the optimists, should one bring on a depression precisely out of fear of a depression? Is not inflation preferable, since we now have it in such delicately calibrated dosages that we only feel its good effects? And may not America continue inflation until 1970, as Professor Baudouin, or most recently Professor Slichter maintain?

Such policies have the merit of popularity; he who goes against the feelings of the street mob ends up a martyr, and nowhere is there less appetite for martyrdom than in America. So why not let things go on as they have been, because after all most people feel pretty good about it? Most people believe in any event that the political situation will continue more or less as it is: we shall go on indefinitely arming for a war that will never come, and therefore the situation is much more secure than at anytime previously in a boom period. That appears to be the public opinion of our day.

But I ask, is it really so advantageous when a boom is caused by political instead of economic factors? Can we really predict outcomes more easily when they are dependent on the whims of a few individuals whom nobody really knows?

The coming years depend on the fate of the Russian Revolution. No possibility can be excluded; but the West must be ready for anything, whether it requires arms limitation agreements or indeed a war. It is surely not good that the market has the jitters every time there is a possibility of real arms-reduction agreements. If war should come, the speculator's psychology, with its avoidance of both cash and bonds, makes for the worst possible combination: having an inflation before a conflict means throwing away the most useful wartime weapon, merely in order to win some election.

Introducing inflation is easy; stopping it is hard, especially for a democracy. One may argue about whether inflation is permissible only in case of extreme need; but surely we have hardly ever seen it introduced at so untimely a season as the present.

But since sound currency is no less important in warfare than modern weapons systems, the American Government cannot simply let the dollar slide: it must intervene, before mistrust has infected even wider circles within the population. The later it does so, the higher the price it will have to pay since maintaining the value of a currency costs something. And I fear it will be a high price even today.

And now in conclusion you will ask me: is a depression unavoidable? Under the present circumstances: Yes! Not because depression is innate in the capitalist system, as the Marxists say. It could be avoided, under one condition: that governments renounce their fear of the electorate and find the courage to speak up for their convictions and carry them out. That does not seem to me possible any more in the democracies of the present day.

(a) With every inflationary wave, the arrogance of the employers and the greed of labour leaders grows; both let themselves be swept along without troubling over the final reckoning.

(b) Governments are merely the obedient servants of the inflation-mongers, and at each upward notch merely cluck with alarm, like nannies who say to the children in their charge: 'All right, just once more but that's an end to it!'

(c) The dangers in the situation are heightened by ungrounded fears of Communism, and any attempts to cool inflation are systematically sabotaged.

(d) The universal demand for full employment has been raised to the status of economic theory. That is the case everywhere, not just in America; but America leads the West.

If nothing stands in the way of our contemporaries' leap into the abyss, we must at least be quite clear about who is responsible for the coming catastrophe. If the man in the street lacks insight, then those who should give him guidance lack courage.

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