

A BANKING RETROSPECT

Written in 1959
by
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(b. 1885, d. 1962)

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Seventy Years of Reminiscences
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Foreword	3
I. Franz Theodor Knauth	8
II. Banks and Private Bankers	15
III. A Time Between Great Wars	23
IV. The Foreign Exchange Business	31
V. Leipzig and the Saxons	40
VI. New York in the 1850's	51
VII. What the War Did	59
VIII. Wartime in Leipzig	67
IX. Two Turning Points	75
X. The End of the War	84
XI. What Happened to the Firm	90
Postscript	97

FOREWORD

This book is a book of memoirs - of recollections of times past, and of things that happened in them. I am writing it because of a feeling that I ought to do so, to set down, before it is too late, what I remember of the past and of the way we lived our lives in it. Those of us who have the opportunity to write about the past, I believe, should do so, for it was a momentous era that will be read about and studied for many years. So will that old world that disappeared in 1914, and anything that bears on it should be preserved. If I can let folks know how we were grouping in the dark while a new world was taking shape around us, it will be worth the effort.

As I look back down the long corridor that has been my life, I can see, just about in the middle of it, the place where the roof fell in. My life, as also the time I lived in, was sharply divided into two parts that in their nature were not at all alike. The two were divided by catastrophes, in my case by a business smash-up, in that of the world by wars and revolutions. Both in their effects were final and both, I think, could have and should have been avoided, but that is neither here or there. The world was so full of pitfalls and ancient misconceptions that no one can be blamed for not having seen them all.

Both of us, the world and I, were living comfortable lives before the crash. After it, our ways were rocky. The world, as we see now, was full of circumstances that were crying for adjustment, some of them immediate and well understood by forward-looking people, others buried deep beneath a pleasant looking landscape, and due to be uncovered when their time came. The trouble was that many of these maladjustments would be straightened out by resort to war and military force, and the thought that this could be done successfully was perhaps the greatest error under which the time was laboring. If we today can solve our problems by patience, common sense, and the use of reason, instead of by the use of force, we can take pride in having learned at least one lesson from the recent past.

My life, to an unusual degree, was influenced by the business I was in. This was the German-American banking-house of Knauth Nachod & Kühne, (Kühne also seen spelled as 'Kuehne') which had been founded by my grandfather some sixty years before and carried on by my father and his associates in the other two families ever since. It was thus strictly a family affair. Now, when the third generation should have been taking over, new partners were being taken in from the outside, which broadened its scope, but also changed its character.

From the beginning it had devoted its attention to the sale of remittances to Europe, which were largely bought by immigrants sending money back to the countries they had come from. This brought it into contact with banks in the interior of the United States, which had such business, but no facilities for handling it. These our firm supplied and it was now, to all intents and purposes, the foreign department of several thousand banks all over the United States. It was also widely known in Europe and the outside world.

I will have much to say about our firm and the business that it did. It was a typical example of the way much business was done in the Nineteenth Century, when private enterprise was at its peak. Our firm was not a large one, but it handled with ease and satisfaction a large and important section of the nation's foreign business. It had only its reputation to sustain it, but its name was good, and that sufficed. It was only when the war came, when the British held up the mails to Europe, that its business was interrupted. When the war was over, our customers turned to us again as if there had been no war. The British then delivered the letters they had held up for four long years to our house in Germany, which took another year in going through them.

Our firm consisted of two houses, one in Leipzig, Germany, the other in New York. The two were independent houses, one German, one American, but their partners were the same and shared in the profits of both of them. When the United States and Germany went to war, this unique arrangement had to be given up, and the two were separated. The New York firm, as will be seen, got into difficulties when the war was over, and had to suspend in 1923. The Leipzig firm continued by itself until that time in World War II when the city fell to the Russians and all the banks were closed.

Knauth Nachod & Kuhne was one of a number of banks and banking-houses in all parts of the world which specialized in foreign business. Foreign exchange is a complicated business, and I will do my best to explain its principles, which in themselves are simple, and are the same today as they always were, although the way they are applied today is radically different from the days before the war. It used to be in the hands of banks and bankers, who had their own rules and customs, and its center was in London. Today it is largely in the hands of governments, and its center is in New York and Washington.

My father, Percival, and his partners were well aware of the heavy responsibilities they carried. Each of them was personally liable for all the engagements of both houses, which was the drawback of the system of private initiative. They were extremely jealous of the reputation of their firm and of all who bore its name, as we did in our family. I remember when father's brother Manuel got into difficulties with his own importing business, my father worked himself sick winding it up without publicity, and sacrificed his mother's fortune in the process. It led to his own illness, which carried him off at the early age of 48. Had the doctors known then what they do now about Bright's disease, he would have carried on for another twenty years, which would have seen him through the war and well into the troublous times that followed.

His brother Octavio, who was then in Leipzig, died also shortly after he did. Both houses were thus bereaved, with no Knauths in the firm at all. The following years were difficult. To represent the family capital, my mother became a partner with no share in the management. New partners had to learn about the business, and a third brother, Antonio, who was a lawyer and the firm's attorney, came over regularly to keep an eye on things. A cousin, Willy Knauth, came over from Germany to become a partner, and in time I started in myself, but all this took time. The old firm never was the same after my father's death. While it was growing into real importance, the old-time personal touch was gone.

The staff were mostly Germans, and the older men were in for life. Knowing the routine so well, they carried on for years after my father's death. The place had the reputation of being a good one to learn about American ways, and many of our people left after a year or two to join some other bank. Years later, I found that the manager of the Chase Bank office in Berlin was one of our "alumni" - not only that, but he was the man whose place I took when I first started in. From us, he had gone to the Mechanics and Metals Bank, one of our chief competitors, which later merged with the Equitable Trust, and this again with the Chase Bank. Quite a bit of New York banking history there was right there.

I started in in September, 1907, and a month later there came the "Panic of 1907", one of those periodical crises which were the order of the day, when private enterprise had gone too far, and needed to cool off. This time it was Mr. J.P. Morgan, the acknowledged leader of the banking world, who called the presidents of banks together in his Library on 36th Street, and read them the riot act. The crisis passed, but the feeling grew that this was not the way to do things. A Central Bank was what was needed and the plan took shape in time in the Federal Reserve System, which came into being in 1914, just as the European war broke out. Fortunate it was indeed that in that fateful year the United States was able and prepared, sound and solvent, ready to take its place as the leader of the financial world. The Federal Reserve and the Income Tax, both dating from 1914, in due course not only revolutionized our banking practice, but our business methods too, a sure sign that the days of unrestricted freedom to run one's business as one pleased were over.

The new time that was dawning, the two World Wars and the time between them, and all the tremendous accomplishments we are accustomed to today, can be the subject of someone else's memoirs. My time was strictly the pre-war world and the First World War, in which I lived and had my being. After 1923 I was more a spectator than a participant in the great events of that time. Though I saw Hitler rise from the gutter to head an empire, I merely lived through that time, and had no share in it. The same was true of the simultaneous revolution that went on in the United States - simultaneous in time, but oh, how different in method! When I look back on those two incidents in history, I am happier than ever that my heritage was American, for we accomplished more in our own way than either National Socialism or communism did in theirs, and what we did was permanent, while the others either failed, or are on the way to failure. The Germans, who in my youth thought that they were teaching us, have ended by being taught themselves. The same thing, I am sure, will happen to the Russians, and I wish I could be there to see it happen.

I.

FRANZ THEODOR KNAUTH
(b. 1803, d. 1874)

It has been often enough remarked that a successful business is the protracted shadow of a certain man. This is a pretty picture, and gives credit where credit certainly is due, but before the man could start, there had to be something there for him to do. When there is an opportunity, there are generally people there, ready to fill the need, and then the right man comes along who has the answer, who straightens out the tangle, and puts his men to work. He is the man who casts his shadow, or, more correctly, who provides the light by which the others work.

Where men are called upon to work together, one of them must be the leader, and so acknowledged by the others. Every successful business is at bottom a dictatorship, in that it has a "boss" whose word is final. Those who work with him do so voluntarily, and if they do not like his word, they can depart, which is the difference between a business and a government. But there must always be a head, and in the beginning there must have been a man who had a bright idea.

The founder of the banking-house known to the world as Knauth Nachod & Kuhne and to its intimates as K.N.&K., which had a house in Germany and one in the United States, and which for three-quarters of a century was a factor in the business affairs of Europe and America, was Franz Theodor Knauth, a resident of Leipzig, and a subject of the King of Saxony. He was also in his later years a citizen of the United States, and his family were residents of New York. He was my grandfather, and there are many of his descendants living here. He was the leader of the firm he founded for a quarter of a century, and something must therefore be said about him personally, and of how he came to found a banking house.

Theodor Knauth, the name he later went by, was born in 1803 in Gohlis, a village outside the city walls of Leipzig, but now a part of the much larger city of today. He was in one sense the "poor boy" of tradition, for he had no money of his own to start with, and he was brought up in very straitened circumstances. He did, however, come from a family both of means and social standing in the very stratified society of the time in Germany. His father, Carl Gottlob Knauth, came from Naumburg on the Saale, a small but important city some thirty miles from Leipzig, a much larger place, the metropolis of central Germany, seat of a famous university, and the home of Johann Sebastian Bach and other notables.

Carl's father, Abraham Knauth, was a wealthy merchant, whose firm of Knauth & Bretschneider occupied the ground floor of his own fine residence in Naumburg, and he was a typical example of the "Burgertum", the bourgeois middle class which was such a characteristic feature of the prevailing social structure.

Carl as the oldest son was destined for the ministry, much against his will, and sent to the university in Leipzig. There he found other attractions more congenial to him, billiards for one thing, and when he announced his intention to marry the daughter of the house he lived in, his father cast him off. His life from this time on was difficult, made more so when his father died, and his stepmother took command. He tried to make his way as a private tutor, in which his sister, married to a Leipzig merchant, did her best to help him, but he found the going hard. His son remembered that in those early days, the children were sometimes called upon to assist in coloring the illustrated programs that were brought out for festive occasions, "such as a gala display of fireworks, a public execution, or the like". Then war broke out, and following the battle of Jena, Leipzig was occupied by the armies of Napoleon. The mother of the family, showing more initiative than her husband did, now opened a boarding-house for French and Polish officers, and things began to get a little better. In one way or another, the family struggled through.

Little Franz Theodor was ten years old at the time of the great battle of Leipzig, October 18, 1813, when Napoleon first met defeat at the hands of the European Allies. His father, in those days of crisis, lay sick with typhoid fever, and just as the battle reached its height, he died. "My father, during his long illness, never lost hope", his son recalled in his own old age, "and he even gave expression to his joy when, during the days of fighting, he heard the thunder of artillery drawing ever nearer. Very correctly, he took this as a sign that the French were being beaten and would probably soon be driven from the city. But at the entry of the Allies, to which my father had looked forward with such joyful anticipation, he was unhappily already taken from us by death".

So great was the confusion and disorder in the city that the family never could find out where the father had been buried. "On the 18th of October", the little boy's account of the battle days continues, "the Prussians made their appearance in our street. I had found the shooting very interesting, and I went to the window to look, watching in particular a French soldier who stood behind a well, loading and firing without cessation, but before I could see what became of him, I was pulled away, and we all went to the stairwell, where we were safe from flying bullets; by this time, all our windows had been broken.

As soon as the shooting stopped, we opened the front door, and my mother took from our remaining stores two baskets of apples, six bottles of wine, and a big loaf of bread, with which we regaled the Prussian Jagers passing by. The men were covered with dust and in need of some refreshment, and gratefully accepted what we had to offer, so far as they were able to express their feelings as they marched by. Corpses by the hundred lay in the street; marauders, both military and civilian, quickly began to relieve the dead of everything dispensable, and it was not long before their clothing and their underwear were gone. Some cut the covers off of cartridge-boxes, and made them into shoe-soles. My own attention was especially attracted by gunpowder; this I filled into canteens, which I hid in the nearby Schneckenberg, and in time used up. My favorite sojourn was by the gallows, where I put up a target against a wall, so I could shoot at it without the risk of hitting people".

When peace was at last restored after two years of an unsettled life, the family broke up, the older children going with their mother to her folks, while the two younger boys were taken in charge by the father's family in nearby Naumburg. Theodor, now 12-1/2 years old, and big enough to work, was apprenticed to Knauth & Bretschneider. There, living in the house of his late grandfather, and busy with the duties of a boy-of-all-work, he put in the next seven years. "Such things as folding paper bags, meting out raisins, and weighing coffee, I learned thoroughly", he writes, "but in other branches of learning I fell far behind, and only later found an opportunity to acquire a little knowledge". Then, in 1822, his uncle Heinrich Huttner, husband of his father's sister, the one who had stood by him in his troubles, offered him a job in Leipzig in the firm of Dufour Freres & Cie, the branch there of an old silk exporting house in Lyons, France. Beginning as a copyist at a yearly salary of 200 Thalers, he spent another seven years in Leipzig in office work, occasionally accompanying the great covered wagon that hauled three thousand pounds of silk goods to the fairs at Braunschweig and other centers, or making deliveries to customers at a distance. Then, as business fell off in Leipzig, he went to the head office of the firm in Lyons as a correspondent, bookkeeper, and cashier. He learned French ways and people, and came to know the language perfectly.

His stay in Lyons was not to be for long. The house of Dufour had connections in London as well as on the Continent, and here the young man from Leipzig found a new and interesting opportunity. We can let him tell about it, for it proved to be a turning point in his career.

"In 1830", so he writes, "engaged by Dufour at a yearly salary of 1,000.00 dollars and free board and lodging, I went by way of Paris, le Havre and New York to Mexico, to the newly established firm of Lewis A. Besson & Co., and there I stayed until 1834 when Mr. Besson died, and Mr. William Leaf in London, a special partner in the firm, ordered me to liquidate the business and return to him in London, to the firm of William Leaf, Crofts & Co. The voyage from Vera Cruz to le Havre took almost three months, for our ship, "El Aguila Mejicana", Captain Lamotte-Duportail, was delayed by contrary winds and almost constant stormy weather, and we lay for twenty days in Havana, taking on coffee. I enjoyed my stay there, but found it a drain on my resources. Out of consideration for Mr. Leaf, who had already lost about 5,000 pounds in the Mexican venture, which had been too short a time in business to develop properly, I had not drawn my salary either on the voyage out nor on my return, and I therefore arrived in London almost penniless. I came to regret my liberality, for Leaf, Crofts & Co. dealt ill with me. Mr. Leaf's real reason for undertaking the venture had been to let him figure as a "merchant" and enable him to enter Parliament, to which as a "jobber", his actual profession, he could not aspire. The fact that he was also implicated in a smuggling affair, rumored to have cost him a fine of 27,000 Lst., added a further touch of bitterness, and made him impossible as a M.P. His firm was really a hot-house product, and when its true purpose proved a delusion, it faded out. When I entered it, I was promised 300 pounds a year; the other employees were paid their wages monthly, but in my case they let two months go by without paying me anything, and when I finally demanded payment, they gave me only half. Of course I quit at once, but because of my sarcastic remarks, and also perhaps out of deference to Dufour, they gave me half the difference. I went back to Leipzig to Dufour, and from there to Lyons, where I served as cashier. After a year in this position, I returned to Leipzig".

What Theodor Knauth acquired in his thirteen years' association with Dufour was a thorough understanding of its business, (merchandise distribution and its ally, banking), a considerable knowledge of foreign parts, and a fluent command of French, Spanish and English in addition to his native German. He was quadrilingual, and equally at home in all four languages, and among those who spoke them. At 32, he was well qualified to rise to the heights of his profession, and he had the interest and support of his uncle, Heinrich Huttner, head of the Leipzig office of Dufour, and, nearing 70, getting ready to retire. The time was also fortunate, for Germany was undergoing its industrial revolution. New industries were being planned, and factories were being built, especially in Saxony which was centrally located and had water power. One of the first German railroads and Leipzig as a terminal. He was therefore on the spot where big things were being started.

When he returned to Leipzig after his experience in Mexico, he found that business with Dufour was flourishing. The firm was doing a commission business, not only in Germany, but in France and Italy, and also in the United States. The historic "Messe", the Leipzig Trade Fair, was attracting buyers from across the Atlantic Ocean, where an interest was awakening in German manufactures. The time, following the "July Revolution" in Paris in 1830, which shook the hold of the ruling classes and favored the rise of businessmen, was a time of peace, with no major wars in prospect. A spirit of enterprise and liberty was in the air. People began to move about and try new things, not the least in Germany, and in the United States.

Theodor Knauth continued in Leipzig with Dufour, as a buyer of hosiery, laces, and "Thibet cloth", a fine woolen material then much in vogue, as a correspondent and as an invoice clerk, at the somewhat meager salary of 600 Thalers yearly. Then, one fine day, a young American made his appearance at the office of Dufour. His name was Samuel Appleton Storrow, and as this indicates, he came from Boston. He had with him a sheaf of orders, and letters of credit to back them up. In Theodor Knauth he found a man who not only knew the business and the German markets, but who spoke English, and together they set out to tour the manufacturers and the various German trade fairs. So well did they get along that they joined forces, and with the blessing of uncle Heinrich Huttner and perhaps his financial support as well, they took over the Leipzig business of Dufour. They came out on their own, and founded the firm of Knauth & Storrow. The date, March 11, 1839, was the actual birth date of Knauth Nachod & Kuhne, but the business of Dufour which they took over went back a couple of centuries before that time. A very old establishment, whose time was running out, came into their hands, and gave the basis for a new one. The new firm was a success from the beginning.

Mr. Storrow, incidentally, was not the only Bostonian to settle down in Germany at that time. A certain Andrew Thorndike did the same thing in Berlin, married into a German family, and his descendants, of the same name, are still to be found there, now wholly German.

But Mr. Storrow died in 1842. Three years was all the time the partners had together, and the blow must have been a hard one for the survivor, coming as it did just as he was getting married. He carried on alone for three years, and then took in his brother-in-law, Gustav Moritz Esche, as a partner, changing the name to Knauth & Esche.

In 1848, the year of revolution all over Europe, he lost his wife. His business continued prosperous, however, so much so as to lead him to open an office in New York, the first German firm to do so. He sent over Friedrich Kuhne, a young man who had recently come into the office, and Mr. Kuhne opened an office at 18 Liberty Street as a "Commission Merchant".

Ten years by now had passed since Theodor Knauth had gone into business for himself, and he had done well. At forty-six, a widower with three small children, his business was if anything too small. Both in his home life and the office he needed more assistance. Great things were in the making at that time, for though the revolution itself had been suppressed, the hold of German rulers had been badly shaken. The German people demanded unity, and the two leading states, Austria and Prussia, were each of them willing to take the lead in a union of all the German states, provided the other one withdrew. The struggle continued for twenty years, during which time the country prospered greatly. In the thirty years of peace following Napoleon's defeat, railroads had spread all over Europe, and with them came good communications between the peoples everywhere, news papers and journals of every kind, and mail communications. Banks were created, customs frontiers abolished, travel and trade made easier. Factories were being built, and country folk were moving to the cities. Almost overnight, Leipzig became a metropolis. Only in the very highest circles, among the royalties and the countless Grand Dukes and princes, was there no change.

In the United States, similar changes were taking place, though the conditions there were wholly different from those in Europe. After the war with Mexico in 1846, where the United States had been the smaller of the two contestants, its territory stretched clear to the Pacific Ocean, and it was almost empty. To build this up, settlers were needed, and as the news became known to Europeans, would-be emigrants began to stir. American demand for manufactured goods was always strong, far more than England could supply, which gave great opportunities to German factories. England's interest was mainly in the South, from which came the cotton on which her industries depended. Germans were more interested in the Northern states, however, and in the growing Middle West, and it was this that led Theodor Knauth to open an office in New York. It is hard to be specific, but there was no doubt that, as a general proposition, America offered great opportunities to a German businessman.

In 1850, Theodor Knauth married for the second time, his wife (Elizabeth Fanny Steyer, 1830-1907), being twenty-seven years his junior. In November, with his wife and his own children, and her younger sister to help along, he set out for New York, to see how Mr. Kuhne there was doing. They stayed for going on two years, during which he took out his own first papers to become a citizen, and in which his son Percival was born. By the time he returned to Leipzig in the summer of 1852, the terms of new partnership arrangements were settled in his mind. His partner Esche was to retire, whether willingly or not we do not know, and in his place Jacob Nachod, head bookkeeper in Leipzig since the days of Dufour, was to come in. Nachod was a Jew, with a banking background, but Jews had recently been freed in Germany to associate with anyone they pleased, and his banking connections would be a real advantage to the firm. In New York, Friedrich KUHne would also become a partner, and the name of the firm would be Knauth Nachod & Kuhne, a fine resounding title not easily forgotten. He himself would be free to travel and keep an eye on his two houses.

The new firm was established and sent out its circulars on August 1, 1852. To document his new position and to take his place among the business leaders of the city, where he had begun so modestly thirty years before, Herr Konsul Knauth (for that was what he was now, consul for the German state of Baden, and for Granada in South America) built himself a fine new house to hold his growing family, and they all moved in at Christmas in 1854. He and his partners squared away to meet their new responsibilities, and nothing notable happened to them for fifty years. Their firm grew steadily to real importance, they all lived comfortably and well, and year by year they tucked away an addition to their capital, a typical example of a successful business as it was supposed to be.

II

BANKS AND PRIVATE BANKERS

Banks and bankers deal in money and in credit, which is money deferred, so to speak, and made available at some other time. But money is only what you can buy with it, which is either goods or services, and services are what someone will do for you for money. Therefore, what banks and bankers actually deal in is goods of any and every kind, and other peoples' services.

But goods and services are awkward things to handle. They cannot be readily moved about, or stored, or transferred to another owner. A piece of land, in fact, cannot be moved at all. They are therefore replaced, when it comes to dealing in them, by pieces of paper of various kinds which, by agreement, represent them. There are thousands of such bits of paper circulating all the time, ranging from a dollar bill to a stock certificate, each one of which is interchangeable, according to its terms, with something which its present owner wants to have. It is these bits of paper that the banker deals in, making it possible to use whatever it is that they represent. These pieces of paper, or coins, or wampum, or whatever it is that is agreed on to serve as money, are bought and sold, and stored, and exchanged, by bankers, as the goods they represent move on their way from producer to consumer. Money by itself is of no use to us, but only as it is exchanged for something useful.

But the reverse is also true, for no single article is any good to us by itself alone. It has to be combined with other articles, and with services of various kinds, if it is to be of any value to us. This combination is brought about by the use of money, the universal solvent. It makes things "liquid", as the bankers say, and therefore usable.

Banking is as old as civilization, for there is no tribe so savage that there are not those in it who need to borrow something, and others who have more than they can use at once. Saving and lending, these are the legs on which the banking business walks, bringing together those who need with those who have. To satisfy these elemental wants, to see that all who need will get, and all who have will find a use for it, an immensely complicated apparatus has been built up in every country, which is quite essential to our modern way of life. Producing and consuming are not all there is to life, but only the beginning and the end of the economic process. The product must be got to the consumer. It must be moved about and handled many times, and this is where the banker plays his part. Keeping the product "liquid" all the time, he directs it to wherever it is needed, no matter how far away. Not even in Communist Russia are they able to dispense with money, or with banks to handle it.

Banking operations in the beginning were handled by individuals, and the private banker is an older institution than the bank. There is no clear line between the two, and their functions in the economy are much the same. A banker and a bank do many things, and experience shows that some of them are better handled by an individual and others by an institution. Just which of these is which depends upon the time, the circumstances, and the customs of the country. At the start, it is always an individual, who comes forward with a plan to meet a certain need. He may be able to attend to this himself, but he probably will need assistance. It will also soon be found that what he does is of interest to the public too, not only to the parties it involves. In a primitive society it may be the king who calls for help, and he will want to control the source from which he gets it. Thus banking inevitably comes into contact with the state, and the two are generally partners, helping each other out as they both develop. In the Middle Ages, it was the Jews who helped the King with money, and the King in turn protected the Jews. In our own time, the state issues charters to the banks, who deal in the money which the state creates. The two go hand in hand, and the only question is who controls them both, whether it is the people or some private group. But wherever there is money, there also must be banks to handle it.

The widespread use of money by the public is a fairly recent innovation, and so are banks. Primitive people live by barter, and until quite recently, country folks had little use for money. They got what they needed by making or raising it themselves, and were continuously swapping with their neighbors. It was only when people accumulated a little cash that banks appeared, as a repository for surplus funds, and a place where one could get a loan when a special need arose. In cities, life was more complex, and the local merchant, more often than not, found himself engaged in a banking business in addition to his usual affairs. Occasionally, someone would accumulate a fortune which could be made the basis of a business by itself, while banking practices were devised as special needs occurred. With the development of banks, the government would take a hand, to protect depositors and ensure a proper conduct of the business. In every country in Europe, and in the United States, the banking business grew up by itself, and then was regulated, making its own mistakes and then correcting them, as is our human way. No one could, in advance, chart out a course for it, but the bankers and the public had to learn by hard experience what could be and not done to meet their mutual requirements. Banking became so great a factor in the lives of all of us, it lay so close to all we did, that it could become a mortal danger to us all if not conducted properly. So long as banks were very few, as they were in the early stages, serving only the interests of the rich and of the government, they could be left in private hands, but when their operations came to affect the nation, some kind of supervision had to be installed, different in one country or another.

The use of money as a medium of exchange goes back to the dawn of history, and with money, there must have been those who dealt in it, the ancestors of the modern bankers. In feudal society, when money was scarce and taxes often paid in kind, it was the Jewish money-lenders who accumulated funds which they could lend to the kings and nobles. In Germany, when the old Empire declined in power, the merchant class grew great, and the cities became the centers of power and influence. They formed the Hanseatic League, a private enterprise of German merchants, whose operations came to be international in scope. Its outposts, one of which was London, another Bergen in Norway, a third Novgorod in Russia, developed countries that then were backward, and brought them into trade relations with the Continent. The merchants of Venice and of Genoa created city states which controlled the Mediterranean world. In Augsburg, the Fugger family financed the Hapsburg Emperors and Kings of Spain, and the Medici of Florence did the same thing for the Pope in Rome. The seaports and the inland trading centers of the later Middle Ages and the Renaissance were a world of their own, outside the political entities, that kept in touch with one another in their exchange of goods, and banking was part of the business that they did. They had need of banks, and they created them, in Amsterdam and Hamburg, and in Italian cities. They served the ends of peace, where the kings and nobles were always making war. Based on Italy and Germany, they brought such unity as there was to Europe.

It was out of the experiences of those old trading families and houses, most of them German and Italian, their establishments and trading-posts, their ledgers and account books, their seamen, clerks, and scribes and their accumulated wisdom, that our mercantile traditions of today grew up. The business instruments we use, the check with which we pay our grocer's bill, bankers drafts, invoices, bills of lading, were originally devised in those old days. The business world is still a world outside the world of politics, though often enough the two become confused. But the spirit of the old-time merchant still exists, striving to bind the world together. "Business considerations" are acknowledged as a force that on occasion transcends national boundaries and the realms of ideology.

The earlier banking institutions were often family affairs, such as Knauth & Breitschneider in Naumburg. Their business was likely to be local, but as communications improved, they would find connections in neighboring places and develop an inter-city trade. Or, as in the case of Dufour Freres, they might be tied in with some distant center in connection with a special industry such as silk manufacture. When regular banks were instituted, these often enough began as mergers of local banking offices, which might develop into chains. Banking was still the affair of the wealthy, for the lower classes lived from day to day with little money or much use for it, largely by barter and mutual assistance. It was only when the wars were over, for a time at least, after Napoleon's defeat, that the local merchant-bankers began to serve a larger circle. Once the habit was introduced, it spread, and new uses were discovered for bank facilities. What might be called "normal" operations for a bank began to show their heads, in particular the taking of deposits from the public.

The funds that thus accumulated could be put to use, and the techniques for making loans in proper style had to be worked out, by trial and error.

In Europe, where there were so many different countries, each with its own currency, the exchange of these for one another was always an important feature of a bank, with its own strategy and tactics. So was trading in securities, handled by the banks themselves, rather than through brokers, as in London, and New York. The banking systems thus evolved were never quite the same in one country or another, but in all it could be noted that the banks came closer to the people in their daily lives. In all there was a tendency toward centralization, resulting in a few big banks with many branches. In all there also was a trend toward specialization, with certain banking functions taken over by special institutions such as savings banks. Other banking features, like the transfer of funds in settlement of accounts, were sometimes taken over by the postal service, as in Germany, with great success.

By the time of World War I, there came to be, in every European country, only a few large banks with branches everywhere, which handled normal business and certain sidelines too, four or five of them in Germany, three in France, two in Italy, and in Great Britain five. In addition there remained a limited number of small banks and banking-houses that had not been swallowed up or that had some special business of their own to keep them going. There were also certain firms in the field of high finance, who attended to such matters as were outside the province of incorporated banks, which called for the most special kind of handling. By and large, it could be said that the bulk of ordinary banking activities, receiving deposits from the public, honoring checks and making payments as ordered by the public, transferring funds, and making ordinary loans, in all the leading countries, was in the hands of a few large institutions, highly organized internally, who worked in amicable rivalry, and who between them served their nation's normal banking needs, and served them well.

Not so in the United States. In this country, we have from the beginning consistently opposed the development of big, centralized banking institutions, and favored smaller, local banks. The reasons for this attitude are manifold and interesting, but they cannot concern us here. On the other hand, we have at various times entrusted to our local banks powers that abroad have usually been reserved for central banks alone, for government institutions, namely the issuance of banknotes that serve as money. This authority was vested in existing banks before the Civil War, with consequences that were not always happy. When National Banks were authorized in 1863, they were given the specific right to issue banknotes, under strict control, and secured by Government bonds, and they exercised this right for fifty years until in 1913, following the Panic of 1907, the Federal Reserve System was established, which issues the bulk of our currency today.

Instead of a few big banks with many branches, as is the rule in Europe, or one state-owned bank such as they have in the Soviet Union, we have in the United States National Banks to the number of about 5,000, which are chartered by the Federal Government and supervised by it. We have also about 9,000 banks, savings banks, trust companies, and the like, which are chartered by the States, and are under their surveillance. We have accordingly fifty-one varieties of banking institutions under as many varieties of legislation to serve the nation's banking needs. That is the way we choose to have it, for we like to do things in our own way. The great majority of these banks are solid little independent units, small in size perhaps, but great in local influence, owned and administered in the communities they serve, under the supervision of the Government, Federal or State. In the larger cities, there are banks of larger size, some of which can measure up with any institution in the world. They are all of them adapted to the needs of their community, but they are also members of a team whose field is nationwide.

All the National Banks and such of the others as desire it belong to the Federal Reserve, and are stockholders in one of those twelve District banks which between them cover the United States. The banks of the Federal Reserve are banks for banks, and do no business with the public. They serve the banks who are their members, and in the boards that govern them other than banking interests are represented, agriculture, industry, and commerce. Between them, they marshal our national resources, they supervise our banks, they control our currency and credit, and they also are our contact with central banks abroad. They began to operate in 1914, the year, as it happened, in which the First World War broke out, the very time, that is, in which, to coin a phrase, the old order of modern times broke down, and the United States inherited the lead in world affairs. It was a fortunate coincidence. It gave us a coordination of our interests, just at the moment when we needed it the most. The banking business of the nation remains in the hands of many independent local banks, but we are also able to function as a nation. Our answer to the banking problem is our own, not based on any foreign model, but on our own experience. No one controls our banking system but we the people of the United States.

Where, it may well be asked, is there a place in this development for the private banker, for the firm that did a banking business on its own responsibilities, using its own capital, and under no kind of outside supervision? It was the private bankers of this kind that invented the banking business, but where are they today? Is there anything that they can do, when so much of banking is in the hands of institutions, watched over by the Government?

Clearly, there has been a trend apparent in the growth of the banking business, from its small beginnings in the hands of private persons to the mighty corporations of today. Some of the most important banking functions, it has been found, are matters of routine that can be standardized, and when they are so treated, they can grow to undreamed-of heights.

Of these, the first that comes to mind is the deposit business, the holding of the people's money and keeping it available when wanted. No private banker would have dreamed of asking a perfect stranger to leave his money with him on deposit, and yet when banks were opened, people flocked to them to do just that. Instances there are in plenty, of where the banks have failed to meet their obligations, where the public has lost money, but in each case, the damage has been repaired and the structure made more foolproof. The old-time private bankers discovered a public need, which they themselves could not fulfill, but they found a means of satisfying it by establishing a bank. Once the facilities had been provided, the use that was made of them increased and multiplied. Out of the deposit business have grown the check business, the making of loans both large and small, and other services to the public. Each of these in turn has been systematized, and with each improvement, the business of the banks has grown. We can thus see reason for the trend away from private bankers to the banks. There are things a private banker, no matter how strong he is financially nor how capable and honest, simply cannot do. He cannot call himself a bank, and he cannot solicit deposits from the public. But if any of his friends choose to leave their money with him, of course he is free to take it.

The difference between a banker and a bank, between a person and an institution, has continued, and fundamentally affects the banking structure of today. The personal element in banking, for one thing, has largely disappeared. As our banks have standardized their services, the difference between them has grown less and less. They are all of them alike to us in the general public, and we go to a certain bank, not because we know and respect its president, but because of the convenience of its location to our home or office. We can see how similar they are in their organization by the ease with which they merge. We get a notice of the latest merger, we note that the name of the bank we have been dealing with for twenty years has disappeared, and will henceforth be something else, but that is all the difference it makes to us. A super-duper One Big Bank with a thousand branches would not surprise us, and at least would put an end to further changes.

But we have become bank-minded as a people, as never in our history, and like no other people in the world. Almost everybody has a bank account today, and many have two or three at once. We pay our bills by check, and when we buy a car or have a baby, we get a loan to tide us over. No one keeps his money in a sock under the mattress in these days, he puts it in a savings bank. All this is very different from what it used to be, and it is much more pleasant, for us and for the banks. A visit to the bank is not the ordeal that it was. Instead of a gruff cashier behind the window, we find a pretty little lady who fixes her hair and smiles as she passes out our money. In their advertising - imagine a bank that advertises! - the banks press us to come in and borrow money, where we used to approach them hat in hand to ask for accommodation. The little borrower who used to be a nuisance has been shown a way to get what he needs without the loss of self-respect, and the bank attends to his like in droves. Its routine has been so simplified that almost anyone can run it, and much of it is handled by machine without being touched by human hands, or heads.

The changes affect our family lives as well, for there are many families where the wife is now the paymaster, who banks her husband's paychecks, pays the bills, and sees that he gets his spending money, instead of the other way about.

But the incorporated banks, as they grew so great, did not do so at the expense of the old-time bankers. They did not take away the bankers' business, but they made their own. The modern banking business came into existence with modern banks, and the old-time banker has not disappeared. He has become a financier, an individual with money of his own and an understanding of the business situation, who arranges the affairs of other people. This is certainly a banking function, which not everyone can undertake, and it calls for a very special kind of person to attend to it. It also requires a special kind of organization, for a financier must have an office, even the ones who can do their business while sitting on a park bench. Some banking firms are centered about an individual, but most of them are partnerships. This is essential, for only in this way can they retain the freedom from outside supervision which they must have. They can have this freedom at the cost of personal responsibility for the commitments of their firm. The officers of a bank are not liable for its engagements, unless there has been malfeasance.

Those old-time banking houses, in their prime, were wonderful affairs. They had a character of their own, which you can never find in a corporation, for they were clustered around a single person, or at most a close-knit little group. They had a history behind them, and a reputation which was their greatest asset, to preserve which, on occasion, men gave their lives. Many of them were Jewish in their origin, and carried on an old tradition, grounded, perhaps, in former times of enmity and persecution. They often preserved a family background, sometimes dating back for generations, which likewise gave them color and coherence. What they prized most was their independence, their freedom to choose their way, which they retained as private businessmen, not subject to outside supervision. It was this that enabled them to explore so much untrodden territory, in a time when our modern world was taking shape. Coupled with their freedom was a corresponding moral responsibility that lay heavy on their partners. To an unusual degree they stood on their personal reputations, and their judgments were all they had to go by. A banker, unlike the normal businessman, does not deal in tangible goods, but only in the documents that represent them. There is a certain unreality about his business, of being one step removed from the outside world that can be seen and handled, which gives him a viewpoint of his own, and makes him cautious where new ideas are concerned. His affairs are strictly his own concern, not visible to the outsider as is a building or a factory, and no one knows how things are going with him except through what he chooses to divulge. In the world of business he is something like a priest, who stands above the turmoil, to whom his people come for succor and advice. His responsibility is the greater because he takes it by himself, and sometimes he feels a little lonely.

It was firms like these, bankers with imagination, who built up our present business world, giving us our traditions, and devising the techniques by which we operate. They created banks to serve the public, letting their administrators run them. In the days when our business world was in the making, they told us what to do and how to do it, but they left the doing to trained managers whom they picked. Today, when the world of their creation is largely finished, they exercise their influence by serving as Directors. The management of large estates is often in their hands, and gives them the opportunity, behind the scenes, of keeping in touch with new developments. The private banker still is there, and retains his influence in the topmost reaches of the management of our modern business world.

Our own old firm of Knauth Nachod & Kuehne, Bankers of Leipzig and New York, was a typical example, in its own small field, of the private bankers of its time and generation. It opened up new ways of doing business, but it trod those ways itself. We have seen how it began as a one-man business, which in the 1850's became a three-man partnership. As such it continued for half a century, for each of the partners, when he came to die, left a son or two who carried on. It was a three family affair, remarkable because the harmony between the three kept on so long. It took the first World War to interrupt the continuity, for the firm was fortunate in working in a protracted period of peace. From exporting merchandise from Germany into the United States it developed into a banking-house whose business was with all the world. Every third one of the 15 banks in the United States did its foreign business through Knauth Nachod & Kuehne. Had it survived, it very likely would have found a way to put this business into a form that would be permanent and under its own management, but this was not to be. The business died with it, and American banks have had to look for other ways to do their foreign business. It is probably less than it used to be, and is probably done by the big banks in New York for their correspondents throughout the nation. Whether it is done better is another question. Knauth Nachod & Kuehne came to an end too soon really to realize its destiny.

III

A TIME BETWEEN GREAT WARS

Theodor Knauth was still a little boy when he lived through the Battle of Leipzig in 1813, and some of his grandsons were not much older when the World War broke out in 1914. Between these two catastrophes there were many smaller wars, the kind to which Clausewitz referred in his remark that "War is the continuation of politics by other means", but none of them got out of hand, and they could all be settled, after a campaign or two, by diplomats sitting around a table. Only our American Civil War was a major conflict, that had to be fought through, and that affair was private, and involved no other countries. But the wars that grew out of the French Revolution, and our own two World Wars, those wars were different. They were not moves on a diplomatic chessboard, but their causes and effects were fundamental. They affected every country of importance in the world, and they had to be carried through to a conclusion. By comparison, the time between them was a time of peace.

It was also, largely because of this, a time of great advancement in the world, and the beginning of even greater progress later. For the first time, after more than two thousand years of history, a real improvement was made in the means to get about. The Romans built good roads, but they travelled them on foot and horseback; their ships clung tightly to the coasts, and were propelled by oars, with a single sail. The world they knew was flat, not round, and they dared not get away from land. Its furthest limit was in Britain, and there, when they experienced tides, they thought the land was moving up and down. The Northmen were bolder, but they did not follow up on their discoveries. Columbus, and those who followed after him, still used sails, and while their ships were better, the principle was the same. Then came the Age of Steam, which began just as Napoleon's wars were coming to an end. From that time on, progress was rapid, and even now, in the era of the airplane and the motorcar, we are nowhere near the end of it. We cross the ocean in hours instead of weeks, we communicate by telephone from continent to continent, but the development still is going on.

What we have still to learn is how to take advantage of these betterments. Our freedom to move about and to communicate is hampered artificially by restraints that have come down to us from generations past, when the nations of the world were hostile to one another. Most of them have disappeared, but their suspicions and jealousies remain; indeed, they are now worse than ever, for they have become mixed up with ideologies. A person's loyalty today is not determined by the place where he was born; it is a matter of his convictions, especially if he is an American or a Communist. We ought not to forget, however, how much was done, in those years of peace between great wars, to make the world available to all. It came about, in large degree, through the development of business.

Whether wittingly or not, our immediate forebears did much to bring the world together. Down to 1914, one could travel almost anywhere without a passport. Few people ever had one, for it was a formidable document, signed personally by the Secretary of State. A trip to Europe could be arranged at a moment's notice, simply by buying a ticket, which could be had, first class, for \$125.00, or \$90.00 out of season. An immigrant in the steerage could come to America for \$10.00, and this included meals. Mail service was reliable and cheap, 2 cents at home, and 5 cents abroad, and strictly private, for no one dared to tamper with the mails, least of all a government. Cable messages at 25 cents a word were also private and could not be divulged. In business, the use of codes not only saved money, but preserved secrecy. No one pried into a person's personal affairs, or into his thoughts and writings, or asked where or why he travelled. The reason for this universal lenience, for this "laissez-faire", in which the British led the way, could only be that anything else would have interfered with business. The British were a business people, theirs was the leading nation in the world, and outside their own borders, other nations fell in line with them. Freedom of the seas was a gain for all, and the facilities provided by the British were there for all to use.

The world of the Nineteenth Century was a British world, in the sense that Great Britain was the leading power in it, especially when it came to sea power, which was decisively important. But the British were more than that, for they were the only power, at least in Europe, whose policies were liberal. On the Continent, freedom of thought and speech were looked on with suspicion, and those who criticized the government were likely to be jailed. Such people had to flee, and their goal was likely to be London, where they could talk and write in safety, hoping to go home again when the revolution came. There were many such in all the German states, and Karl Marx, writing "Das Kapital" in the British Museum, was not the only exile. The liberation that the French had brought to Germany with their revolution was not forgotten, but it could not be allowed to explode once more. It had to be repressed, for Germany had been so racked by years of war and foreign occupation that peace and quiet were now the first consideration. Only in England was the government strong enough to allow a little freedom to the people.

The British were the leaders in the world of business, for when the fighting ended, theirs was the only country that had not been invaded, whose economy had not been ruined. Their navy had kept the seas open to her shipping, and that of other nations out. London was the center for the shipping business and all that went with it in the way of banking and commercial houses, insurance companies, docks and storage warehouses, and shipping information. But Britain was also the first great nation to experience the industrial revolution, turning to industry and manufacturing and away from agriculture as her main employment. The result of all her efforts, improvised as new needs continued to arise, was a working population concentrated in her cities, and great new wealth created by their work, both of which presented problems that are familiar enough to us today.

England became a very wealthy nation, but it also contained great poverty and distress.

In Germany, the old regime returned to power in her various states and cities, and law and order were restored by general consent in the old accustomed ways. None of her states had very glorious records to look back on; nor was there anything like enthusiasm among her people, but there was work to do, and they buckled down to bring about recovery. We have seen how in Saxony, in Leipzig, and people were astir, looking for opportunities to make a living, and so it was in other parts of Germany. By tacit understanding they came to terms with their rulers, the princes and the nobles who were also owners of the land, leaving to them the work of government. In place of an interest in politics, the German people turned to philosophy and music, which were congenial to their temperaments. Learning and the arts began to flourish, and the German universities came to great renown. Those were great days for the German mind, when Goethe and Beethoven were at their best, but there were other evidences too of flowering and progress. The Germans were going into business, not as merchants as in the days of the Hanseatic League, but this time into industry and manufacturing on the British model. Germany was beginning to be a little prosperous. Life was comfortable and reasonably happy, more so perhaps than anywhere else in Europe.

Relations between the Germans and the British were friendly in those early years after the fighting stopped. For one thing, the two had never fought each other, but on the contrary, they had more than once been allies in their opposition to the French. Not since the Middle Ages had Germany been united and the leading power in Europe, when England still was weak and little. Now the British were on top, and were looked up to by the Germans. It was to London that German men of business turned, not a few of them to settle down there and assist in building up the British business empire. Nor were the British loath to see them come, for the Germans were industrious and tractable, and fitted in well in the life around them. As long as they retained the overall direction in their own hands, the British had no objection to letting others share in the work. With their music and their learning, the Germans were good to have around, and they knew their place, for Germany, like England, had a stratified society and a well-defined nobility at the top that kept itself aloof. The British Royal Family was German, the King was also the King of Hanover, and presently there came Prince Albert to marry Queen Victoria, and he was very much a German. The English on vacation liked to visit Germany, and made themselves at home in Dresden and the watering places along the Rhine. Above all, there was no rivalry between the nations, for Germany was weak and disunited, while Britain was supreme. The peoples understood each other and their respective stations.

The Germans on their part admired and liked the British well. They were quite prepared to acknowledge British leadership, as they also did the cultural superiority of the French. Indeed, if anything, they were all too ready to bow to the advantages they saw in others, and to overlook their own achievements.

They had themselves been so divided, when other nations were united and advancing, that they had almost lost their sense of nationality. Now, in a time of peace that was growing longer all the time, they were beginning to wake up. If they could not unite politically, they could do so economically to advantage, for they were located in the heart of Europe, they were the link that united North and South, and East and West. Their great commercial centers, Hamburg, Cologne, Frankfurt, Leipzig, lay on the ancient trade routes that now were railway lines. They had contacts to the north with Scandinavia, to the east with the Slavic world, to the south with Italy, and to the west with France, and they also had access to the North Sea, which led out to the wide Atlantic. They were bound to be a great commercial nation, and they were also beginning to produce, to exploit their own resources. They found there was much to be learned from Britain as they started to industrialize, and they improved on what they saw there, particularly in the treatment of the workers. They had no thought of rivalry with the British, for the field that lay before them was in Europe, while Britain's was the world outside. Surely there must be room for both of them where there was so much to do.

Germany's industrial revolution got under way in the first part of the century, the time we are considering, and it was not aided by the split-up in the German nation. The ruling classes on their wide estates were anything but friendly to the emerging men of business. The many little governments were very slow in lending their assistance. What the German people did in those years of struggle they did by themselves, in spite of handicaps.

The year 1848 was critical in the affairs of Europe, and, more remotely, in those of the United States. For almost thirty years Europe was governed under the arrangements made after Napoleon's defeat, and in every country the people were getting very restive. In 1830 the "July Revolution" in Paris touched off an explosion in many parts of Europe, which was suppressed without much change in the conditions prevalent, and then, in February 1848, there came a bigger one. It started once more in Paris, where the last French king was driven out, this time for good. The fire quickly spread across the Rhine, and in Baden the reigning Grand Duke was forced to flee. Street fighting broke out at once in every German capital. In Vienna the Emperor abdicated and Prince Metternich resigned. In Hanover the King, the British Duke of Cumberland, took his departure, and in Berlin the King of Prussia was compelled to remove his hat in salute to the dead of the barricades, while his brother, the Prince of Prussia, fled to England in a cab. All the revolts were in time suppressed, but not the deeper feelings of the people. It was plain that the regime existed on sufferance only, for want of something better, if only the parties could agree on one. A German Parliament was called in March of 1849, which met in Frankfurt and prepared a constitution, a union of the German people with the King of Prussia at its head. The underlying difficulty, the old rivalry of Austria and Prussia, thus seemed to be resolved in favor of the latter, but the King refused the honor. Things went on as before, but in a different spirit. A definite solution was felt to be inevitable, and in time it came.

In Vienna Francis Joseph became Emperor at 18, and he lasted into the first World War. In Berlin the King, the one who had had to remove his hat, was found to be insane. He was succeeded by the Prince of Prussia in 1858, and as King William he brought in Bismarck in 1862 to head the Prussian government. In him the Germans found the leader they were looking for, and the situation began to clear. Bismarck was not averse to war as a move in politics, but strictly as a move, as Clausewitz ordained. With Austria, Prussia got into a little war with Denmark, and following this, Prussia took on, not only Austria, but most of the German states as well. Austria was defeated and with that, excluded from the German picture. With his hands now free, Bismarck in the next five years brought the other German states into alliance with Prussia. This irritated France, which was again an Empire under a Napoleon, and when it came to war, the French were soundly beaten. In January, 1871, Bismarck proclaimed the German Empire at Versailles with King William at its head, and at last the German people, minus Austria, were united in a nation of their own. Peace and quiet and prosperity ensued, and lasted over forty years. Germany was now the strongest power on the continent, except for Russia.

It was also rapidly becoming an economic power of first-class proportions, and feeling its way into the outside world. That this in time would bring it into rivalry, and finally into conflict with Great Britain, is a fact that must be noted, but that cannot detain us here. Our concern is with Germany and the United States, which was a very different story. Both those countries were developing, but in other ways, and they did not compete. Rather, they played into each other's hands. Politics did not much concern the businessman. The Civil War in America and Bismarck's three wars in Germany may have slowed things down a bit, but brought no interruption to the tide of business. Saxony was allied with Austria in the War of '66 and on the losing side, but suffered no penalties for that, and in 1870 she went with Prussia and became a charter member of the German Empire that followed.

But Germany was not the only country to be undergoing changes in those years. Following 1848, Poland rebelled against the Czar, and Hungary against the Austrian Emperor. Both were bloodily repressed. In Hungary, as happened again in our own time, the Russians were called in to subdue the rebels, who called on America for aid that could not be given. Austria also controlled most of the north of Italy, which was likewise in rebellion, and had to fight a war with France about it. The Italians, like the Germans, had many rulers, and fought for unity and independence too. These they achieved in the same year as Germany, and after 1870 there were two new first-class states in Europe, while France and Austria were downgraded.

And there was always trouble in the Balkans. The Empire of the Turkish Sultans was breaking up, and both Austria and Russia were interested in the outcome. The result was a series of minor kingdoms, nominally independent but too weak to be of much use, quarreling with each other and prodded on by Russia, and a misery to Austria, a perfect demonstration of how things should not be done.

The entire range of eastern Europe, from the Baltic to the Black Sea, was restless and unhappy, and plainly headed for rebellion when they got the chance; Poland and the Baltic countries, the Slavic provinces of Austria, and the new states in the Balkans. But so long as the Russian and the Austrian Empires continued to maintain themselves, as they very evidently did, things perforce continued as they were.

The time that followed 1848 was therefore one of quiet on the surface but of restlessness beneath. Some great things were accomplished, but others even more important were left undone, only to re-emerge at every opportunity. The real difficulty, the essential underlying trouble, however, was not resolved. The people in almost all of Europe were not consulted about the conduct of their affairs. They continued to be governed from on high, not by the actual kings and emperors of course, but by the people that surrounded them, whose contact with those below them was remote. Even Great Britain was affected, the only country whose government was strong enough, and sufficiently elastic, to withstand the pressure from below. Elsewhere, as in Germany, but most markedly in Russia, the governments were maintained not so much by force as by the lack of something better. On the whole, their rule was good. The trouble with the system was the system itself, not the way it was applied. It perpetuated class distinctions. It led those on top to think themselves infallible, while those below lost what political sense they ever may have had. But until it led into the first World War, most people were content enough. They even liked to brag about the way that they were governed, comparing its efficiency with the faults of democratic rule in the United States, and they made out a case.

Germany was the strongest power in Europe, but it was not more than that. It could not dominate the others, but neither could they impose their will on her. Europe was in a state of balance, which made for peace, and for prosperity. It was a time that called for statesmanship, for neat diplomacy, rather than for military action, and all Europe benefitted from the respite. In the years that followed 1870, people had time to think. The insidious effects of education were breaking down the old obstructions that had kept them in subjugation. Even czarist Russia now had schools and universities, not only for the rich, but also for the lower classes. With the spread of railroads, the mails got better, and people could exchange ideas. As they continued to think and talk, individuals among them reached conclusions. There were things that they could do to make things better now that the time was easier. Quite a few of them now had a little money.

What they did was to make plans--for emigration, and the place for which they headed was in most cases the United States. From those who had preceded them, there came back stories of life in the New World, the opportunities and the hardships to be met with and, above all, about the freedom there. The movement that set in was unlike that of other times, as the facilities for travel were also more enticing. The railroad and the steamship made the journey vastly easier than the oxcart and the sailing vessel ever did.

This time, the migrants were not exiles compelled to go by the police, nor were they religious groups looking for freedom to worship as they liked. These people were workers looking for better opportunities than they had at home, coming because they wanted to, not because they had to. Long trainloads of emigrants set forth from all over the European hinterland, headed for Hamburg or Bremen, and from there in the steerage for New York, where they were met at the pier by agents who passed them on to the coal mines, the factories, or the farms where there was work. They did not have to fight the Indians as their predecessors did, but they met with troubles of their own, and not a few of them succumbed. Still, a surprising lot of them came through, and few of them regretted the step they had taken. Between them, they did a large and honest part in building up America.

In Germany the rise of the United States was viewed with two divergent sets of eyes, those of the ruling and the upper classes, and those of ordinary people. Our nation was founded on principles which put in question the very existence of the European system, the government of peoples by experts from the upper strata of society. So long as our country was small and far away, this did not matter very much, but after 1848 it began to grow and at the same time it moved nearer, at least in time, because of steamships and the telegraphic cable. Almost fifty million people came to the United States in those years of peace, and that is a lot of people, more than there are in the British Isles or France, or any European country excepting Germany and Russia. They joined with the descendants of the former British colonists, took over their ways and speech, and with them filled up the empty spaces, all the way to the Pacific. Their success in their new homes, and they generally were successful, could not fail in its effect on the folks back home. The feudal aristocracy in the German states resented us on principle, and did not try to hide their feelings. "Who is that naked fellow over there?", one court official was heard whispering to another at a court reception, as he spied the American Ambassador in evening dress, where everyone else was in uniform with decorations. But the common people knew us better. In almost every village there were families with relatives in the United States, where they were doing well. In the first World War when our troops began to cross the Rhine, a young soldier from Wisconsin asked for leave to go to see his grandmother. My son, after the fall of Leipzig in the second war, lost no time in calling on his aunt, who received him with champagne.

It is curious to note, in country after country, the effects of a revolution on a stratified society, industrial or otherwise. Each nation in its turn appears to be surprised at what it has discovered and hails it as a great achievement of its own, which puts it ahead of other nations. None of them recalls that something like it has happened before to other peoples too. None of them considers the effect on others of its own advancement, taking it as quite in order that it treads on other peoples' toes. It reminds one of a crowded subway car, where one man finds he is getting warm and takes off his overcoat. In doing so he bumps into his neighbors, which they resent, but when he is through with the operation, he takes up less room than he did before. Others follow his example, and after a time of turmoil, everyone is better off.

And so it was in Europe. The British turned to industry and made themselves a very wealthy nation in which their topmost class retained the overall direction. They lost this only in their colonies in North America, which went their independent way, apart from Europe and its conflicts. The French went through a social revolution, abolished their nobility, and made everyone alike. For a time they overran all Europe, and thought they had discovered the millennium. The Germans built up a successful Empire in which the middle classes joined the upper, and both rode high. We know what happened to them later, in another era, and also how in Russia the lowest classes found themselves on top. The point, however, is that in all these cases the nation on the rise believed itself the final word in human history, that all the others were decrepit, that their day was over, and that the future belonged to itself alone as the predestined leader of mankind. None of them, when once they had seen the light, seems to have considered the other nations in any other role than that of their own admiring subordinates, following the leader.

The hundred years (almost) of peace between great universal wars were a British age, for the British were on top from Waterloo to World War I. They acknowledged it themselves, and they were right. Whatever happened for weal or woe was their responsibility, and they went far in shaping up a better world. Now, half a century after their high tide, we know what they could not know, that their ascendancy was not to last forever. Perhaps it is too bad that this is so, but so it is. There is no race or nation wise enough or strong enough to take the lead for all mankind in perpetuity. What the Romans could not do in their day, the British could not do in theirs, and it is no reproach to them to say so. Their time was a great one, not only for what it did, but for what it started for the future to accomplish. Unlike others who have sought to lead, they survived their high point. They were ready to become a partner in the firm where they had dominated, and that was more than the Romans ever did.

IV

THE FOREIGN EXCHANGE BUSINESS

Foreign exchange means foreign money - currency, bills, anything expressed in another currency than our own. Foreign exchange business is business done with a foreign country whose money is not the same as our money. Dealings with foreign countries have certain novel features which are not found in domestic business.

Why novel? Because in a domestic transaction they do not appear. We sell a line of goods to another American, we ask for dollars in payment, and dollars is what we get. But if we sell them to an Englishman, he cannot pay us dollars, for he has not got them. The money that he has is British pounds, which are no use to us. He has to scratch around to get us dollars, which is from another Englishman who has been selling British goods to the United states, for which he has been given dollars. What takes place is therefore not only an exchange of money, but also of the goods for which the money stands. Foreign business is really an exchange of goods for goods, of an export for an import. It involves two deals - one for the merchandise itself, the other for the foreign money, or rather for the other goods which are exchanged.

In ordinary times this is no trouble. The nations are always exchanging goods and services, the proceeds of which go into a common pot, from which anyone can draw what he requires. This pot is the foreign exchange market, which is conducted by the banks and bankers in the business, and it is very large and very wide.

And while we are on the subject, "services" are what people do for us for money. The hire of a ship, railroad or airplane fares, the money spent by tourists, foreign investments, these and countless other outlays, are all of them called "services" or miscellaneous exchanges other than of goods between the nations. Services and goods are so alike in their effect that, when only one of them is mentioned, the other is implied.

Since foreign business is actually an exchange of goods and services for other services and goods, it follows that the exports and the imports of a given country must in the long run balance. No nation can go on forever selling more than it buys, or buying more than it sells. From this again it follows that anyone engaged in foreign business is not acting for himself alone - he is also acting for his country, for what he does is a part of its national balance of trade. Though such a balance does not exist on paper, its effect will be noticed if it goes too far in one direction or the other. It is like a seesaw, going up and down, but always returning where it was before.

To make it clearer, we can summarize the novel features of foreign business, as follows:

1. Foreign business is a perpetual exchange of goods and services with other nations.

2. The exports and the imports of any country with the outside world must in the long run balance.

3. Those engaged in foreign business are also acting for their country.

4. Every business transaction abroad involves two deals, one for the goods themselves, the other for the goods for which they are exchanged.

In normal business, none of these appears on the surface. They are passed over in the give-and-take of daily affairs. It is only when the routine is interrupted that they emerge. It takes a real world war to remind us that they exist at all. But if they are forgotten, or deliberately not considered, the results can be disastrous. When England imported from the United States on the scale she did in the first world War, it resulted in a debt so huge that she could not meet it, and we had to charge it off ourselves when we came in, as part of the expense of waging war.

When the United States, the only solvent nation after the War, had to help out where others were in want, our commitments were so heavy that we could not meet them from our exports. We have had to pay our deficits in gold, and while our supplies in Fort Knox are ample, they are not being replenished. "Deficit financing" is fine as a temporary measure, but, like taking drugs, you have to stop it sometime, and the sooner the better.

The Germans had to finance their wars themselves, for no one would lend them money. They borrowed from their own people, and when the war was over, they let their money go down to nothing, which made their war bonds valueless. It did the same to all their savings, their bonds, and private debts, but as a nation, it left them free of outside indebtedness, and each of the two wars saw them recover the fastest in Europe.

All of which goes to show once more that nothing is so bad for business as a major war. If they are not settled drastically when the fighting stops, their evil effects continue on and on until the next war comes.

The exchange of goods for goods is a simple matter, for merchandise is tangible and everyone knows what it is. Services, however, are of many kinds, and often hard to grasp. Some of the most important may be described, and classified according to the effect they have on the balance of trade. The list is not at all complete, and additional services will occur to anyone who thinks about them.

We will define them as Exports or as Imports, depending on whether they bring in money to us, or cost us money, with no apologies for so crude a definition.

The first to come to mind is Shipping Expenses. If we ship goods, or travel, by a foreign ship or plane, it costs us money, and is an Import. If a foreigner used an American conveyance, it is for us an Export, for it brings us money. But if we ourselves use an American ship or plane, it is a domestic matter, and does not affect our trade balance either way. By using a foreigner's facilities, we are helping him in his foreign situation. By using our own, we are helping ourselves, and we should do so where we can. We should also encourage foreigners to use our ships and planes.

Next there is the Tourist Traffic. When our people go abroad, the money that they spend is for us an Import. When foreigners visit us, they are an Export, and a welcome one, unless they come as our guests, which is a domestic matter. Foreign diplomats and U.N. delegates are Exports for us, while our own diplomats abroad are Imports, of a kind that cannot be avoided.

Private Remittances are moneys that our people send abroad for reasons of their own, perhaps to help a friend in need. They are always Imports, even when we send over a dollar check, as many of us do. It always costs us money. Private remittances, particularly the money sent over by immigrants, were a large part of the business of Knauth Nachod & Kuehne, and ran into many millions annually. Today they are probably a good deal less.

Investments abroad by American corporations or the Government are at times an important item that takes out a lot of money. They are an Import, but the returns that they bring in, in dividends and interest, are an Export. When they are sold and given up, or when they are repaid to us, they are also an Export.

Foreign investments in the United States are the reverse of the above, Exports for us when they are made, and Imports after that; England had large investments in American securities before the first World War, which she sacrificed to pay for the war supplies she bought from us.

Foreign Aid is money that we send abroad for keeps. It is an Import, whether we send ten dollars to a friend in need, or our Government sends over millions. If we got anything more than thanks in return, that would be an Export, and perhaps some day we will.

Our Military Expenses are also an Import, although our troops are paid in dollars, for much of their pay is spent abroad. If any is returned and put into the savings bank back home, that is a domestic matter. So is their food, when sent from the United States, but when bought abroad, it is an Import, for it costs us money.

These are some of the chief items that affect our balance of foreign trade, and it will be noted that most of the big ones are on the Import side. At the moment they run into the billions, and the only way that we can meet them is by increasing our Exports of merchandise. We cannot, as yet, reduce our Imports very much, for much of the world is in difficulties, and needs our help. England and Western Europe are prosperous enough, but they are building up reserves, in view of their uncertain future. The "Cold War" is lying heavy on us all, and the world is badly in need of a vacation from the thought of war. A glance at a summary of the principal items in our balance of trade will give some idea of where the trouble lies, and a little thought may give us clues about what we can do to help the situation:

IMPORTS where money goes out: EXPORTS where money comes in:

Merchandise Imports.

Merchandise Exports.

Shipping Expenses on foreign ships or planes.

Foreign use of American ships or planes.

American tourists traveling abroad.

Private Remittances abroad.

U.S. Investments in foreign countries.

Dividends and interest due to foreigners.

Sale of foreign investments in the U.S.

Repayment of foreign debts by Americans.

Foreign Aid, gifts to foreigners.

Military Expenses for our troops abroad.

To keep the balance even:

Foreigners traveling in the U.S.

Foreigners sending money to U.S. Foreign investments in U.S.

Dividends and interest due to Americans.

Sale of American investments in other countries.

Repayment of debts by foreigners to U.S.

Gifts from foreigners to Americans.

The problem of what to do is difficult, because our Government is not a dictatorship, and cannot order people what to do. It can only make suggestions, and hope that someone will follow suit. It cannot stop all imports for a year or two, which would soon put us in the black. But there are probably a lot of little ways in which we could economize, such as using American planes wherever possible, instead of Air France and BOAC. If General Motors would only make a really little car instead of "compacts", and leave out everything but the essentials, they could sell a lot of them, and we could stop importing Volkswagens and the other foreign models, and that would help a lot. The cars they do build are designed as if we all came from Texas, which is not the case. If we all economize, we could help in a difficult situation, and gold will return to Fort Knox instead of always going out.

Back in the old days, when all the main currencies were based on gold and interchangeable, nobody thought about our trade balance, for the situation always remedied itself. Our balance, previous to 1914, was on the Export side, and our problem was how to reduce the balances we were always piling up abroad. We had no mercantile marine after the Civil War, and we paid huge amounts in hiring British shipping to transport our cargoes of grain and cotton. Our immigrants sent over millions to the old folks at home, as I know, for our firm sent them. Our tourists swarmed to Europe every summer, and spent their money freely, and we imported chemicals and fine machinery where now we make our own. All this was correct and proper at the time when we were an exporting nation, but it would not do today. Now we are an importing country, and we have to remember the change in our situation. We have to change our habits, and we are doing so more than is often realized. Our tourists stay at home now, and motor through our own country, and we are attracting tourists from abroad. We use American ships, now that we have them, and fly by American planes. We manufacture many things we used to get from Europe, and we could do more in this direction. Of course, no one gives up a trip to Europe because of the trade balance; he has reasons of his own, but it all chimes in together with the foreign situation. As a nation, we have to economize on our imports, and while few people know this, it is in the air, and people feel it unbeknownst. When the President stresses it, as he does so often, he strikes a familiar note, and it would be good if our industrialists took it even more to heart.

When foreign business was in private hands, as it was before the war, the banks engaged in it always knew what to do in a given situation. They might find difficulty in disposing of their foreign balances when these built up too high, which led them to reduce their exports, and this reflected on our general export situation. Or they might find trouble in finding money to send over to meet an import surplus. This too would be reflected in the rates, gold would be exported for a while, and before long, the situation would right itself. The field was so large and so diversified that something could always be done to rectify an adverse trend. All this is different today, for the field has narrowed. Foreign countries are not the factor that they used to be. The banks are not the major factor in the business, but the governments are heavily interested in it, and governments are not moved by normal motivations.

Governments do things in a big way, and do not mind if they upset the apple-cart. The rest of us have to accommodate ourselves to this and it is not always pleasant to have to do so.

No doubt the present situation is as firmly fixed as was the old one. It took two tremendous wars to bring that one to an end. We instinctively continue to think as we did before the war, but instead of their being half a dozen major nations and a lot of smaller ones, all engaged in foreign business and with interlocking currencies, there are only two today, and these are engaged in mortal combat and quite out of touch with each other. The Communists look at business from an entirely different viewpoint than the Western nations do, and have no regard for the latter's more delicate feelings of what can be done and not done. But they are still subject to the same basic principles that govern foreign trade, and no doubt they will some day find that out. Meanwhile, the Western world is gradually getting organized, and it is big enough to hold its own against the opposition. It is also more elastic, and better able to accommodate itself to meet the changes that are bound to come. It is also better able to meet the impact of another war, should such a disaster occur again, and it is much better adapted to continue administering its own much larger section of the world than are the men from Moscow.

It was based on such principles as the above, which only came to light as the business developed, that an immense amount of foreign trade came into being in the century that followed Waterloo, and ended in the first World War. It was not planned beforehand, for no human mind could ever undertake a job that was so stupendous. It did not work out its rules and regulations in the first place, for as often as not they would have turned out unworkable. It just grew up, and on the whole it worked, and its underlying principles had to be discovered by hard experience. That is the way the British like to do things, and the bulk of foreign trade was in British hands. It was designed to serve only British interests, but turned out a contribution toward all mankind. It was truly the child of private enterprise, when private enterprise was in its glory. So was the British businessman, and his pound sterling was at the time the only stable currency, based as it was on gold, and exchangeable for gold at a moment's notice. Since they knew that they could always do this, few people ever tried it.

As other nations also developed their foreign trade, they followed the British model, and based their currencies on gold. They even improved on it by adopting the decimal system, while the British clung to their antiquated arrangements of 20 shillings to the pound and 12 pence to the shilling. Their banks began to specialize in foreign business, they opened accounts in London and with each other, and they created markets to deal in foreign exchanges. Each using his own language, they developed customs that were based on common sense. In time, they came to form an international community, completely informal, that tied the nations together through their trade better than any political arrangements. But they did not exist officially or come into the ken of the politicians. The business world was a thing apart, it existed by itself, and it never was consulted.

This system, if so it may be called, for it was never organized as such, was wrecked by the outbreak of the first World War. It was wrecked by the British as part of their war with Germany, which they saw as their own chief rival in world trade. They did not succeed in ruining the Germans, for after the war, the German businessman was there, as good as ever. The British held up the mails, which they themselves always considered sacrosanct. They also cut the cables, which gave them control over communications with all of Europe, until the Germans introduced the wireless.

They also devalued the British pound, and the effects of this were subtle and far-reaching. The pound was the standard for all the world, "as good as gold", as the saying went, the model of all a currency should be. Now there was nothing tangible behind it, simply because the British said so. The dollar was better, and the relation between the two became of moment to the British. The dollar began to rise, and it took tremendous effort to hold it down while the war lasted. Actually, the rate between the two was a fiction, a matter of opinion, and when the war was over, the dollar quickly rose, from the "gold" rate of a little over 4 shillings, to over 7 shillings to the dollar, *which* is where it is today, and still a fiction.

It is quite true that at the time these fundamental British blunders were more than offset by German blunders in the conduct of the war, and so were hardly noticed. But when the fighting ended the German errors passed into history, while those of the British only came to the surface. It then became clear that Britain had abdicated her proud position as the leader in world affairs. Nor had she done so in favor of the United States, her former colony, for the United States had no ambitions to becoming Britain's heir. If at the moment we are leading the Free World in the struggle with the Communists, it is as "primus inter pares" that we do so, and our leadership will end when the emergency is over. What has happened is that all the world has been freed from domination, not by the British only, but by anyone, and this is a gain for all mankind. For the British, it was doubtless painful to lose their Empire and their predominance, but they have elected to become a partner where they used to be on top, and the grace with which they have done so is a credit to them.

By comparison, it may be of interest to note how the Germans met a similar crisis in their own affairs when the war was over. The Germans had had to pay for their war themselves, for no one would lend them anything. They issued great quantities of war bonds and sold these to their people. When the war was over, the mark, like most other currencies, fell off in value, but the Germans made no effort to check its fall. Making a virtue of necessity, they let it go all the way down to nothing. All private debts were thus abolished, including the war bonds owed by the German state. At the expense of their people's savings, loose cash, loans and private debts, the state was now free of debt and ready to start fresh with a new currency, the "Reischmark". By 1923, Germany was free of outside debt, but also of her liquid assets, for many of her ships and plant machinery had been taken by the Allies who had won the war. By this time, they were mostly obsolete.

By good hard work, the Germans restored these in the years that followed. They faced the world with new and modern factories, and ships like the "Bremen" and "Europa", leaving the victors to struggle with worn out tools and the "Leviathan" and "Berengaria".

The Germans were getting prosperous, but they made the mistake of thinking that prosperity entitled them to leadership. They started a second war, which was even more disastrous than the first one had been. This time they scrapped the "Reischmark", and started life anew with the "Deutschemark", the one they have today. Again by good hard work, and resisting the blandishments of Communism, they rebuilt their ruined cities, restored their factories, and again became the most prosperous state in a generally prosperous Western Europe. And there the matter rests today.

But we have to return to our subject, which is foreign trade. We have seen how this has passed from the hands of private parties to become largely the affair of governments. This is quite in order, for as we have also seen, a nation's trade balance is of national interest, and not only the affair of those engaged in it. It is not the farmers only who are interested in our wheat crop, our cotton crop is not the business of our Southland alone, our industrialists are not the only ones who care about manufacturing. The entire country is affected by what we do as individuals. It cannot tell us how to run our businesses, but it is concerned in the way we do our jobs. In the old days, this was not realized, but it is today. The President and Congress are aware of it, and it is embodied in our legislation. The more intelligent Communists have also seen the light, but where they err is in the remedies they propose. The problem can only be solved by cooperation, not by force, and this they seem not to have understood.

Foreign trade today is what it has always been, an exchange of goods and services between the nations. It is an exchange, and therefore it must balance in the end for every nation. A nation deals with all the world in trying to do this for itself. The trade balance of every nation is its own concern. No two nations are anywhere near alike in their foreign trade. Each has its own problems, and these are forever changing. Its trade no longer balances itself, as it used to do, but it requires urging. No currency is truly sound today, not even that of the United States. It is what each government says it is, and subject to change with little notice. It was not so very long ago, in the time of the New Deal, that we reduced the gold value of the dollar. The Germans only the other day thought that the dollar was priced too high in Deutschemarks, and so they reduced it from 4.20 to four marks flat. It is true that the dollar is under pressure now, while the mark is riding easy, but suppose this situation changed? The German move was a gesture only, and not very flattering for the United States, but it shows what the situation is. A nation's money is what it says it is and nothing more.

The problems of no two countries are the same, and they are always shifting. England, for instance, has to export, for she needs her imports in order to feed her people. Her shipping, as an export item, is of great importance to her. Italy and France greatly depend on their tourist trade, and Germany supplies the tourists, for her people, like Americans, are great travellers. South American countries are great exporters of food-stuffs, as the United States once was, and they are therefore obliged to import. As to the Communist world, we can only guess what is going on there. It is not doing very well, for it is governed by Soviet dictation, and not by the laws of nature. Russia's principal trading partner is said to be East Germany, which has all sorts of manufacturers, but what can Russia give her in return? Poland used to supply food-stuffs in quantity to Germany, but is hardly doing so today, and Russia itself, formerly bursting with all sorts of grains, is known to be in trouble. These things have to arrange themselves, in accordance with what there is on hand. They cannot be adjusted by command, as the Communists will some day find out.

Our own problem is comparatively simple. We have undertaken to do all sorts of things for undeveloped countries, to put them on their feet and make them self-supporting in their trade. We could afford to do this, and it is well we did. We now have to cut down on non-essential imports, and to increase our exports all we can. To do this requires thought and cooperation on the part of our people, led and assisted by our government. This is already being done, and will show results in time. If we know what the problem is, its solution will only be a matter of time.

V

LEIPZIG AND THE SAXONS

Leipzig is the largest city taken by the German Communists, and it is therefore proper to speak of it in the past tense. The city as it was is gone. First the Nazis, then the bombings in the war, and finally the communists, each in its own way, have seen to that.

Of course, the city still exists, and it still is full of people, though not so many as there used to be. It is the spirit of the place that has departed. The University still is there, the Gewandhaus has been repaired, they still have a "Messe" in March and October every year, but the people who made these notable, where are they? Those who survived the war have mostly settled in the West and taken their businesses with them, what was left of it. Leipzig is no longer the center of the book trade for all of Germany, for the publishers pulled out in those few weeks in 1945 after the capture of the city by the American Army and before it was turned over to the Russians. The same thing happened to the fur trade for which the city likewise was the center, while as for the "Reichsgericht", the Supreme Court of the old Empire vanished with all the other apparatus of the former government of Germany. Books, furs, and the Trade Fair, the University, music, and the Law, these were the special features that distinguished Leipzig in the time before the war. They made an incongruous collection, and while traces of them may remain, their substance is no more.

Leipzig always had a special individuality, as every city has, but no outstanding features to make it notable, nothing in the way of a cathedral or a castle, or beautiful surroundings. There was nothing sensational or imposing about the place, and its detractors liked to call it humdrum. It was not beautiful, and much of it was downright ugly, but it was quaint in spots, and it had its points. It was above all utilitarian, not a place for pleasure, but for solid living and for work. Its people took life seriously, they worked hard and conscientiously, and even their music they pursued, not for the joy it brought them, but as a discipline. Strangers gave the city a wide berth, for there was little in it to attract the tourist, and visitors came to Leipzig only for some special purpose. The hotels, though comfortable, were out of date, and the best restaurant, a very good one, was in a cellar. But as a place to live in, for those whose work was there, it had its own attractions when you got to know them. The concerts were wonderful, in the Gewandhaus and in the Thomaskirche, where Bach was once the organist. The opera was good and sometimes excellent, the Old Theater dated back to the days of Schiller, and the Rosental was as nice a park as one could wish. They were so very earnest about all they did, those Leipzig people, that you could not but go along with them and fall in with the way they took things. They were anything but conformist, but they had their own ideas, and though these might be surprising, they were often very good. They knew from long experience how to do things and acted in accordance, no matter how queer it looked.

Their judgments were their own, not those dictated from above, and they stuck to them. You had to take them as they were, and when you did, you found that it was worthwhile.

Leipzig was a bourgeois city, the product of its own Upper Middle Class. It was not aristocratic, for it had never been a capital or enjoyed Court life. It had little attraction for the nobility, and they were not wanted either. The place for them was Dresden. Neither was it plebeian, although it had an enormous working population. Leipzig in a century had increased twentyfold, from a snug little city of 35,000 to a great manufacturing center of over 700,000, and most of the increase was workers. But the people who controlled it were the leaders of industry, the merchants, and the professors at the University. These were people with a wider interest, with a leaning toward the inner life, and the tone they gave their city was their own. In unusual combination, they made it both a business and an intellectual metropolis of first importance, and one of the largest cities in the Empire.

The special offspring of the inner life was music, and in this, in its most serious aspect, Leipzig was supreme. Anything that had to do with music was given full attention, even by those who did not know too much about it. The Conservatory attracted students from all over the world, and those connected with it created an atmosphere of earnest devotion to great music that could be felt by all. Telemann and Bach in the beginning, Mendelssohn and the Schumanns in a later era, Wagner, and then Nikisch and his orchestra, were among the greatest of the many great musicians who were the city's glory for two centuries and more.

On the Gewandhaus, that unique little gem of a concert hall, there was a Latin inscription which read "RES SEVERA VERUM GAUDIUM". We can read this in two ways, either as "A SERIOUS MATTER IS TRUE JOY", or the other way about, "TRUE PLEASURE IS A SERIOUS AFFAIR". Either way, it seems to express the way in which the Leipzigers considered, not only their music, but life in general. Joy and pleasure were matters not to be taken lightly, and business was, after all, the truest kind of pleasure. Business was fun for them, in the sense that fun was business, but whether there is room in this philosophy for a real good time, is something else again. The Leipziger, alas, could never forget himself, and with all his earnestness and good intention, he sometimes was a bore.

"Mein Leipzig lob' ich mir", Goethe has one of his characters say in "Faust", going on with the oft-quoted remark:

"es ist ein klein' Paris, und bildet seine Leute". He must have meant that Leipzig was like Paris because it shaped its people, for any other resemblance is difficult to find. Goethe never was in Paris, but he knew Leipzig well enough from having studied there. Anything that Goethe says must be treated with respect, and so the sobriquet has stuck.

Leipzig did shape its people as he says, and it made them in some respects, the oddest lot in Germany. Nowhere did you meet with so many curious characters, or see so many misshapen bodies, as in Leipzig. It seemed as if the German propensity for sticking to a matter, for carrying through to an absurd conclusion, really had its way there. They never quit with an idea but continued worrying with it, long after it was dead, they took things literally without the grace of humor, they talked a language of their own, they wore the most amazing clothes - Leipzig a little Paris! The mere idea is absurd, but Goethe said it, and so it must be true.

Leipzig was at its best in the years before the first World War, when all its manifold activities were running smoothly at capacity, and it could look with satisfaction on what it had achieved. One such occasion came in 1909, when the University celebrated its 500th year. Another came in 1913, the centenary of the Battle of the Nations and the unveiling of the enormous monument that commemorates it. Both were great occasions, with the King of Saxony and the Kaiser in attendance. Ordinarily, the city dressed up twice a year for the stream of visitors that came to attend the "Messe". These were businessmen from every country, many of them regular attendants who came back faithfully to the same private homes where they had been quartered for years. They jammed the streets and eating-places for a week or so, and then the town reverted to its old ways for the next six months.

It was in that far-off time when my brother and I arrived in Leipzig on a summer afternoon, very hot and dirty after an all-day train ride, and badly in need of a bath. We mentioned this at the hotel on our arrival, which caused a considerable commotion, and after a pause of an hour or so we were ushered into an adjoining room in which there stood two bathtubs side by side, each filled with steaming hot water on the hottest day of summer, with soap, brushes, and all the appurtenances, and a maid in attendance who seemed to be clothed from head to foot in towels. She handed us a couple each and then departed, to our relief, and when we had let the water cool off a bit, we enjoyed our baths. We did not know that in hotels, a bath was something special that called for an extra charge, and that what people did, was to wash themselves each morning at the washstand with a sponge. But our hotel was not to be outdone by two Americans who wanted a bath in the afternoon. The honor of Leipzig was at stake, and if there had been five of us instead of two, they would have provided five tubs in the ballroom, for they knew how to do things right. "Mein Leipzig lob' ich mir", said Goethe.

Leipzig is in Saxony, and Saxony is in what we now call East Germany, although its official name is German Democratic Republic, or D.D.R. for short. This name is a misnomer all round, for it is neither a republic nor democratic nor even German, since those who rule it are Moscow-trained, and Communism transcends all other loyalties.

Saxony used to be a kingdom, and before that a dukedom headed by an Elector, one of the group of seven who chose the German Emperor. Still earlier it was headed by a Margrave and was a frontier of the Empire.

The name of Saxony is also a misnomer, for the country never has been Saxon. Real Saxony was a duchy of the Empire, and lay far over to the west, from where its people crossed over to conquer England, long before the Norman Conquest. Later, when the Duchy was broken up, a fraction of it fell to the family of Wettin, Margrave of Meissen in what is called Saxony today, because of the former title of its rulers. Their stronghold was in Meissen on the Elbe, where so-called "Dresden China" (another misnomer, this time a double one) is manufactured now. From there they wrested the surrounding country from the heathen Wends and other Slavic tribes, and brought in German settlers from the west. Their early history as plain Margraves is longer and more honorable than their later career as Dukes, Electors, and Kings of Saxony and Poland, but need not detain us here. After more than eight hundred years of ruling, they finally retired in 1918, and the only member of the House of Wettin who rules anything today is the Queen of England, and Saxony is not a part of her dominions.

The point of the story, however, is that it shows up so clearly the cleavage that always has existed between the German people and their rulers. Ever since they settled down, the two have lived lives apart from one another. In Saxony, the people are anything but Saxon, or even German; they are a mixture of Slavic ancestry and German, and most of the names of places are pure Slavic, beginning with Leipzig. The people are wholly Protestant - Martin Luther was one of them - and the Reformation started in their midst, but the Kings of Saxony were Catholic for the reason that at one time they were also Kings of Poland, and that required them to switch religions. This they did without much trouble, but it divided them more than ever from their subjects. Their adherence to their rulers was only nominal, and it cost no pangs to drive them out.

Actually, there are two kinds of German history. That of the ruling families and their supporters is the one that is recorded in the chronicles and annals. That of their subjects is less well documented, but it is more interesting and also more important.

The history of Germany is more recent than that of Italy, France and Spain, and even England, for in Roman times, when these were the center of civilization, the regions to the east and north, across the Danube and the Rhine, were one vast forest wilderness, in which all kinds of people moved about and never left a trace. Germanic tribes, starting from Heaven knows where to the eastward, kept pushing toward the west, and when they reached the shores of the Atlantic, they had to stop and consider what to do. Some of them stayed and settled down there, others spilled across the Channel into England, and still others kept on moving to the south, into Italy and France, Spain, and even across into North Africa.

The ones who stayed and settled are the ones we are concerned with. On their westward push they left a vacuum behind them, and into this there entered Slavic tribes, very different in nature, language and appearance from the Germans. When the German movement halted and the tribes began to settle down, they came into conflict with the Slavs that followed them, all along their eastern marches. For centuries the country eastward all the way to the River Elbe was in dispute between the German settlers and the nomadic Slavic tribes. The Germans built castles to serve as strong-points, fortified the scattered towns, and slowly brought the country under their control. One of their castles was Meissen, built on a rock above the Elbe, where it still dominates the landscape. The margrave ("Markgraf") appointed by the Emperor to protect the marches ("Marken") took his name from it. The country there was flat and swampy, the population Wendish, heathen, backward and unfriendly, and the outlook not inviting.

A great change came when silver was discovered in the mountains to the southeast, which shut the country off from the more civilized kingdom of Bohemia. This happened around the year 1150 when the old Reich, the "Holy Roman Empire of German Nationality", was at its height, when the west and south of Germany were well started on their way, and the east and north were being colonized. Germany already had a mining industry, and miners now began to move to Meissen from Thuringia and the Harz, bringing civilization along with them. The crude frontier began to prosper. Towns sprang up and villages were established, fields were planted and marshes drained, roads were built, and a great new monastery was installed at Alton-Zells with orchards and gardens for the training of the people in proper agricultural procedure. Western Germany was by this time as flourishing as any part of Europe, and it was not long before the frontier too was civilized. The Slavic population that had been so hostile was not enslaved or murdered, but absorbed by the incoming tide of Germans. The two races exist today and can still be recognized, one small and dark, the other large and blond, and by their names, of places and of people. The particular interest of the country continued to be mining, as it is today, only that uranium has supplanted silver as the chief attraction. The Russians have got much of their fissionable material from the mines in Saxony, and they made their captive Germans dig it out for them. Our word "dollar", perhaps the best-known single word in all the world, derives from "Thaler", which meant the money coined in Joachimsthal from Saxon silver.

Leipzig itself was once a Wendish fishing village, located in a morass where three small rivers, the Elster, the Pleisse and the Parte came together. They made the country almost untraversable, as Napoleon found out in 1813. The name derives from the Slavic "lipa", meaning a linden-tree, of which there are many thereabouts. The town lay on or near a trade route that led up from the south along the Saale River to meet another coming from the west, after which the two continued on together into the undeveloped country to the east and north. It was this location, together with its defensibility, which gave the place its first distinction, as one where merchants liked to stop and rest awhile.

It received a charter from the margrave and became a city, guarded by palisades along the river fronts. A couple of monasteries accommodated travelers, and space was furnished for the traders to show their wares. This gave rise to trade fairs, at first for the surrounding countryside, and then, as their reputation grew, for visitors from more distant points. Not only German goods were shown, but also pelts from the distant east. Leipzig became a center for the fur trade.

In 1409, Leipzig experienced a windfall. In nearby Bohemia, which was considerably more advanced than eastern Germany at that time, the University of Prague, founded half a century before as a German seat of learning, was feeling the impact of a rising tide of Czech nationalism under the leadership of Jan Hus. Five hundred German students and their professors left, or were expelled, and they settled down in Leipzig as the nearest available German city. A new university was chartered there for them, only the fifth in Germany at that time, and today the second after Heidelberg. Leipzig became a seat of learning of first importance, adding to its reputation as a trading center. It assumed its dual character as a place for business and of letters at a very early date and developed both as time went on. Again it was its own burghers who brought this about, as they took over the exiled university ready made, and gave it a welcome and a home. Neither church nor state authorities impelled them. The decision to accept the opportunity came from within the city walls. With it there followed all that goes with formal learning, the world of books and of the arts, that of music in particular.

Leipzig seems to have been noted for its music from very early times. As far back as 1705, Georg Philipp Telemann, then organist in the Matthaikirche, mentions a "second Collegium Musicum" led by himself, which implies a "first" one dating back to the century before, to the time that followed after the terrible Thirty Years War, in which Leipzig and the surrounding countryside suffered heavy casualties. Telemann's orchestra comprised some forty students who between them played almost every instrument of their time, and they met regularly, once or twice a week. Then came Johann Sebastian Bach as cantor at the Thomaskirche, and the fact that he spent the rest of his life in Leipzig attests to the musical importance of the city. There were two such amateur orchestras there in his day, and he led one of them. Leipzig now was graduating trained musicians and even virtuosi as organists and cantors in the outside world, and its reputation as a music center was established. A third orchestra, more professional in character, came into being under the patronage of wealthy city merchants, performing in their homes or in their gardens in the summer. This was the forerunner of the later "Gewandhaus" organization which, like it, was a private undertaking with the municipality merely sitting in. It began giving public concerts in 1743, while Bach was still alive, in a room in the "Three Swans" Inn. When this became too small, the city fathers supplied a larger hall, the display room of the clothing industry, known as the "Gewandhaus" or Clothiers' Hall. Here they played for more than a hundred years and gained their fame. All the great musicians of the time came there to play or to conduct excepting Beethoven, who rarely left Vienna and never came to Leipzig. Their names, beginning with Mozart, were inscribed on the conductor's desk from which they led, and this was shown in the foyer of the concert hall for all to see.

Regarding Mozart, a notation in an old score of one of his symphonies recalled that at this point, he was beating time so energetically with his foot and hands that he burst a shoe buckle, which fell into the audience. The conductor said that he had noticed that many of his players were elderly, and that the only way he could really rouse them was to make them angry, "after which we got along all right". In due course, the "Gewandhaus" moved into a perfect little building of its own, which was used for no other purpose than the weekly concerts and rehearsals. This house was badly wrecked in the bombings of World War II, but has been more or less restored since then.

Leipzig was made and managed by its own citizens without the aid of kings or church, and the nobility played no part in its affairs. The king came only on very special occasions, and his little palace was not even on a main street. But however influential the "Burgertum" might be, and they made a fine appearance at Gewandhaus concerts, there was another class in Leipzig which was not mentioned in polite society, which greatly surpassed them in numbers, which lived its own life very cheerfully without them, and which outdid them in political astuteness. The fact was that Leipzig, and Saxony as well, was a stronghold of the Social Democratic Party, the party of the German workers. In addition to its intellectual and business sides, this gave a new and distinctive facet to the city's life.

As the seat of so much industry, Leipzig's working population was a big one, and the German workers were by no means stupid. Quite the contrary, they absorbed much of the intellectual atmosphere that surrounded them, and they did a lot of thinking. They were well organized and coherent, and the "S.P.D." was more to them than just a party, it was also a social club. It had handsome, comfortable buildings of its own, with libraries and meeting rooms, and a fine big restaurant and beer hall where the members in their free time met and talked things over. Many of them also had a garden plot, a "Schrebergarten", on an open tract of land outside the city that was parcelled out for just that purpose. Here, with a shed to hold their tools and cooking-things, they would grow their own garden truck, and gather with their families on Saturdays and Sundays. With such facilities and a bicycle to get about on, with football as a sport and Skat as an indoor game, the German workingman was well fixed. He might be at the bottom of the social ladder, but what did he care? He was better off than office workers, who felt themselves superior to him. Socially, they had descended from the class above them, and looked back on better days, while he had risen from below, often from the peasantry out in the open country. He had a professional pride in his job, instead of apologizing for it, a feeling of independence, and a prospect of better days to come. He was also more robust and healthy, and physically ahead of the other fellows. Above all, he had his party, and read his daily "Vorwarts" with contentment, while the bank clerk remained a hanger-on and follower of his boss.

In politics, however, in political significance, the Social Democrats got nowhere, for the structure was neatly rigged against them. In the German Reich, the right to vote was universal, and the Social Democratic Party was the largest of the many parties in the Reichstag.

Final authority, however, was vested in the Upper House, the Reichsrat, which was the organ of the States that combined to form the German Empire. Its members were appointed by the States, and acted as instructed by their governments. But in the States, the franchise was restricted, and those who paid the most taxes had the most votes. Among the German States, Prussia was by far the largest, with a near majority by itself alone, and with an understanding with certain of its neighbor states that ensured its supremacy at any time. It thus controlled the Upper House, and to all intents and purposes, the German Reich was a Greater Prussia dressed in German garments in the shape of a Kaiser and a Reichstag. Indeed, it was not until 1932 that a German could exist at all, for legally they continued Prussians, Bavarians, Saxons, or whatever else. Almost the only achievement of the government headed by Chancellor von Papen was to bring this about, and to allow people to call themselves what they felt themselves to be. All of which is further testimony to the confusion in which all Germans lived.

The people of Saxony regularly sent a solid delegation of Social Democrats to the Reichstag in Berlin, but they could not control their own little state at home. This was subservient to the king and his advisers, and the king was an amiable figurehead and out of contact with his people. He and his house were Catholics in the midst of a Protestant population, and friendly to Austria, the traditional foe of Prussia. When he came to Leipzig, as he had to on occasion, the streets were sanded to make them look nice, but no one stopped to greet him as he passed, and he did not seem to mind. The real authority in Germany was the King of Prussia, handsomely disguised as Kaiser, as which his power was little.

This was the catch in Bismarck's constitution, under which Germany was governed with great success for more than forty years. Few people really understood the situation, for the Germans were not versed in politics. Only the Social Democrats really addressed themselves to studying the art of government, and they had no authority. They were accordingly looked down on by the other parties who thought themselves their betters. But when the crash came, they were the ones who assumed command. In all the later troubles, with the Nazis and with the Communists, they were, and they are today, the most effective leaders against the forces of dictatorship and revolution. And one of the strongest centers of their organization has always been in Leipzig, the city of music and professors.

The people who lived in Leipzig, commonly called Saxons, as one came to know them, showed something of the contradictions of their past. Racially, they were a mixture of Slav and German, and the language that they spoke was like no other kind of German. Such consonants as b and p, d and t, and g and k sounded alike to them and were so pronounced, which made for much confusion. Once, when I was looking for a drugstore, an "Apoteke", I was directed to a "Bodega", which is a bar. It was also the source of innumerable stories about the Saxons, most of which are untranslatable. But the Saxons not only mispronounced, they also had a peculiar inflection. They almost seemed to sing when they were talking, and they gestured to excess to emphasize what they were saying. They were great travelers, and always stood out when seen in a foreign country.

They were apt to be humble and apologetic, perhaps because of their long experience with foreign occupation. "Unser Caffee macht geene Flegge", "our coffee doesn't make spots", was an often-quoted Saxonism. Altogether, they wore a curious compound of innocence and guile, ingenious and ingenuous at once, with the most curious ideas that somehow, in the end, turned out correct after all. There was a small town outside of Leipzig called Corbetha, on the railroad that led in from the west, where the cars bound for Leipzig were cut off, and the rest of the train proceeded to Berlin. The station was distinguished by a sign that read "CORBETHA ABORT IM TUNNEL" indicating that the washrooms were located in a passageway underneath the tracks. There was always a considerable stopover here in the early morning, when passengers got out to stretch their legs after a long night in a crowded train, and one of them let off a hearty sneeze as he stuck his nose out into the cool air. As the train was getting ready to depart, a little Saxon came bustling up from the passageway and asked the man if he had sneezed. "Why yes, I did", the man replied, surprised at such a question. "Then that is my car", said the Saxon and jumped aboard, as the train moved on to Leipzig. No one but a Saxon would have thought of such a way to identify his car, but with all its naivete, it worked.

We had all kinds of Saxons in the office, and when you got to know them they were good folks, but they took a lot of knowing. Almost every one of them had something the matter with him, or some peculiarity that set him off from the rest of human kind. The cashier was cross-eyed, the head bookkeeper had to have his skull shaved once a week because he got a headache when his hair grew, several of the men were hunchbacks, others had one leg shorter than the other, and most of them wore fancy beards. No two of them were anywhere near alike, and each one was a character that had to be seen to be believed, but they knew their business, and they could be relied upon through thick and thin. The way they handled those American accounts was a revelation. The "Bibelstock Bank" turned out to be the Peoples Stock Yards State Bank of Chicago, "Yova" meant the State of Iowa, and "Kala-Matso" was our old friend Kalamazoo. They interpreted our names and ways to suit their own ideas, and somehow, they always got through. Politically, only one of them was a Socialist, and he was pointed out as such, as if he were a curiosity. On one occasion, when I happened to be wearing a red tie, I was respectfully charged with a social error, for it might be taken as lending encouragement to the S.P.D.

The office factotum was a man called Rasch, who knew everything about the place, handled the supplies, and had special charge of the apprentices, of whom there were always a dozen or so on hand. During the war, when food and supplies were growing short, an epidemic of petty thievery broke out, which especially concerned the sandwiches which everyone brought with him. When a camera was taken off my desk, I appealed to Rasch, and he devised a plan. He suspected a certain office boy whose family was in disorder with the father at the front, and he wished to catch him in the act. Lunchtime lasted from one to three o'clock, when everyone went home, and for those two hours, Rasch secreted himself underneath my desk.

But he also fell asleep there, and when the boy came in, he woke up with a start. The tables were turned against him, for the boy, who kept his head in the emergency, inquired politely, "What are you doing there, Herr Rasch?" But Rasch was not downed yet. He said he was looking for a pencil I had lost, and he devised another plan. He planted a box of cigarettes in the pocket of an overcoat hanging in the hall, and that box was taken. It was powdered with a secret preparation, and when the office boy came to wash his hands, his hands turned red. The more he washed, the redder his hands got, and so did his face. In the end, his mother was called in; she boxed his ears before us all, and walked him off in tears. What finally happened to him, I do not know, but I suspect he was turned into a Communist that very day.

Leipzig and Saxony were used to wars, and to being on the losing side, but the World War when it came was taken very hard. After the first few weeks, it was clear that this was to be no ordinary war. Leipzig was a business town, and normal business was disrupted. The Communist doctrine that Big Business welcomes war in this case was refuted, for there is nothing the businessman detests so much as interruptions. This war went right down to fundamentals, but the Saxons by nature are reticent, and they did not express their feelings. Even when there were victories, as after Tannenberg, they showed no great enthusiasm. When Warsaw was taken, on the first anniversary of the outbreak of the war, a really notable-success, I remember that a great public meeting was announced, to be held in the marketplace, with speeches and torch light processions. I went to see what was going on, and there were not fifty people there! After only a year of mostly successful fighting, it could not be that war weariness had seized them, and I had to ascribe it to Saxon apathy, to innate disinterestedness, because the people simply were not involved of their own will. Whether they could be roused by any cause that really touched their feelings, was another matter. They had been roused by Luther and the Reformation, four hundred years before, but much had happened since that time to temper their enthusiasm.

I thought I found my answer in the course of the Gewandhaus concerts. Somehow, under Nikisch's guidance, they seemed to symbolize the situation as it went on in never-ending war. The people needed music to express what could not be said in words, not joyous music, naturally, for nobody was happy, but noble, lofty music, the kind which the Gewandhaus always gave so well. This kind could be a consolation in their trouble, and Nikisch gave it to them. To carry through was the watchword of the hour, to hold together in forgetfulness of self, in a mood that was suited to the peculiar temperament of those people, who were always being pushed around, and never came out on top. Nowhere was this given better expression than in those concerts, with all their stately dignity and complete sincerity, in that time of tribulation.

In that third winter of the war, Nikisch chose to give the nine symphonies of Beethoven, two by two, in the order of their composition. This brought the Ninth to its time-honored place in the final concert, just before Easter, as the climax of the season.

But Nikisch could not bring himself to present the Ninth in its entirety, for he felt that Schiller's "Ode to Joy" as rendered in the final movement was out of keeping with the somber spirit of the time. Nikisch left it out. The stage where the singers were wont to sit, behind the orchestra, was empty. They played the first three movements of the symphony, and then retired. There was no applause. The effect of what was not played was greater than that of what was given. The season came to an end in silence, as was appropriate. Only a short time more, and the United States was in the war, and Germany's defeat was certain.

VI

NEW YORK IN THE 1850's

The city which Frederick Kuehne found before him when he came to New York in February of 1850 was very different from the one he had left behind him in Leipzig. Only in one respect were they at all alike, and that was in the fact that both of them were growing fast. Curiously enough, at the beginning of the century they were about the same, at 35,000 each, small and compact, but while Leipzig increased twenty-fold in the course of the next hundred years, to over 700,000, New York doubled in almost every decade, and had already passed that figure by 1850. Otherwise, in appearance and in spirit, they were as different as the vast and sprawling United States and the neat and settled little Kingdom of Saxony. The new arrival might well have been appalled at the contrast, but he lost no time in finding himself a boarding house, and opened up an office. After a summer and a winter there, he had a visitor from home. His chief came over to see how he was getting on.

Theodor Knauth set out from Leipzig in the spring of 1851, with his new young wife, her younger sister, and his own two children. The last time he had crossed the ocean, almost twenty years before, it had been from Le Havre in a sailing vessel to New York on his way to Vera Cruz and Mexico, as the assistant of Mr. Lewis Besson to found a business there, and that attempt had failed. Now he came as the head of a firm of his own, and the fact that he brought along his family is evidence that his affairs had prospered. The office in Leipzig he left in charge of his partner Esche, the brother of his own late wife. In the ten years since he had founded it as Knauth & Storrow, taking over the business of the old French silk house of Dufour in Leipzig, his firm had done well. It had connections in the United States, initiated by Mr. Storrow, and it was to visit these that he came over. Since he planned a longer stay, he brought along his family. They found a house to live in, and settled down to housekeeping.

The name of "Kuehne, Frederick, Agent, 18 Liberty Street", appears in the first street directory of New York, issued in 1850, and he had been there upwards of a year when he was joined by Mr. Knauth in the spring of 1851. The office must have been a small one, a place to hang their hats and receive their mail and not much else, for in the building with them were a tailor shop, a man who dealt in muslins, a firm that sold "cords, trimmings and buttons", and a "plate printer", and there could not have been much room left for another tenant. No doubt the building was one of those three-story brick affairs of which New York was built, which served as dwellings or were used for offices according to the need. They have all but disappeared downtown, but plenty of them have survived a little further up and are still in use. The location was a good one as a starter, for it was in a textile district.

The Knauth family settled down on West 22nd Street, just west of the Eighth Avenue, as it was then called, in a district that was building up fast. The house still stands, but it was a new one then, with a brownstone front, the material that was replacing brick in a more elegant type of home, and which gave the city its characteristic look, from there on northward, for the remainder of the century. The district was known as Chelsea, and there and in Greenwich to the south, the city was well built up, with here and there a fine sold country mansion still remaining, such as Richmond Hill on Charlton Street, and the old Moore house on Twenty-third Street, right back of where they lived. across the street from this, however, a more ambitious project was under way, which covered almost an entire city block. It was called London Terrace, being copied from the London dwellings of the time, and with its long row of stuccoed columns, it gave the neighborhood an air of real distinction. It was a good part of town in which to live, with an occasional breeze from the nearby river to break the summer's heat, the only dubious feature being the tracks of the Hudson River Railroad, which were laid down on Tenth Avenue, only a block away. They continued into the city to a depot at Chambers Street and West Broadway, and this was perhaps the way the father went to the office, for the horse-drawn omnibus was slow in those crowded streets. Quite a contrast it must have been to Leipzig, where he could walk to the office inside of fifteen minutes.

To the north of Twenty-third Street, there was still much open country. The city was being built up as a checkerboard of streets and avenues, which ran roughshod over the old farms and country lanes. This might be practical some day, when it was finished and all built up, but as yet, it was merely ugly and unhandy, with sewers and sidewalks under construction, and few and scattered old farmhouses, soon to be torn down. The underlying rock cropped out in many places, on which squatters put up rough shanties, in which there lived a wild and lawless population, mostly Irish, with goats and pigs and children all mixed in together. They made the neighborhood unsafe, and the Knauth family missed the pleasant country walks they were accustomed to at home. Some day, New York might indeed become a handsome, comfortable city, but that time seemed a long ways off. To add to her discomfort, Mrs. Knauth was pregnant; her first child was expected in November.

Housekeeping in New York for a young German housewife, away from home for the first time in her life, must have been a difficult experience. Fanny Knauth was barely 22 and a very recent bride when she came there, with a husband old enough to be her father, a set of children not her own, and only a sister, even younger than herself, to bear her company, to strange surroundings, a very different kind of people, new ways, new customs, new manners, and new faces to get accustomed to. It was no wonder that she did not always like it, and found it hard to understand it all. It was not as if she were there as an immigrant, a refugee like so many of her countrymen, who with open eyes had left their former homes and set their minds on starting life anew. She and her family were there as visitors, their stay was not to be forever, and they would soon return to their old surroundings. This put her in a very different frame of mind. She could compare the new life with the old, she was free to criticize and to express her views, while those who came to stay had to accept what they found with the best grace they could.

They could not afford to feel nostalgia, but she was free to do so. Perhaps this made it harder for her.

The city that she saw about her did not appeal to her, nor did the people, for she was used to ordered ways and correct behavior, and both of those she missed. The incompleteness of it all disturbed her, for at home, progress was a matter of rearranging old, existing things, while here there were no old things to revise. She missed those old things, even when she knew that their day was past. People were always talking of how fine it all would be when it was finished, but she would have liked to see them use what was already there, instead of always wanting something new. They moved fast and far here, more so than the folks at home. President Fillmore, they were told, had installed a bathtub in the White House, but the King of Prussia did not have one in his Schloss in Berlin. When he needed one, it was brought over from the hotel across the street, and the people saw it coming and knew its purpose. He was always thinking of his people, the King was, and setting them a good example. No one thought of the people in New York, but everyone did as he liked, and the way some people lived was dreadful. The streets were dirty, noisy, crowded, so much so that they were putting a bridge across the street called Broadway, so those on foot could get across in safety. Far out in the open country they were planning a park, simply by ruling it off on the map. It was far beyond the outskirts of the city, but they called it Central Park. Why didn't they complete the ones they had, like Washington Square with some fine old trees - it could be made a very pretty place. St. John's Park, below Canal Street, with fine old houses and a very pretty church, they wanted to make into a freight yard for the railroad. They were so very practical, these Americans, with no time left to enjoy themselves - no art, no music, no nature anymore, in which to stroll and see the birds and flowers.

New York in 1850 was not a pretty place to live in. Young Mrs. Knauth, pushing her baby carriage along the sidewalk, with her stepchildren tumbling in the dust about her, had many thoughts and various, and she longed with all her heart to be back in Leipzig, where she had been born and raised and married, where everything and everybody had its place, and where she hoped some day to have a house and garden of her own.

But New York was the place for business, so her husband said. He seemed to like it here. He liked the Americans and their directness, they wasted no words, and they got things done. They had no manners, they slapped you on the back and invited you to drink, but they meant it well, and once you understood their ways, you got along all right. Their practical sense appealed to him, although his wife was irritated by it. He liked their way of numbering the streets, for you always knew just where you were, but she said they would be numbering the children next because it would be so practical. She wanted to name her baby Percival, when it came, so that he would be different, and perhaps that was a good idea. She also missed the fact that there were no titles here, which set a person off from other people, and when he got back to Leipzig, her husband would get himself a Consulate, so she could call herself Frau Konsul and feel better.

Such things were fine in Germany, perhaps, but he liked it that they were too busy for them here.

As for his Mr. Kuehne, he was already quite at home here. Twenty years younger than himself, he had his life before him, and seemed quite content to spend it here. He had already taken out his papers to become a citizen, and in five more years would be American. The idea appealed to Mr. Knauth, and he did the same thing for himself. It would come in handy, should he later decide to settle here and run his business from New York. All sorts of thoughts were going through his head, in that hot summer of 1851, as he was making up his mind about the future.

Theodor Knauth had come to New York to learn about the country and its people, but also to make up his mind about the best way to meet the opportunities he saw before him. His firm of Knauth & Esche had served him well, but something more than an importing house would be required for the business he envisaged, and he would have to have more partners than just himself and Moritz Esche, younger people than himself, who would look to him as their acknowledged leader. He and Esche were related and about the same age. If there were other reasons for dropping Esche, we do not know them, but this fact alone would seem to serve. To replace him, there was Jacob Nachod, head bookkeeper at the office since the days of Dufour, and with a banking background. True, Nachod was a Jew, but the days were over when Jews were treated as a race apart in German business. Theodor Knauth had no prejudices, and the thought of a Jewish partner was welcome to him. So was the thought of Mr. Kuehne as a partner in New York, for although he was young, that was almost an advantage in America. With himself, Nachod, and Kuehne, there was no room for Moritz Esche, and Esche would have to go. When his baby had arrived and the winter was safely over he put his family on board ship, and they all set off for home. Once there, he must have worked fast, for on August 1, 1852, the new firm was launched. Knauth Nachod & Kuehne had started on its long career.

The firm began as an importing house, and the import of German and other foreign merchandise into the United States continued as one of its principal activities until 1914, when war between Germany and England stopped all shipments to New York. Right from the start, however, Mr. Kuehne in New York began to take an interest in the banking business. His office was no longer an "agency" of Knauth & Esche, but a firm of its own, on a par with the house in Leipzig, and free to take up any business that it chose. It was the only office in New York with direct connections in Germany, the only one with a German name out to thirty-five who called themselves "private bankers". What business there was with Germany in 1852 must have been done through London, and there probably was not much of it.

But business with Germany was beginning, and it was growing fast. Every ship was bringing immigrants, people like Carl Schurz and his young wife, who were in trouble with the government at home as the result of the recent revolution, and who came to settle in the United States.

Most of them had affairs of their own to settle, back in Germany, and what they needed was a banker who could speak German. Knauth Nachod & Kuehne had its own house in Germany, and this had connections in other places and it could help in many ways. A German banking office in New York! It must have been a Godsend for the refugees, and kept Mr. Kuehne busy all the time.

Then Mr. Kuehne had a really bright idea, or perhaps it was someone in the Leipzig firm. Between them, they devised a way to let other banks use the facilities that they enjoyed, and thus greatly extended the business that they did. The idea was a new one, and especially adapted to the peculiar situation of banks in the United States. American banks were small, local, independent affairs, not branches of a central institution, as in Europe. Many of them had foreign business from the immigrant population, but they lacked the facilities for handling it until Knauth Nachod & Kuehne came along, and offered them theirs. Briefly, the new idea was to furnish banks with a book of draft forms, a list of correspondents on whom they could draw drafts, and rates for the various European currencies. When a customer came in to ask for a draft on Munich, say, they would look up the correspondent bank there, draw a draft on it, and sell it to their customer as per instructions. They would send an "advice" to Knauth Nachod & Kuehne in New York, and pay them at the rate they had received. The firm there would send the "advice" to Leipzig, and there they would see that the draft was paid. The idea caught on at once, and it was not long before it was in use by many banks, in the East and Middle West. The draft forms originally designed, green, with an elaborate design of the arms of the City of New York, became popular and well known, and for the next fifty years were recognized for what they were by every bank in Europe. The idea, known as the Inland Drawing System, the invention of our firm, was later widely adapted by others for their own needs, notably by the American Express Company, but none of them had a Leipzig office to handle matters on the other side, and this was the keystone to success throughout those early years.

Theodor Knauth remained at the head of his firm for twenty years, and when he died in 1874, his place was taken by his son Percival, now in New York where he was born. Jacob Nachod was now the senior partner, but the more enterprising was Mr. Kuehne, and New York was becoming the place where business originated, while it was carried through in Leipzig. This was also where they kept a weather eye on the operations of the two, and raised a warning finger if it thought New York was going ahead too fast.

The skies began to clear in the world outside in 1865, for before that the weather had been uncertain and even downright stormy. Now that the Civil War was over, the United States got back to work. Immigration from Europe really began to move, railroads were built across the continent, and the western states developed fast. The Atlantic Cable strengthened the ties with Europe, and people began to travel. In 1866, Bismarck defeated Austria in seven weeks, and started to unify the German states. Saxony as usual was on the losing side in this war too, but this time suffered no damages.

In the following war with France, she joined with the other German states, and was a charter member of the German Reich when it was founded. Under Bismarck's direction, Germany became immensely prosperous, and in spite of this maintained its good relations with the other European nations. France, once more a Republic, paid off its war indemnity to Germany, and put its house in order. Italy, like Germany, became united. Austria found its place as a rather shaky empire of mostly Slavic and Italian subjects, and in the absence of further wars, prosperity was the rule all over Europe.

From all those states, from Russia and her subject nations Poland and Lithuania, from the Slavic provinces of Austria, from Italy and from the Balkan states, from Ireland, Scandinavia and from Finland, a growing tide of emigration now set in and flowed to the United States. Up to and over a million men and women came over year by year to work in our coal mines, our factories and farms, and to become Americans, whose descendants today are indistinguishable from the rest of us, Americans by choice and not by the accident of birth and blood. Such a movement, such an assimilation, had never been foreseen by European statesmen, who gladly let these people go, nor by Americans, who as gladly took them in. They were not revolutionaries, as some of the early German immigrants had been, they were not nationals who remained attached to the country of their origin, but simple folk who came to make a living, and the first thing that they did was to take out their papers to become American citizens. It was a migration of the better kind of people, not socially, perhaps, but of the stronger, more intelligent and forward-looking elements of the population, who came because they wanted to, each man for himself. The better classes left at home might patronize and look down on Americans, but Europe could have made no better gift than what it did to the United States.

It was these new Americans whom Knauth Nachod & Kuehne found the opportunity of serving, and their business was a large portion of the business of the firm. Nor was this by intention, for it was never planned that way. Nobody saw it coming, but there it was, and the firm was there with its facilities to meet the need as it developed.

The following fifty years saw little of incident occur, but much in the way of progress and development. The United States grew into a major power, whose unfamiliar voice was heard in European councils. The country itself filled up with settlers, and cities developed where there had been wilderness. New banks were founded in new regions, both State and National after the latter were established in 1863, and most of them had a call for foreign business, which the firm could meet. The green draft forms sent out in the beginning became familiar to banks in Europe and America. For regions where there were no banks, and there were many such in Russia, money orders were introduced that were payable through the post office. As Americans began to travel in their leisure time, they were furnished with Letters of Credit, payable in pounds through Parr's Bank in London, which was also their address in Europe.

This brought a new joke into existence, for when they were asked what their address would be, and they answered, "Parr's Bank in London", they would be asked, "What is the name of your father's bank?"

Later, when Traveler's Checks were introduced, Knauth Nachod & Kuehne was one of the first to issue them. They were payable, not only in dollars, but also in fixed amounts of foreign money, as stated on the check itself, and nothing shows better what the situation was in those days, when all the leading currencies were interchangeable at fixed rates. It would not be possible today, but the dollar is now the leading currency that is taken everywhere, and often enjoys "black market rates".

The total of all these various withdrawals in time amounted to a million dollars every week, a sum which the firm transferred abroad to cover them. On the balance of trade in the United States, they were all on the Import side, and had to be met from Exports from this country. There was never any trouble in getting exports bills, for America was an exporting nation in those days, and Knauth Nachod & Kuehne accordingly also became an exporting bank. We can only guess what they did in the beginning, when all our exports went to England, but after the Civil War, the other European nations also took a hand, and bills were plentiful. The real solution to the problem, however, only developed at a much later stage, when the dollar became a really important currency, and was widely traded by banks abroad. When this occurred, we in New York could sell our accumulating dollar balances direct to the Leipzig house, and this disposed of them abroad. It became not only against marks, but also against pounds and francs, or any other European currency. The two houses were thus, each of them on its side of the Atlantic, actually "making the market", for dollars in Europe, for foreign currencies in New York, a very nice arrangement when it worked. The scheme was just coming into full operation when the war broke out and put a stop to any kind of trading. Even so, when the wireless was introduced, it worked well, and was full of further possibilities for the future.

The business by this time was becoming very refined, and competition between the banks on both sides was keen. A difference of a sixty-fourth of one percent was often enough to swing a deal, and on an item of \$100,000., this is only \$15.62, barely enough to pay for the cable costs. Deals between banks were always for large amounts, and it took a lot of them to meet expenses. For a good trader, however, the business was always worthwhile, and highly interesting for an expert. It was too bad to have it murdered by the war. The way they are doing today, however, is another matter. The governments today control the situation, and they are not close figurers. What interests the government is its position in relation to the balance of trade whether it has large balances abroad which it must dispose of, or if it needs to ship gold to meet its debit balance. The rates do not concern it, for they are all artificial anyway. The value of a currency is only what its government says it is, and can be changed at will.

Only the other day the German government, in view of the dubious position of the dollar at the moment, decided that it was priced too high in the German market. So they changed the "official" rate for dollars down, from DM 4.20 to the dollar to four marks flat, a gesture that was not very friendly toward the United States, although it must have made the German people feel good to see that their money was better than that of the United States. The point is, however, that it shows up the entire situation, and it is this which is so dubious. Perhaps, with the coming of the "common market", it will be possible to put all the leading currencies back on a solid basis and return to a free market back where we were in the 1850's, when the whole thing began.

VII

WHAT THE WAR DID

In 1914, on the 30th of July, a Thursday, I sailed from Hoboken on the "Grosser Kurfuerst" of the North German Lloyd, bound for Bremerhaven. With me were my wife, (Abrielle Oediger ?), two babies, my German mother-in-law, and a nursemaid who was Irish. Down in the hold was a lift-van, containing our furniture, books, and household goods, all our possessions, in fact, for I was on my way to settle down in Leipzig for a term of years, in the office there of Knauth Nachod & Kuehne, with whom I had now been for seven years. The weather was blazing hot, and after all the work of closing up our house and packing up our things, it was good to stretch out on deck chairs and let ourselves be waited on by stewards.

On the second night out, a windy one with a moderate sea, our ship received a jolt that sent bags and bundles flying in the cabin, and tumbled a box of candy clear across it and onto the baby's bassinet, fortunately at the foot and not the head end. We woke up with a start, the children began to cry, and I switched on the light to see what had happened. Outside, I heard a woman crying, and when I went out, she insisted that the ship was going down, for her cabin was full of water. I looked down a stairway, and sure enough, in the corridor below I saw a foot or more of water, swishing about with the motion of the ship. A passing officer relieved our fears, but told us nothing of what had happened. I went back to the cabin, we got it straightened out, and then I went back to sleep.

When we woke up next morning, the sun was streaming in through the porthole, a cloudless morning, the sea like glass. This was all very well, but not what I had bargained for, for I had picked a cabin on the shaded side, the port side going east, for the sun can get very hot in August, even in mid-ocean. Something must have happened, the ship must have turned around, and we seemed to be heading back to where we came from. I had a sudden horrid thought of what the reason was, that orders must have been received by wireless in the middle of the night, that there must have been bad news from Europe, but I kept it to myself. Breakfast was served as usual, and all that the passengers talked about was the adventure of the night. It was clear enough now, what had caused that sudden jolt, it was a change of course, in a sea that was a little rough. There is a lot of momentum in an ocean liner, when she suddenly turns around. The water I had seen, sloshing through the corridor, also found its explanation, for the passengers on the leeward side had left their portholes open on a warm night, and when the vessel turned around, the sea came in. The girl who had been so excited outside our cabin door was not the only one thus brusquely roused, and her worries had more reason than she knew.

During the day, the word was passed officially that we would dock next morning early, back in Hoboken, and that our fares would be refunded by the line. There was still no reason given, and we could think about it as we wished.

It was annoying to have our plans disrupted, and this was everyone's first thought. What could we do on a Sunday morning with all our baggage, where could we go, and what would we do next? Would there be another opportunity to sail, in a few days, perhaps, or were we back in America for keeps? Just what was going on in Europe? We would know more about it in the morning, and meanwhile, we had to pack.

When we left Hoboken that Thursday morning, the European crisis that had grown out of the assassination of the Austrian Archduke was in full career and its outcome was still uncertain. There had been other crises that had been successfully negotiated, and this one, though serious enough, did not need to end in European war. Austria, pinning the assassination on conspiracies hatched outside her borders, had called the government of Serbia to account, and followed up her ultimatum by declaring war. This news we had, and it was bad, but still not fatal, for other European powers, Russia and Germany, could keep the war confined to where it started, and it seemed reasonable to suppose that they would do so. Even the news that Russia proposed to help her Balkan friend, that she had begun to mobilize along her Austrian frontier, and that Germany had warned her to desist, did not need to be the final word. France we knew would support her Russian ally, and the prospect of a war on two fronts at once might well deter the German government from declaring war on Russia. The influence of Great Britain, it was to be expected, would be for peace, to terminate the crisis by a conference, and seek an answer to the Balkan troubles. That was the situation when we set forth on July 30th, after which we had no further word on what was going on in Europe until we docked again in Hoboken on Sunday morning.

What we did not know, however, and what was so hard to realize when we did come to know it, was how ready the governments all were, in Vienna, in St. Petersburg, in Berlin and Paris, to chance a European war, to settle their vexing problems by recourse to arms, and to get rid of their recurrent crises once and for all by banging on the table and refusing to negotiate. The whole tradition of Europe was based on war as the way to settle differences. All the European Powers had made their preparations toward that end, even Great Britain, the most enlightened of them all. All of them, excepting France, were ruled by emperors and kings at the head of ruling castes. Only there and in Great Britain did the people rule, though the British had a King to symbolize their power. Elsewhere, it was Kaiser Wilhelm, Czar Nicholas, and Emperor Francis Joseph, also King of Hungary, and aged eighty-four, who drew their swords on one another, while Victor Emmanuel, King of Italy, looked on. All these monarchs had come to power by war, and they and their peoples were thoroughly familiar with the idea that wars must come from time to time to make for further progress. They all looked forward to such eventualities as quite normal. Even the British Empire had been built up by wars, and was largely held together by armed force.

But behind these impressive facades and medieval titles, the structures to be found there were different indeed. It was these that would decide the issue if it came to war, not the monarchs who embodied and who led them. Serbia was a typical Balkan kingdom, only recently delivered from Turkish rule, and only independent because the Powers could not agree on any other status for her. Austria-Hungary was a precarious collection of a dozen different nationalities, all of them hostile to the German element that ruled them. Russia, so vast in its extent, so varied in its component parts, had only a few years before it suffered a revolution, and could have another any day. Italy was hostile to Austria, although allied to her and Germany. France seemed to have her glories well behind her, and British interests were overseas, rather than in Europe. Only Germany seemed to be in good condition, united and determined, and inured to war, but what had she to gain in a European conflict? It was understandable that Austria should wish to settle with her neighbor Serbia, and it was conceivable that Russia, to stave off revolution, might risk war, but surely none of the other Powers had anything at all to gain from fighting with each other. Had they really got themselves into a frame of mind where that seemed to be the thing to do?

We know now that this really was the case, that none of the rulers of those days considered what war would do to Europe, to themselves, and to their peoples. What Bismarck had done successfully in 1870 could not be done in 1914. All the wars since then had taken place in undeveloped regions, where nations as a whole were not involved. They had been fought by professional armies and navies, under rules set by old tradition, and full reliance was put on them. Modern first-class nations, with all the resources of civilization at their disposal, truly great Powers such as Germany, France, and Great Britain, had not been pitted against each other in the memory of man, and no one in authority had the imagination to see that times had changed. Deep in the masses of the peoples, voices were heard that cried a warning, but they were decried as visionaries, and Jean Jaures in Paris was shot down by an assassin on the eve of war. Everywhere, the people rallied to the colors when the call came. The outbreak of hostilities was taken as regrettable but unavoidable, an incident in the life of nations, a stroke of fate that it was not man's place to question. That was the spirit in which the European peoples plunged into the abyss. All were sure that war had been forced upon them. Those who had time to think at all believed the crisis would soon be over.

We in America did not feel that way about it. What we saw, especially in the beginning, was war as such, as a catastrophe, an earthquake or hurricane. The war did not affect us as a nation. We were not involved, we had nothing to do with the circumstances that brought it into being, to us the European nations were the people in them, our relatives and friends, whom we had visited in their homes, to whom we were bound by the closest personal ties. We saw them as individuals, not as warring nations. Our duty now was clear, we must stay out, we must be ready to mediate to end the conflict when that was possible. We must not favor either side, and we must see to it that neither side infringed on our rights as neutrals.

We must show that there were duties that were greater than fighting and killing. That had been our position in other European wars, and experience had proved its soundness. As yet, our sympathies were not engaged on either side, we could not pass judgment on the rights and wrongs of anyone involved. We could be truly neutral, as we truly were appalled, and in the meantime we would have to wait and see what happened.

So there we were, on a Sunday morning in midsummer, stranded on a pier in Hoboken, not knowing where to go or what to do. We had given up our home, my mother's house in town was closed with the family abroad, and the summer place on Lake George had not been opened. I put the family into an automobile, and we went and tremendous efforts were made to get Americans to ship them gold, while they on their part suspended payments. The cruiser "Tennessee" was sent over by our government with gold for the relief of American tourists, but most of them were on the Continent, and it was not clear how they could be reached. Thousands of them carried our Letters of Credit, but when our Leipzig house asked for some of the "Tennessee" gold, it was refused. All the countries on the Continent, belligerent or neutral, followed the British example and suspended payments, all but Germany, as came out later. German banks kept open throughout the crisis, and our tourists there managed to keep themselves supplied with cash without outside assistance. But we only found this out when they came back, weeks later, with reliable news from Germany.

The New York Stock Exchange was closed, the last free market in the world to do so, after a week of very heavy selling by European investors, as they dumped their best securities at any price in order to get cash. As a result, American banks and bankers had enormous balances to remit abroad, which they could not do when the foreign exchange market ceased to function. They could not draw on their own balances in London because of the moratorium, they could not ship gold where there were no vessels to transport it, adequate insurance was unobtainable, and exchange rates soared to fantastic heights, though only nominal. Up to \$9.00 for the pound was quoted for cable transfers, double the normal figure, but no business could be done where there were no facilities. To quote such rates only excited the general hysteria still further. What everybody clamored for was news, reliable, unbiased news about the situation, but only London was in contact with New York, and there they had axes of their own to grind. In the great emergency, London as the financial center of the world presented a sorry picture. The newspapers, with the biggest story of modern times unfolding in Europe, printed anything that came to hand in default of other news.

The German liner "Kronprinzessin Cecillie", with 11 million dollars in gold on board, and a crowded list of passengers, had left New York on the Tuesday before the war broke out, on normal schedule. A week later, with enemy cruisers presumably on her trail, she was reported as having been seen off Malan Head in the north of Ireland, evidently trying to get around the north of Scotland into the North Sea, on her way to Bremerhaven. She was also reported off Brest, trying for a dash through the English Channel. The very next morning, however, she slipped quietly into Bar Harbor, off the coast of Maine. She had gone most of the way to Europe and back again without having sighted a single vessel on her way. Here at last there was some news, news that was really true, and the effect of it was salutary. Those wonderful stories about the Kaiser having had 2,000 Socialists shot for refusing to support the war were taken with a grain of salt thereafter.

As for our own business, there was really very little we could do about it. We had notified our correspondents not to draw from our account until the situation cleared, only the second time in history that we had done so - the first was in 1870, in the Franco-Prussian War, when French cruisers were believed to be about to interfere with German shipping, a situation that did not materialize. As for business that was underway, that would have to take its chances. We had done our part in forwarding advices to the other side, and had provided cover for our drawings by cable. After that, it was up to European banks to do their part. When the clouds lifted, it was seen that they had fully done so, and that little damage had been done.

Our greatest trouble was the state of inactivity into which we all were plunged. Many of our people were on vacation, but who could enjoy a holiday, with all that was going on? With the closing of the Stock Exchange, even domestic business was at a standstill, and enforced idleness only made people more restless and excited. What had been normal life of course continued, for we had to eat three meals a day, and somehow sleep and then go to the office for another day of doing nothing useful. What would otherwise have been momentous happenings barely attracted notice. The Panama Canal was opened for traffic on August 15th, surely an event of first importance, and no one said a word. The Pope died, and a new one was elected, the fact was noted, and that was all. Mrs. Woodrow Wilson in the White House died just as the war began, which must have added greatly to the worries of the President, already great enough for any man to bear. Only the world of sports carried on as usual, and gave a little respite. The Giants and the Braves were fighting for the pennant as they are today, only then they came from New York and Boston, not from San Francisco and Milwaukee. Froitzheim and Kreutzer played for the Davis Cup at Forest Hills with Norman Brookes and Wilding for Australia, as if there were no war to make them enemies, and then the Australians went on to take the cup by beating our own Maurice McLaughlin and Norris Williams. That was the last of tennis until the war was over. The races for the America's Cup, scheduled for the Fall, were cancelled.

By the end of August, the first of the American tourists returned, some of them from Italy, and others by way of Holland, whose liners continued to operate. For the first time, personal experiences began to circulate about what had happened on the other side, and it was possible to form a picture of the situation. What had been rumor became reality, and then the question of what would happen next took shape. New York was full of Germans who were anxious to get home, but could they do so on a neutral vessel? It was by no means clear at that time just what neutral rights were, and how they would be respected by the British. As it happened, there were no American ships at that time, but only Hollanders and Norwegians, who had no navy to protect them. When the "Nieuw Amsterdam" was ready to sail for Rotterdam, the British let it be known that they would not interfere with her, and she set forth crowded with young Germans liable for military service. She also took along my German mother-in-law, who had been terribly distressed at being away from home in such a crisis, with four sons of military age about to be called up. Until my mother and the boys got back, we had no news at all from them. We put her in charge of my cousin Hendrick van Loon, who was a Hollander, and going over as a war correspondent, and prayed for a safe and uneventful voyage.

Alas! The ship was stopped on the high seas by a French warship, not a British, and taken into Brest, where all the German reservists were taken off as prisoners, and the German lady went on alone to Rotterdam, laden with messages from the boys in Brest, for whom the war was over. Hendrick put her on a train for Germany, and she got home all right, but the question of neutral rights was settled. There were none, without a battleship on hand, with guns to speak for neutral rights. The British controlled the seas, and that was that. No more Germans crossed the seas except disguised as stewards or as stowaways. The same thing happened to the mails. Letters addressed to Germany were held back, and before long, all the mail, no matter how addressed, was opened and examined before being sent on to destination. So far as communications went, the neutrals were as good as in the war, and privacy went by the board. We were not used to this in 1914, but now in 1959 we are quite accustomed to it. It is quite as difficult today to send a letter to Leipzig and have it arrive unopened as it was then.

I left for the second time for Germany on the "Potsdam", Holland-America, early in September, and after ten days of sailing across an empty ocean, I awoke one morning to hear a cannon shot. Looking out of the porthole, sure enough, there was a British man-of-war, a battleship, no less, the old "Majestic", which afterwards was sunk in the Dardanelles, not a mile away, and putting off a boat to board us. On they came, oars flashing in the early sunlight, and soon they were ordering us to put down a ladder. A couple of officers and a prize crew, armed, appeared on deck, and before we finished breakfast we were off again, headed for Falmouth. There we lay for several days, the ship was searched, officials set up their desks on deck, and interviewed the passengers and crew. There were perhaps a dozen of us, Americans and Hollanders, and the first in line was an old man from Chicago, by the name of Zimmermann, on his way to visit relatives in Germany, war or no war.

He handed in his passport, the British official looked it over knowingly, and then inquired, "Are you an American subject?" "No, sir", Mr. Zimmerman replied, straightening himself up, "I am an American citizen". The Englishman, who looked as if he might have been a school teacher the week before, and would be one again some day, was so taken aback at this unexpected comeback, that he handed back the passport without another word, and the rest of us felt like cheering. The next man was quite a young fellow with a State Department passport, evidently a young Vice Consul on his first assignment. He announced, in a piping little voice, "I am a Diplomat", and that broke up the meeting. We all passed with flying colors, and after a few more days in Falmouth, our ship proceeded up the Channel, around the North Foreland, and up the Thames to Gravesend. Here we were put on shore, and hustled over to a Dutch Channel steamer, which took off through the night, and landed us at the Hook of Holland. Our troubles now were over, for in Holland everything was normal.

I went first to the Hague and called at the Legation there. Our Minister, Dr. Van Dyke of Princeton, was up to his ears in problems, and the place was full up with Americans trying to get home - my mother and the boys, in fact, had been through there not so long before, and had even got their car on board the crowded ship. I reported the seizure of the "Potsdam", a procedure that was still an outrage at that time, for she was still held up at Gravesend, and told him about my own intentions. Travel into Germany seemed to present no difficulties, and since he was sending a courier to the Embassy in Berlin that afternoon, he asked me to go along with him and help him with the pouches. Of course, I was delighted to do this, and we had a most successful trip. The train was jammed once we had crossed the border into Germany, but we had a first class compartment reserved for us, and they brought us in our meals, as we could not leave our pouches. These precautions were still a novelty, and something to smile at, but the time came when the Embassy pouches filled a freight car, and kept the staff supplied with food and cigarettes and magazines that were unobtainable in the world outside.

The train was full of men in uniform, many of them walking wounded, on their way home from the fighting on the Marne, and they were not only ready, they were bursting to talk of their experiences. They were all young fellows, of my own age and kind, the pick of the German Army, for they were serving their time, and had been called to war instead of the usual Fall Maneuvers. War was such a novelty in those days that the slightest little incident made a story, and for me, after all the war news we had been getting in New York, second hand and slanted, the experience was tremendous. In those first days of conflict, the spirit was like that of a great football game, and these boys were the Varsity. Their experience had been so overwhelming that no one thought of what they had been fighting for. That all came later.

Berlin was much as I remembered it, clean and well ordered, a good hotel, and a splendid dinner. But I missed the old blue uniforms, which had completely disappeared, and been replaced by the new field gray, just as snappy and well-tailored as the old ones, and a visible sign of Germany's preparedness.

It was in the little details of life that the Germans showed their genius, and putting the menfolk of the nation overnight into new and catchy clothes created a new spirit, right at the start, that went far in overcoming the transition from peace to war. There was a feeling of exhilaration in the air, of relief that the time had come at last to start things new, to enter a new and better time, free of the intrigues and the dusty old traditions that had been so hampering. It did not continue very long, this clean new wind that everybody felt, but it was a very real experience while it lasted. It had come on them so quickly and so unexpectedly that, literally, no one had any time to think.

VIII

WAR TIME IN LEIPZIG

I found the Leipzig office greatly changed when I finally arrived there. With a new and enterprising partner in charge, much of the old stuffiness had disappeared, and the new spirit was well started when the war broke out. In contrast to New York, they were not laid prostrate by the unexpected crisis. Their problem was a simpler one, of course, as their office, too, was simpler. They had only one activity, their business with New York, while in New York there were three departments with different interests, and the business there was worldwide. Also, Germany was in the war and in the center of the whirlwind, while New York was at a distance, and not immediately engaged. This made it easier in Leipzig to reach decisions, for everybody thought one way. In New York, opinion was divided, outside and in the office too. As neutrals, we were bound to favor neither side, but almost everyone had connections on the one side or the other. Everybody seemed to have opinions, often violently expressed. We floundered badly in New York, but in Leipzig I found them cool and to the point. It was a relief to be there, and to be free to devote myself to the one objective that I felt was paramount, the survival of our firm. The rights and wrongs involved in the war in Europe were not my business.

Under the circumstances, long before the war began, it was only natural that the lead, for a time at least, should come from the Leipzig house. Our firm was a joint affair, between Americans and Germans both. Both houses, when old partners died, had to be reorganized, but in Leipzig the process had been finished, while in New York it still was under way. The war caught us at a disadvantage there, more than it did in the Leipzig house. As I was starting out at the beginning of my own career, I sensed the difference between the two, and had been glad to go to Leipzig, where I felt I would have a better opportunity to show what I could do. When war came, I was doubly glad to be there, in the center of events at an historic moment. Further than that I could not peer into the future.

The news that I brought with me was not much more than that the office in New York was open, though business in all three departments was at a standstill. The Commercial Department was the worst hit, for with no ships coming into port, there were no cargoes to unload, and all that could be done was to collect the outstanding invoices, and remit to the customers abroad whatever was due them, when this again was possible. The oldest branch of the business, and lately the most active, was also the most vulnerable when Germany and Great Britain went to war.

The Banking Department was also at a standstill, for they had no word from Leipzig, and both London and Paris were closed down by moratoria. The foreign exchange market was completely disorganized, the quoted rates were quite fantastic, and nothing could be done. The inland banks were advised to cease their drawings until the situation cleared, and the office just stood still and waited. As for the Stocks and Bonds Department, the Stock Exchange was closed, because of the flood of selling orders that came in from Europe. In all financial centers, the shutdown was complete.

That, in briefest words, was the situation in New York at the time I left for Germany. It was a time of sudden standstill, of conflicting rumors but no news, and of complete confusion. Nothing resembling it had ever been before, and there were no precedents on which to base a judgment. The economic structure of the world, that had been so carefully built up, had stopped in mid-career. It would have to get started up again, of course, but how and when this could be done, nobody could know. When Britain went to war, the accustomed leader in world affairs had ceased to lead. London, the financial capitol, seemingly seized by panic, closed down and ceased to function, and so did all the Bourses and Exchanges, in Europe and even in the United States. The President proclaimed our neutrality, but that was no deterrent to the expression of opinions. It was not easy to sit quiet and wait to see what would happen next, but that was what one had to do. It was hard to attend to business when there was no business to attend to.

In Leipzig, our outstanding worry was communication with New York. My experience on the "Potsdam" showed that the British were stopping neutral vessels and taking them into port, removing such passengers and cargo as they saw fit, and holding up the mails. The neutrals might object, but their protests were overridden. Had we in the United States possessed the ships, we might have succeeded in sending our own to Holland or to Norway, but we had no mercantile marine at that time. The British thus blockaded all of Europe, and nobody could stop them. All three routes that led to Germany lay in their control - through the English Channel to Holland, around the north of Scotland to Norway, and past Gibraltar into the Mediterranean to Italy, and their blockade was just about complete. None of the neutral nations could communicate with their friends in the United States except by permission of the British. Had they been free to do so, we could of course have addressed our letters to friends in Amsterdam or Zurich, to be sent on from there to Leipzig.

This action by the British hit our firm right where it hurt the most. Inviolability of the mails had been the keystone of international intercourse, a right that nobody could challenge, and our business, and that of every banker, was built up on it. The rights of neutrals, we believed, were sacred, even if they entailed some risk to a belligerent. The innocent bystander ought to be protected from flying brickbats, so it seemed to us, but the British took a different view. Their rights as the controllers of the seas were paramount, and outsiders had to keep away. This had been British policy in the Napoleonic wars, and they merely brought it up to date. With so many other matters on its mind at that time, our government in Washington did not seriously question the British claim.

But our Leipzig office was not to be downed as easily as that. They found a Mr. Patt in Norway who volunteered to smuggle letters through for us, through friends on Norwegian liners. His arrangements did not work too badly either, and we made use of them throughout the era of American neutrality in New York as supplemental to the official mails.

Our normal mail we forwarded as usual through the Post Office in New York, leaving it to them to do with it what they deemed proper. It was well we did so, for what happened to our mail turned out to be an interesting story.

Cable communication was stopped by the British in more conventional fashion, to which no objection could be made. The German owned cable from Emden they cut, as almost their first act of war on August 4, and all the other cables, in one way or another, were in their hands anyway. After that, if we wanted to cable, it could only be from a neutral point, by carefully coded, harmless-sounding messages, and these were of course uncertain. When my uncle Antonio Knauth left Leipzig, on his way back home after the war broke out, he carried with him in his laundry a list of code words that we used for a time. A sample message that went through twice, once from Zurich, and again from Copenhagen, ran about as follows:

"Alfred Whitman,
305 West 78th Street,
New York.

Have located Emma's trunk am forwarding.
(signed) Henry Davis".

Alfred Whitman was my uncle, and the address was of his home. I don't think he liked being used as an addressee, but he was one of the few people in our office with a name that was not German, and I pressed him into service. "Emma" meant "pay \$50,000.00 to Guaranty Trust Company", and "Henry" meant "for Deutsche Bank Berlin", while "Davis" was the fourth name in an alphabetical list, which identified the cable as coming from Leipzig, as the fourth one in a series. New York addressed its reply to "Fanning Bowditch" in Zurich, who was my cousin Fanny, then residing there, and merely announced that Henry Davis had arrived.

However plausible they might be, such subtle schemes could not be kept up forever. Eventually, some Briton smelled a rat, but by that time we had a better method anyway, which was quite foolproof. We never could know, of course, if the British would not fake a message, which would have caused no end of trouble.

The Germans had for some time had a radio station in Sayville on Long Island, which was intended to connect with Nauen, outside Berlin, but which was still in an experimental stage. It had been used to communicate with German ships at sea, but had not yet reached all the way across, and they were working on it when the war broke out. Now, in November, it began to function properly in both directions, and could be used commercially. The United States Government gave its approval, but forbade the use of code, and the worst of our troubles now was over. We could radio freely back and forth, and what did we care if the British could read what we had to say? We rather liked the thought, in fact, and the feeling that they could not stop us in legitimate business transactions between the United States and Germany.

We were glad to be rid of "Emma's trunk" and all the rest of the hocuspocus, and our business soon picked up. Our New York house once more sold marks and all the Central European currencies, and in Leipzig they sold dollars, just as they had before. The firm was back in business, at the old stand.

What happened to our mails only came out when the war was over. Long after the Armistice, when the Kaiser had fled and the country was in revolution, a truck drew up one day at our Leipzig office and discharged a score or more of packing cases. When opened, they were found to contain our mail for the past five years, compliments of the British Post Office. Correct as ever, they went through with their contract, and delivered what had been held up by the war. All the routine stuff was there, cable confirmations, draft advices, money orders, everything. They came in very handy, for the office staff was there, what there was left of it, and ready to go to work. In the course of the next few years, they went through everything, and paid out whatever there was to pay. The money was there to do this, for it had been transferred by radio, and if it was now reduced in value, with the depreciation of the mark, the same was true of the payments to be made. The policy adopted when the war broke out was justified, five years later, of going through the motions anyway and letting nature take its course. The firm neither profited nor lost by sticking to its proven routine. All this was as it should be.

It also now appeared, as we had suspected all along, that the British had not hurt, but actually aided the German cause by holding up our mails. Had they allowed them to go through, the money we had remitted by wireless to cover our withdrawals would have been paid out in dribblets to many thousand individual payees. For all practical purposes, it would have disappeared. As it was, the sums intended to execute these payments piled up in very large amounts. Since there was no present use for them, they were invested in German war loans, and thus were used directly to fight the war. Similarly, the dollars sold by Leipzig against these drawings were generally purchased by the Reichsbank, which was very glad to have them, if only to maintain the German Embassy, the consulates, and other German offices in the United States. Our firm, in fact, was one of the principal suppliers of dollar funds throughout the early stages of the war.

The British blockade compelled the German people to finance their war themselves. The Allies purchased huge amounts of war supplies in the United States, and had increasing difficulty in paying for them. At first, they made use of their extensive holdings of American securities. When these were used up, they borrowed from the banks. When they could no longer do this, they floated loans in the American market, and when the United States came into the war, our government took a hand. Allied indebtedness was a continued headache for all concerned in both the first and second wars, from which the Germans did not have to suffer. They had to make their own munitions, and they paid for them themselves, by means of war bond issues sold to their own population. When the war was lost, they devalued their currency, which amounted to a total tax on peoples' savings.

They did this again after the second lost war, and in both cases there followed a period of prosperity which was of great assistance in regaining their lost positions in the markets of the world. Losing a world war, as it turned out, was not without its compensations for the people who survived.

Sidelights such as these, however interesting, only came to light when the war was over. While it lasted, there was little time to study its effects. It was not at once apparent how completely the economic structure had been broken down. Where in peacetime it had been submerged by the ever-flowing tide of business, it was now laid bare as it had never been before. As a German banker put it at the time, it was like a cadaver lying on the dissecting table where it really could be looked at, and it still is there for us today to analyze and study. But what kept us busy in the office was to get our business going, and in this we were successful, once the wireless service across the ocean got underway. While greatly reduced in volume, our business could be done with greater profit than before. There was less in the way of competition, and the market situation favored us. Other banks, whose business was the purchase of export bills, were normally on the "long" side of the market. They were compelled to keep their position even, and therefore had to sell. Our position was the other way around, for we were sellers, and had to buy to cover what we sold. A declining market was therefore favorable to us, and the present market was declining all the time. Now that the other currencies had all gone "off gold", there was no holding them. There was now no standard by which to judge their value, and exchange rates became a matter of opinion. They were determined by the demand abroad for dollars, which was incessant, and the supply available, which was dwindling all the time. The old familiar ways for getting hold of dollars were vanishing, and could not be replaced - no sales of merchandise to the United States, no tourist trade, no chartering of ships, and all the rest of them. When the pound fell below the gold point in New York and there was no gold in London to ship in its support, the situation was revealed for all to see. If this could happen to the pound, the situation of the franc and of the mark was even more precarious, and the movement gathered headway. The historic circumstances were reversed, and the United States was becoming the financier of Europe. The "old man" was going broke, and calling on his children to support him.

Of all the various belligerents, the Germans were the least affected by the change. They were isolated from the world, and their demand for dollars was the least. The British were the worst hit, for their requirements were the greatest. Much of her position in the world was based on the services she rendered to other nations through the shipping, banking, insurance, commercial and managerial facilities she offered, and which were now in jeopardy. The decline in the value of the pound in terms of dollars dramatized the situation. The decline was slow and not precipitous, but it was steady, and this was true of other currencies too. None of them broke sharply, but neither did they rally. They simply kept on going down, and our trade in them was profitable.

To get back to the job in Leipzig, this shaped up quickly once wireless made it possible. I was in Copenhagen at the time, and one of the first messages to come through informed me that my wife was sailing on the "Rotterdam" for Genoa, on an experimental voyage which the big Dutch liner was making to the Mediterranean. My wife took advantage of the opportunity of getting herself and the children over to join me without having to get into the war zone. Of course, I went to meet her, and on my way I stopped in Leipzig, where I found them very busy selling dollars. I got to Genoa in time to see the "Rotterdam" come in, the largest vessel that had ever entered that small harbor, and she was a welcome and impressive sight. The voyage had been uneventful, but the ship had been stopped at Gibraltar by the British, and it was plain that this route could not be considered open to neutral shipping. Italy and Switzerland would be as much cut off from the United States as the rest of Europe was, and to all intents and purposes, the North Atlantic was as much an English lake as Windermere.

We stopped in Switzerland on our way to Germany, and there we ran into another kind of trouble. The nursemaid whom my wife had taken along to help her with the children was Irish, and therefore, much against her will, a British subject. We left her, weeping, at the station in Zurich, and she went back to New York by the way that she had come.

In Leipzig, we borrowed furniture, and settled down in an apartment. There was plenty to do at the office, and as we became adjusted to the new routine, there was sometimes time to think. To my pleased surprise, I began to get magazines and papers from New York, which came in by way of Switzerland. After some weeks of this, I received a polite letter from the War Office in Berlin, that they had noticed that I had been getting the New York "Tribune" regularly through the mails, and when I was through with reading them, they would be obliged if I would send the papers on to them. I was surprised that they had not simply taken them, and of course I complied with their request, after I had clipped the "Conning Tower" and whatever else was of interest to me. We could buy Swiss newspapers at the stands, and they had news from the outside world, but otherwise we were pretty well cut off. Even at the Consulate they were not much better off for news. The Americans in town were mainly students at the University or the conservatory, very busy with their work, and keeping strictly to themselves.

The first winter of the war was quiet, save for the great Winter Battle in East Prussia, where the second invading Russian Army was routed and German soil was freed again. Against the Russians, the Germans clearly had the upper hand, and their prisoners already ran into six figures. The original "Schlieffen Plan" of defeating France while holding off the Russians had evidently not worked out, for to the West the lines were deadlocked. Accordingly, in the coming summer it seemed likely that the East would be the more active front. The "war of movement" on those vast plains was what the Germans liked. Trench warfare did not appeal to them.

The spirit among the people was good, and often enthusiastic as they regarded the position of their armies on both fronts. The Austrian ally was having trouble with the Russians and would have to be assisted, but this did not worry anyone too much. Under German leaders, they could be expected to do better. The other ally, Turkey, which had openly joined with Germany, was holding off the British at Gallipoli, which made everybody happy, for the true enemy, they felt, was England. "Gott strafe England" was the watchword of the hour, and the British were the ones to beat. How to get at them when the time came was the problem to be solved. Meanwhile, food was still plentiful and good, and hopes ran high for a successful issue in the end.

When spring came, new trouble began to loom in Italy. Although it had been a full-fledged member of the Triple Alliance since Bismarck's time, Italy had kept out when her allies went to war, and now, when the Russians were pushing the Austrian armies back and getting close to Hungary, the Italians recalled that their traditional foe was Austria. They were getting very restless, and the possibility that they might soon be in the war against their former allies raised an important question for us in Leipzig, and also, doubtless, for our partners in New York. We had an important and long-standing business relationship with Italy, and this would be endangered if what we feared became reality. Our Leipzig House had a score or more of active accounts in Italian banks, against which the New Yorkers and their correspondents, the inland banks in the United States, were continually drawing drafts and doing all sorts of other business, all for the account of the house in Leipzig. If Italy became belligerent, our accounts would doubtless be sequestered, we would lose the balances standing to our credit, and New York's Italian business would have to stop. The worst of it was that we could not discuss the matter with New York and seek a remedy. Our only communication was by wireless, which everybody listened in on, and we could not use code either. We might as well stand on the roof and shout for all the good this did us.

The solution was to send me down to Switzerland once more. I established myself in a hotel in Zurich, and from there I wrote to the Italian banks in the name of Knauth Nachod & Kuhne in New York, for whom I had authority to sign their name "pro per", asking the banks to open an account for them, and to confirm to New York that they had done so,. They would at the same time receive a letter from the Leipzig firm, instructing them to transfer the balance on their account to the account just opened for New York, on which they would then book all future business coming to them. The plan worked perfectly, and the first that they heard of it in New York was when they got the letters from the Italian banks, telling what had been done on their behalf by me in Zurich. It was also in good time, for on May 23, Italy declared war on Austria, and Germany did the same for Italy. After that, New York had to provide its own cover for its drawings in Italy, by buying lire in New York or selling dollars to Italy. The business as such was not interrupted for a minute.

As far as the war was concerned, the entry of Italy as a combatant did not make much difference. The Italians attacked along the Isonzo River, but they made little headway. The war on the western front had shown how strong the defensive was in modern warfare. The French and British along the Somme, the British in the Dardanelles could not break through, and neither could the Italians on their front. It was only in the East, where there was plenty of room for maneuvering, that open warfare could be employed, and this showed the Germans at their best. Once they got the Russians on the move, they drove them back all along the front. Their advance against the Austrians in Galicia, which had carried to the Carpathians, and which threatened Hungary, had to be given up, and the territory they had conquered was retaken. The Battle of Tannenberg had shown the way, and the decision fell in the spring and summer of 1915. Russia, while it still had armies in the field, was clearly beaten, Poland and Lithuania were lost to her, and with her final defeat a matter of time only, there was always the prospect of revolution in the background.

What Austria evidently needed was German leadership, and this was now provided. Relieved of Russian pressure to the northward, the Austrians now fell on Serbia, where the war had started. Bulgaria came in, and with the Turks, held off the British in Salonika. The Balkans too were overrun, and ready for occupation. The war in the East was as good as over, and all that territory, from the Baltic to the Black Sea and the Mediterranean was open to German reorganization as a future task. The old rivalry between Austria and Prussia was ended by being included in the emergence of the Germans, who could now aspire to a State that would include them both.

At home in Leipzig in between but far removed from the fighting fronts, that eventful summer of 1915 passed quietly enough. There was still enough to eat, and the accustomed material comforts were as good as ever. In our free time, we used to go out to the golf links, outside the city and along the river - not to play golf, for I did not play the game, and there was no one there to play with, but it was a pretty place, the children could play there, and one could get a good meal in the fresh air in peace and quiet. Almost the only other visitor was a Scotsman by the name of Doughty, an older man and an engineer, who had been released by the Germans from internment because he was the only man who understood the machinery of a local textile mill. He still played golf, he had his clubs, he tried to teach me how to play, and we had some good and relaxing times together. He had lived there for many years, and still did not speak German. The English that he spoke was not the same as mine, but we understood each other. Doughty was his name and doughty was his nature. He did not have much to crow about at that time, but he had no doubts about the future. I wonder what, in the end, became of him.

IX

TWO TURNING POINTS

I was still in Zurich, winding up the transfer of our lire balances to New York, when the news came of the sinking of the "Lusitania" by a German U-boat, May 7, 1915. The news disturbed me very much. That the Germans should use their submarines to interfere with British shipping was understandable, but that they should start off so sensationally seemed to me a fearful blunder. I knew, as most people in Germany did not, how strong the feeling was against them in the United States, and how it would be inflamed still further by such an act - a "Titanic" sinking done on purpose. I dreaded the effect the news would have on my wife in Leipzig, for she could understand its import. As quickly as possible I finished up my Italian business, and returned to Leipzig.

The sinking of the "Lusitania", I soon perceived, was an event of first importance, and not, as the Germans thought, merely an incident in the war at sea. German submarines had already, on various occasions, demonstrated the effectiveness of this novel weapon. Weddigen's sinking of three British cruisers, early in the war, was not only a striking bit of seamanship, but a threat to British sea power if such attacks could be repeated. Evidently they could not, however, for there were no more of them. The British must have found a way to guard against them, and the U-boat remained a threat, but one that could be parried.

But the "Lusitania" case was different. She was not a warship, but a merchant vessel that flew the Red and not the White Ensign of the Royal Navy. As such, she was liable to capture, and could be taken into port, but she could not be sunk without a warning. This had been standard practice in other wars, and so accepted by both sides in this one. True, this was before the days of submarines, and the submarine was something new in naval warfare, for it could attack unnoticed and unseen. Could it be used to attack a merchant vessel? The question was a fine one, and the Germans had a point in their opinion, provided they understood the risks they took in such attacks. Perhaps indeed they understood, for the "Lusitania" had been warned of what might happen to her before she sailed, by an advertisement in the New York papers, inserted by the German Embassy in Washington. Evidently the Germans knew and feared the consequences of their act, and tried to guard against them.

Endless discussions ensued with my German friends after I returned to Leipzig, from which it soon appeared that I knew more about the matter than they did. Military matters they knew all about, and they could teach me something about the war on land. In naval warfare, however, they had no experience, while it was familiar enough to me. I had lived in a seaport all my life, but few of them had ever seen the ocean. They had a navy, it is true, and a very fine one, but it was still a novelty to the German people.

It had never fought in war, and had no tradition to bring it close to people's hearts. It was a splendid weapon for them, but they had to learn to use it, and especially, they had to learn its limitations. Even their Admirals, and they had plenty of them, were new to their profession, as the German Navy itself was new. High strategy cannot be learned from books alone, but practical experience is also needed.

Had the effects of this one act really been decisive - as was the case, for instance, in our bombing of Hiroshima in World War II - the sinking of the "Lusitania" might have been excused as a terrible act of war that found its justification in the great results that followed. History is full of incidents like that. But it was not decisive. It was not followed up by a continuous attack on British shipping, which might have brought results of some kind, if only in experience. It remained a solitary act of "frightfulness", for the German Navy lacked the power to carry through what it had started so spectacularly. It could not even be called heroic, as Weddigen's deed unquestionably was. It was and remained a bluff, and not a very good one either.

To an outsider and a neutral, however friendly he might wish to be, the sinking of the "Lusitania" inevitably recalled the German march through Belgium, with which the war began. That, too, was something they found necessary to explain, and two such instances made one feel a little dubious. In the one case they had done something they had promised they would never do, which was bad enough. In the other, they had ambushed a merchant ship and calmly left its passengers to their fate, which was a whole lot worse. Was I to infer from this that they would stop at nothing to gain their ends, if they thought it necessary? Germans as individuals I knew to be as honorable as any of their neighbors, yet here they were, collectively, doing what they admitted was not right, and trying to excuse it as demanded by their situation. My friends were hard put to it to explain the actions of their leaders. They knew it and they showed it, and they were as unhappy about it all as I was, I felt sure. Inevitably a coolness developed between us. The differences that were coming up went very deep, too deep for us to talk them over. The Germans were learning lessons they had never faced before.

So far as the war went, the Germans were doing well enough. Nor was what might be called their "moral" case a bad one, of that they were convinced. They were the under-dog in the conflict they were engaged in, and they believed that they were justified in taking any measures in a situation as desperate as theirs was. They approved the Belgian aggression on this account, as also that it had been they who first declared war on Russia and on France. They felt that England should have seen the truth of this, and not joined in the war against them. When they did so, they ascribed it to commercial jealousy of Germany's success, and perhaps they had some reason for thinking so. Taking it all in all, I could not but believe that the Germans had a case, however awkward they might be in the way that they presented it.

I could not have much sympathy for the Allied side, for Russia I thoroughly disliked. Success for the Czar would be the greatest calamity for all concerned, and in supporting him, I felt that the French and British were mistaken. I did not want to see either side victorious, but since war had come, I wanted to see the Germans beat the Russians and clean up in eastern Europe.

Now came this business of the "Lusitania", and I had to ask myself if the Germans, their leaders in Berlin, really knew what they were doing. I could see no sense in such an act. It could not possibly benefit their cause, and the damage already done was frightful. All of which led me to the further question of who their leaders were, the men whom they were trusting, and to this question I could find no answer. We all knew who the official heads were of the government - the Kaiser, the Chancellor, the Chief of Staff - but no one seemed to know who was responsible for ordering a U-boat war on British shipping. It could not have been a snap decision of the Navy High Command, for the German Embassy in Washington had known about it, and that brought in the Foreign Office. It must have been the decision of men at the very top, in conference no doubt, and that suggested the military mind, a thought that disturbed me greatly. That was not the way to fight a war today, a war on such a scale as this one. There had to be some thought of the future behind it all, the future that was surely coming, not just blind killing of the other fellows. The Germans were a thinking people, and proud to be considered so, yet here they were, fighting the biggest war in history, without a head, not knowing why they fought, or how to go about it. They claimed to be fighting in self-defense, but they were deep in France and starting in on Russia. All of it made no sense to me.

The Germans plainly lacked a leader, someone whom they could trust, who would give the war a point. There was talk now of General von Hindenburg, the old man who had come out of retirement and won the Battle of Tannenberg, and of his gifted aide, General Ludendorff. All that summer of 1915 they went ahead on the eastern front, and beat the Russians all to pieces, rescuing their allies the Austrians as they did so. But in the west, there plainly was a stalemate, and that was the front that really counted. The Germans got nowhere in their attempt to take Verdun, and if they held the Allies on the Somme, that was not decisive. It was the French and British whom they had to beat, and not the Russians. It was the Western Allies whom they had set out to beat, and they were not doing it.

The "Lusitania" affair resulted in an exchange of diplomatic notes with the United States, which brought a new note into the tangled picture. For once, a question was being settled, not by force, but reason, and this was embarrassing to the warlike German High Command. These notes, as fast as they were written, were published in the newspapers by the government in Washington, and the Germans were not used to this. That was not the way in which their government conducted its affairs. Diplomatic negotiations with another government they were quite accustomed to, but not publicity, not having everything discussed by all the people.

It was an embarrassing time for the Foreign Office, and indeed for all Germans, for when they made concessions to the United States, these had to be justified, and all this in broad daylight, with everyone listening in. We are used to such publicity today, but it was a novelty then. All this came hard to a German Emperor and King of Prussia, his diplomats and generals and admirals, whose opponent was a mere President without another title to his name and a college professor at that, and far above his station. It could not fail of its effect on their prestige at home, and prestige was what they lived on. The process may have been a healthy one, and good for all concerned, but it was a difficult time, and not so pleasant either for an American who lived there.

One effect of the publicity was to dampen the enthusiasm of the German people for the war. This had been high in the beginning, when they saw themselves beset by enemies on every side. It continued high throughout the fall and winter, and the people still had faith in the competence of those who led them. But when the United States began to question the acts of the German Government, and when the latter was compelled to make concessions, not because of a threat of force, but by the logic of events, the people took notice. Perhaps their leaders in Berlin were not the supermen they thought they were. Perhaps they had erred in the case of the "Lusitania", and if they had erred in that they might have erred in other cases too. Perhaps the attack on Belgium had not been wise - it had brought the British in, when they might have stayed out as the Italians did. Perhaps the High Command had been a little hasty in declaring war on France and Russia, and there need have been no war at all. When a government sets out to be infallible, the slightest setback can raise a lot of doubt.

The summer of 1915 passed into history, and nothing happened - nothing decisive, that is, though there was plenty of action everywhere. But as things turned out, it brought a turning point. It was at this time that it became clear that the war would have to be fought through. Mediation by the United States became impossible as a result of our controversy with the Germans that followed the "Lusitania" affair. Most Americans had long since made up their minds that Germany must not win this war. As a nation we might be neutral, but not as individuals. The "Lusitania" had brought us in, and set us free to speak our minds. After that, there was never any question of where we stood, although our government continued to preserve the decencies. I felt this instinctively myself, marooned as I was in Leipzig. The war with Russia, the war with Italy, the war in the Balkans and against the British in Salonica - what Winston Churchill described as the "soft underbelly of Europe" - all these were going as I wanted to see them go but I got no satisfaction out of it. It was the war in the West that counted, and in this the Germans were getting nowhere. And now the United States was getting into the picture. We were calling the Germans to account for such of their misdeeds as affected us, and strictly too. We sent home their diplomats for trying to blow up bridges in Canada, we kept an eye on super-patriotic Germans in the United States, we re-christened German hospitals and savings banks and everyone with a German name was obliged to watch his step.

The Germans at home were fighting for their lives, and we showed no sympathy at all, we hoped that they would be beaten and we said so.

But if 1915 brought a turning point in the war in Europe, the year that followed developed a crisis in the fortunes of our firm. I paid a flying visit to New York in the summer of 1916, the first time I had been home in two eventful years, and I could see it coming. The partners were plainly in disagreement regarding their future course. Public opinion was getting more and more unfriendly toward anything German, and the immediate future of the firm was evidently difficult.

Our third baby was born in May (1916?), and as soon as things returned to normal I settled the family for the summer out in the country, and started off. I sailed from Copenhagen on the "Hellig Olav". We did not wait to be picked up by a British cruiser, but put directly in to Kirkwall, where we lay for several days while the British looked us over. The battle of Jutland had recently been fought, in waters through which we had ourselves just passed, and over the low hills of Pomona the huddled masts of the British Grand Fleet could plainly be seen, where it lay at anchor in Scapa Flow. But we were not allowed to go ashore, and when we departed it was through the Pentland Firth, with the cloud-covered mountains of Scotland in plain sight off to our left. There, in the middle of the channel, we espied a buoy, painted black, which marked the spot where in the preceding winter the cruiser "Hampshire" had struck a mine and sunk. She had on board Lord Kitchener, who was on his way to Murmansk to pay a visit to the Czar and bolster up the floundering Russian armies. There he lay, very far indeed from the Sudan and his days of glory and renown. It gave us cause to think of how tenuous the connection was between those ill-assorted empires, of Britain and of Russia, and how difficult it was for them to keep in contact. Then we set forth across the wide Atlantic, and we never saw another sign of life, or war, until we reached New York.

It was good to see that bustling harbor, with its ferryboats and tugs, to see the good old Statue, and the bridges and towers of Manhattan, but it was all quieter than I remembered it. I saw one reason for this as we sailed up the Hudson to our pier, for there in Hoboken lay a dozen German liners, the enormous "Vaterland", the graceful "Kronprinzessin Cecilie", that had been brought down from Bar Harbor, my own "Grosser Kurfurst", on which we had sailed so hopefully two years before, and all the others, for not a single one had been captured by the British when the war began. Their crews were scattered all over town, working at odd jobs as waiters and house boys, and waiting for the day when they could get back on board, the day that never came.

I was glad to see the folks again, to meet old friends, to go to see a ball game, and play a little tennis, but I cannot say that I enjoyed my stay this time. There was a feeling in the air, of restlessness and of restraint, that was unfamiliar to me. The country was suffering greatly from the war, in which it had no part. It had no interest in its origins or what it was about, it only wanted it to stop.

People took it personally, they wanted to be fair, but they found difficulty in being so. The British controlled the war news, and news from Germany was scarce, and not much interest taken in it. Americans were thinking about the future, rather than the present, of what would happen when the war was over, something no German had ever mentioned in my hearing. They were getting ready to mobilize, in case of need. Many of my friends were up in Plattsburgh, learning to be soldiers, or down on the Mexican border in pursuit of Villa. Our government showed great reserve, but not the people.

While I was there, a German merchant submarine arrived in Baltimore, with mails aboard and cargo. It was hoped that she might be the beginning of a regular service, which would have greatly helped the German cause. But like so many German plans, this one too was never followed up, and it came to nothing.

The office seemed to me to be a mess. Not outwardly, for when you entered, you could not but be impressed by its spaciousness and dignity. The old quarters at 13 William, where it had been for thirty years, long since outgrown, had been given up, and a new location found in the new Equitable Building at 120 Broadway. I well remembered the fire that destroyed the old building on this site - coming out of the subway at Bowling Green one freezing January morning, and seeing a flash of flame clean across Broadway. It took days to remove the accumulated ice that blocked the streets, and the Stock Exchange had to close because of the securities tied up in the vaults. Now it was the newest and the finest place downtown, with corridors as big as city streets running through it, and from one of these, a private elevator ran to our place on the fourth floor. But though commodious enough, the place was empty, save for an occasional customer looking at the ticker. Our traditional business was at a standstill, and I missed the accustomed crowds lined up before the cashier's cage and cluttering up the corridors. We were no longer an international banking house, but a firm of stockbrokers like dozens more on Wall Street. The partners must have been looking far into the future when they made their move. Their business may have been ruined, but they kept their chins up.

There were four partners in the firm at that time, two of them Germans, and two Americans. The senior was my cousin Willy Knauth, recently become a citizen, whose commercial Department had been knocked completely flat. Arend Weingardt, who had just come over from London to head the banking end, had scarcely had time to get acclimatized, for although a German, he spoke and acted like an Englishman. Oscar Gubelman and Rollin Newton, who had come to us from the Guaranty Trust Company some years before, were stockbrokers and had never taken much interest in our older departments. They now were in their element, while the two other men had nothing much to do, and were accordingly unhappy. My uncle Antonio Knauth, the firm's lawyer, had died the year before, and with him went the last of the old tradition. The partners were partners in the Leipzig office too, as the two Leipzig partners were partners in New York, but communication between the two sets had just about dried up. Each of them now was on his own.

The contrast with the Leipzig situation was striking. The two partners there, Max Jaffe and Ernst Ulrich, were both of them trained bankers, and when the war came upon them so suddenly, they were not dismayed. Their organization was small, compact, and disciplined, and took the changing situation as it came. Like all the Germans, and unlike the British, they never lost their heads, but carried on from day to day until the situation settled down. They never had a moratorium, but kept open at all times, though many of their younger men had been called up. They took the interruptions in the mails and cables in their stride, and when the wireless began to work, they were ready at once to take advantage of it. "Business as usual" was their motto, and they refused to get excited.

Being in the middle of events, they had the advantage over New York, which was on the outside, and under the influence of London. What we now call "propaganda" was quickly taken over by the British to advance their cause and discredit their opponents, and few Americans saw through it. The confusion in New York was great, and business was impossible. When England re-opened after their moratorium, business picked up, and we found that we could move again.

Our importing business never did recover, but our banking business did. The five thousand inland banks for whom we acted as their agents began selling drafts again "at buyer's risk". There were wireless transfers now instead of cables, and Leipzig always could sell dollars. The trouble that now showed up was in the office, for in that inopportune moment the management was being changed. Old Mr. Sager, who had been at the head for years, and who had taught me most of what I knew, had been dropped a month before the crisis, and replaced by a young man whom Leipzig had sent over to be tried out. Instead of doing that, they put him at once in charge, and he had much to learn. So did the partners over him. Somehow they blundered through, and when I got there two years later, the place was functioning. We probably were no worse off than anybody else, for everyone was floundering. Mr. Sager, in the meantime, had died.

But the real trouble was that our old tradition had been badly shaken. In an old firm like ours, tradition is strong, and cannot be changed at a minute's notice. You cannot be an international banking house of world repute one day, and a stock brokerage firm the next. Everyone knew our name and what we stood for, but in our new profession we had to start in at the bottom. We were a German-American firm - American at one end, and German at the other. For the moment, our two houses were separated, each standing on its own, but though tenuous, the connection still was there. Our American partners resented this, for there was nothing German in them. Willy Knauth was now a citizen, but German through and through, right in our old tradition, but he was out of luck with his business gone.

That summer the British put us on their blacklist as a German firm. After what they had already done to us in holding up the mails, it did not hurt us much, but Parr's Bank in London had to close out one of their oldest accounts.

And it gave our American partners cause to think. If the British could take such action, what would the American government do if it came to war with Germany?

My return trip to Europe was even more eventless than the westbound one had been. I remember that we passed a bell buoy in mid-Atlantic that must have been torn from its moorings in some distant harbor, and that was all we saw. The passengers kept strictly to themselves until we had passed through Kirkwall, but they certainly unbuttoned then. One of them, who had a Russian passport, hailed me as a fellow German and congratulated me on my escape. I set him right on that score, but I doubt if I convinced him. He was a German mining engineer living in Siberia when the war began, had escaped into China, and now was almost back home. I saw his story in a book later, which I still have, and I daresay it was true enough.

In the autumn after my return to Leipzig, we had a visitor from New York, in the person of Frank Richardson, whom I knew well as a friend of the American partners. He came as an emissary from them, and what he had to say was a shock to all of us in Leipzig, for he proposed a split up of the firm. In view of the possibility of war between Germany and the United States, the Leipzig partners, Weingardt, and Willy Knauth were asked to retire from the New York firm, thus making it entirely American. If deemed advisable, the New York partners were ready to get out of Leipzig too, which would make the severance quite complete. When the crisis was over, the old arrangement would be resumed as if nothing had happened. All that the New Yorkers wanted was to forestall possible government intervention in the event of war.

The Leipzig partners were greatly disturbed at this new development, which came as a great surprise to them. The idea of war with the United States alone was something they could not admit. It could only mean final defeat for Germany, and it was bitter to have to admit defeat, even as a possibility. No German ever did that. The idea that our government might interfere in private business was new to them, for war was between two governments, not the peoples too. It would certainly not happen in Germany. Their connection with New York was all-in-all to them, not merely incidental, as seemed to be the case on the other side. They could see no reason for such a drastic step, for even if the New York house were closed, which they did not believe would happen, the parent house could some day open it up again, as it had done before. The business done for sixty years had been a benefit to both sides, even more perhaps for the American side than for the German, a classic example of business cooperation between two nations. Suppose that war should come, which was by no means certain, it would not last forever. Some day there would be peace again, and Americans and Germans would work again together.

Mr. Richardson's task was delicate and difficult enough, but it was successful. The Leipzig partners agreed to a withdrawal from the New York house on the condition that, when peace returned, the old arrangement was to be resumed.

It was a "Gentlemen's Agreement" in the truest sense which they acceded to, made to save their New York house from possible embarrassment if it should come to war. In a separate agreement, the New York 'partners also withdrew from the Leipzig firm, though this was believed to be entirely superfluous. Mr. Richardson departed by the way that he had come, though how he passed through the British lines at Kirkwall I never did find out. Perhaps they had been tipped off beforehand.

X

THE END OF THE WAR

The two firms were now dissevered, and the war approached its end. It was an uncomfortable time, but it had to be lived through. Mr. Hughes was defeated in the Presidential election, to everyone's surprise, and with that went Germany's last dim hopes of a mediation. I lost a bet with the American Consul, which I had already collected from him, and had to pay him double. The Christmas season, 1917, was more tense than ever, and with the New Year came Germany's announcement of an unrestricted submarine blockade of the British Isles. This was what we had been waiting for and fearing all the time. On its face, it seemed logical enough, provided they could really put it through, but if not, it was likely to be fatal to their hopes - one more tremendous gamble by the Germans. The negotiations with the United States, the concessions grudgingly made by Germany, came to an end. Washington broke off diplomatic relations with Berlin, the unhappy Graf Bernstorff was sent home, and Ambassador Gerard recalled. The few Americans left in Germany started packing up.

Day by day we waited for what we knew was coming, but it did not come. What was Mr. Wilson waiting for? Germany's blockade started with a rush, and German hopes ran high, but there was no decision. The introduction of the convoy system, zigzag courses sailed by British ships, and similar devices kept the sinkings down, and depth bombs accounted for German U-boats, whose number, after all, was limited. British losses, though heavy, did not increase, and Germany's hopes of a British surrender had to be postponed. The weeks went by, through January, through February, and half-way into March, and still no action taken by our government in Washington. Then, after ten weeks of waiting, in the middle of March, 1918, there came the news of the Russian Revolution, a real one this time, and no mistake. The Czar was driven out, and a republic was proclaimed, with liberal elements in control. As if it were the expected signal, after this events moved fast, and so did we. Had we really been waiting for the downfall of the Czar to get into the war with Germany? I never heard it said officially, but at the time it seemed logical. Now we could fight the German Empire without at the same time assisting that of Russia, for the difference between the two at bottom was not great. It would show a remarkable feeling for the niceties on Mr. Wilson's part if there were something in the way I felt, and I am glad to set it down.

Two weeks more, and the President called on Congress to declare a state of war, and on April 6, 1918, our war became a fact.

By that time I had the family safe in Switzerland. We were pretty well played out because of all we had been through. I had lost twenty-five pounds in a German wartime winter, and my wife and the children were also under par.

We stayed at a small hotel up in the mountains, where we could forget our troubles and get our health back, but on a quiet night we could sometimes hear the distant thunder of the ceaseless cannonade that went on in Alsace, where the fighting line ended at the Swiss frontier. In this far off retreat, one day I received a letter from the firm in Leipzig, that brought me with a jerk back into reality. It was friendly enough in tone, and nothing was said about the reason why I had left there. I might have been on vacation, for all that the letter said.

Briefly, the subject of the letter was as follows: toward the end of those weeks of waiting, while we were technically still in a state of peace, the firm in Leipzig was asked from Berlin to put through one last deal in New York. The Reichsbank, it seemed, was in need of a certain amount of Swedish kroners, which we were asked to help them get through our connections in New York. The firm in New York was asked to sell up to a million marks in the New York market, in wireless transfers payable in Berlin, and to take payment, not as usual in dollars, but in Swedish kroners. These the Reichsbank would buy for German marks, which would be used to pay off the million marks which it had sold to New York banks. It was one of those three-cornered deals that occasionally occur, and are always very interesting to work out.

We sent the proposition on by wireless as usual, but heard nothing more about it, and then I left for Switzerland. Some weeks later, after war had been declared, Leipzig received a batch of letters from New York that had been sent through the arrangement we had with Mr. Patt in Norway, while we were still at peace. From these they learned in Leipzig that their original message had gone through all right, that New York had sold a million marks to the Guaranty Trust Co., and that the equivalent of these was at its disposal with a bank in Stockholm. The firm in Leipzig thereupon sold these kroners to the Reichsbank, only to find that the bank in Stockholm, in view of the state of war that now existed, refused to turn them over without a special authorization from New York.

So everything was held up after all, until they remembered in Leipzig, from the time when I had been in Switzerland transferring those lire balances to New York two years before, that I had the authority to sign for the New York firm. They informed the bank in Stockholm that they would furnish it with the required order from Knauth Nachod & Kuehne, New York, the transfer was duly made, and the Reichsbank got its kroners. Leipzig collected from the Reichsbank, and then prepared a letter from the New York firm, which they sent on to me in Feusisberg, asking me kindly to sign and return it at my earliest convenience.

I was appalled when I got their letter. I had no idea, of course, of assisting the Reichsbank or anyone else in Germany to get possession of a sum of Swedish money, but what really scared me was the thought of what would happen if it became known that Knauth Nachod & Kuehne in New York had an agent in Switzerland who was prepared to sign letters in its name at the behest of Knauth Nachod & Kuehne in Leipzig, who were of course an enemy of the United States. I had my doubts as to the propriety of answering their letter at all, but I finally wrote them briefly, regretting my inability to be of service to them, and reported the incident to the American Minister in Berne, who was an old friend of mine. If I had only thought of it, I could have answered as Benjamin Franklin did to a similar letter he received from an English friend during the Revolution:

"You are now my enemy, and I am

Yours,
B. Franklin",

but I was not smart enough for that. In reply I got a two hundred word telegram that completely upset our little village post office, holding me personally responsible for the consequences, etc., which did not bother me at all. It was the only serious difference I ever had with my good friends in Leipzig, and they never mentioned the matter to me again in later years. The matter, I later learned, was settled amicably after all, for the Reichsbank, which must have needed the money badly, underwrote the guarantee of the Leipzig firm, and that was the end of that.

I joined an office in Zurich that winter, made up of American refugees like myself, which was acting for the General Purchasing Agent in Paris of the American Expeditionary Forces. It was headed by Harold McCormick of Chicago, whose wife was getting treatment from Dr. Jung, and they were reported to have the only private automobile in Switzerland that was still running. The story was that Mrs. McCormick, when she could get no gasoline, threatened to tell her father, and then all Switzerland would get no gas. Her father, incidentally, was John D. Rockefeller. We canvassed the Swiss markets for what they could sell to our Armed Forces, from optical instruments and wristwatches to orange juice, and we bought the latter by the trainload. When summer came, since Switzerland was getting full of refugees, and we were by this time quite recovered, we made our preparations to go back home. It would take three days to get us to Bordeaux, with three small children speaking only German, but the trip went smoothly after all. At the border in Pontarlier we were asked by the French to stop over and be interviewed, which turned out to be a very pleasant operation. The French officer was sympathetic when he heard that I had three brothers in the American Army, and my wife had four on the German side, and that all of them were in good shape, except my brother Felix, who was in a hospital in Vichy, having recently been wounded.

It was there that I saw my first Americans in uniform an officer who had been sent over from Chaumont in a motorcycle sidecar to look us over. His name was Adams, he came from New York, and then it turned out that he was "F.P.A.", who ran the "Conning Tower" in the New York Tribune. It was all very nice and interesting, but we had to catch our train that evening, and he had to get back to Chaumont and report, and the war could not be interrupted.

The trip the next day, right through the middle of midsummer France, with the harvest in full swing, was a great experience. The children made friends with a French doctor, who had studied in Germany and was glad to talk German with them. At a station he got the daily "communique", and he came back rubbing his hands and smiling all over. "C'est bon, tres bon", he said, and indeed, it was news of a new offensive, that was destined not to stop until it reached the Dutch frontier and the war was over.

By mid-afternoon we were in Bordeaux and our dreaded trip was over. It had been a good one after all. We went to a hotel, and then I looked up the American Consul to ask for news, and there I met my brother Victor, who was asking for news of us. He was ... (one or more pages missing?)

... took to her, and left me free to tend my wife. They all pulled through, but they were pretty weak when we reached New York, once more as refugees, but this time with a place to go to.

But our welcome in New York was anything but hearty. It was the old story - the further you got from the fighting front, the more unreasonable people were. In France, almost within sound of the guns, people talked German with the children. Here in New York, strangers stopped my wife on the street and scolded her for speaking German with her children. They had been fed so long on propaganda that people's imaginations ran away with them. I met an old lady who looked forward with dread to an invasion of Connecticut by German forces. "I can see them marching down that hill", she said, and she really meant it. It was a tough time for my wife, so far from home, and without news.

The partners at the office asked me to stay away. They were embarrassed at our German name, and shy of a reminder of bygone days. The Alien Property Custodian, searching for German assets, had been there and looked them over, but had found nothing that he could do. The fact that my mother, May Whitman Knauth, to whom the firm "belonged" more than to anyone else, had three sons who were in the war, was a factor in his decision that we were American and not an enemy alien concern. There was hardly any business now, our halls stood empty, and the two partners had time to worry about appearances. They did refer me to a man who needed help in an office of the American Red Cross, and that was where I went.

I found more than enough to do there, for they were sending doctors and nurses to the fighting front. They came from all parts of the country, and as fast as they came in, they had to be fitted out with uniforms and passports, and put on board their ships. The "flu" was really rampant now, and my first assignment was to look up those who reported sick, and seeing that they had attention. Strangely enough, I never got the "flu" myself, although I was so often exposed to it.

I also took a batch of forty nurses to Boston and put them aboard their transports, not more than ten nurses to a ship, a difficult assignment, for they all had friends from whom they could not be parted. Once on board, they had their work cut out for them, with all the soldiers who took sick, and they earned the commendations they received from the commanders after they got to England. Another of my charges was an old man, a doctor from South Carolina, who was on his first visit to New York. I took him to the Harvard Club for lunch one day, and he was tremendously excited at seeing Colonel Roosevelt there. "T.R." had lunch there almost every day, and it was the high spot of the old man's visit. He never got to Paris after all, for next day came the Armistice.

Actually, we had two Armistice Days, of which the first, on November 7, was the more impressive. The news came at noon on a Thursday, a beautiful fall day, that an armistice had been signed. Instantly, everyone dropped what he was doing, and rushed out into the street. Within minutes, Fifth Avenue was jammed. As if by instinct, people headed for the churches, any church or synagogue would do, in the emotion of the moment. Strangers embraced with strangers, and banged each other on the back. On a corner stood an elderly bearded Hebrew holding a bunch of grapes, probably his lunch, and presenting a grape to every passer-by. It was an unforgettable experience, even when we heard that the news was premature. The next day, Friday, the office simply folded up, for we all knew that our work was done.

The real news came at dawn on Monday, the 11th of November, 1918. I was in the country, in Connecticut, and woke to hear the factory whistles blowing in the distance. Then we knew the war was over. The drive back to town was a wild melee, for everyone was out on the street and celebrating, and by no means in the churches. The war was over, three cheers and thank God for that.

The war was over, the Germans had surrendered, the Kaiser fled, and in Berlin they called out a republic. That was more than all we had been fighting for, and we could be content. Our boys could come back now, and we could get to work again.

But it was by no means all that had happened in the world. Three great empires had disappeared, and the people they had ruled were free. In Russia, in Austria, and in Germany nobody knew what was coming next. In Germany the case was easy, for its people were united, they were all Germans, and accustomed to work together. But in Russia and Austria there were a score of different nationalities, with different cultures, languages, and habits, and quite unused to independence.

Russia was in a state of revolution anyway, and the outcome was by no means certain. Russia might even go Communist, and be ruled by the proletariat. A great part of what had been Russia - Poland, Lithuania, the Ukraine - were occupied by German troops, who now would have to be withdrawn. The same thing was true of Austria, Hungary, and the Balkan territories, for the Germans had only been defeated in the West. What would happen in the east of Europe?

I don't think anyone thought much about such questions when the war was over, save in those regions themselves that were now set free. Germany was beaten, and what everybody wanted was to get back home, to France, to England, to the United States. A Peace Conference was called to meet in Paris early in the new year. President Wilson himself was planning to go over, and he would meet with Clemenceau, with Poincare, and with Lloyd George. Between them, they would settle with the Germans. It was known that he had plans for a League of Nations, which would settle all the vexing problems as they came up, but just what that meant was still uncertain. But the great thing was that the boys were coming home.

That was the mood, as I recall it, at the end of 1918. There was tremendous satisfaction in a job well done, namely the defeat of Germany. There was pride in seeing the United States the leading nation in the world. There was faith in her democratic institutions, which had shown their worth in peace and war, for all the world to see. America had suddenly grown into maturity, and it had proved its manhood. Anything more specific than generalizations such as these remained for the future to disclose, but people did not fear the future, or that they could not master any of its problems as they arose. But there were some mighty tough times ahead.

XI

WHAT HAPPENED TO THE FIRM

What we did not know in New York was how developments in Europe were going to affect the fortunes of our firm. How could we, when at the beginning of 1919, Europe was one big question mark? The countries affected by the war were all closed down to us as yet. The little business we were doing had to be reported to the Federal Reserve, which was keeping an eye on foreign business. It was to fill out their questionnaires that I was grudgingly permitted to come back as a volunteer, for we had no money to pay my salary. I was glad to do so, for it was good to be back at the office and at work.

The various liberated countries were handling their affairs themselves. This was just as well, for no one else could have told them what to do. In Poland the pianist Paderewski took charge, Professor Masryk came over from Chicago to organize a government in what they called Czechoslovakia, and so it went. Competent people showed up who knew how to run things. Nobody in Europe showed much interest, but in the United States there were millions of their countrymen settled here, who were anxious and happy to see them off to a proper start. It was a hopeful time for all these people, and their response was most encouraging.

Our two partners, like most Americans, knew little of these developments, which were still dormant and below the surface. They were looking for ways to reorganize their business, whose future they saw in the investment field, and they were looking for new partners to assist. Many good men were coming back from war-time jobs in France and England who were looking for a new connection. How a new partner would fit in with the Leipzig commitment, when that came up for settlement, was another question, and was not given much attention at the time. Anything having to do with Germany as yet was not considered, nor was our foreign business either. This was still in the charge of the young man who had been running it all through the war, and who had at least not let it fall to pieces altogether.

The first of the new countries to be opened up for business was Poland, early in the spring. We still had correspondents in the larger cities there, with whom we had worked in the old days through our house in Leipzig. We had no direct relations with them, but they knew our name and would recognize our draft forms.

When it was announced that money could once more be sent to Poland, the effect on our Polish population was electric. They had not heard from their folks there for four long years, and their one desire was to get in touch with them, and to send them money. They stormed into their local banks, and these remembered the arrangements they used to have with us, and dug out their long-disused draft forms. Poland of course was not mentioned in them, for it was still divided up between Russia, Austria, and Germany, but Warsaw, Gracow, Lemberg, and other cities were, and they drew on our old correspondents, in whatever currencies seemed proper and at whatever rates seemed suitable, and sent us their advices.

There was nothing we could do about it except to pass the word along, and somehow to provide cover. Almost overnight our place became a madhouse. We were flooded with remittances, and for the time at least, our old time business was coming back. The Federal Reserve was astonished at what we had to show, and they relieved us of the necessity of reporting further to them.

In the meantime we had news of the new currencies introduced in Poland. The chief one seemed to be called Polmarks, apparently based on the German mark, and they came in two varieties, North Polmarks and South Polmarks, which reminded one of Amundsen and Peary. As to rates, we soon found out that anything we charged was bound to be too high, for the Polmark had nothing behind it, and had no proper level. The basis seemed to be the rate in Poland for the U.S. dollar, for which the demand was great. This gave us a clue as to the best means of sending money over. We sent a dollar check to start things off, and asked our correspondents to draw on us in U.S. dollars for what they needed, which they seemed to like. Our correspondents were cooperative, and while there were plenty of mix-ups, our arrangements, under the circumstances, were working pretty well. The business was profitable for us.

The same story was repeated as one European country after another was opened up for business. First it was Czechoslovakia, an entirely new nation that had been a part of Austria. Then it was Hungary and the Balkan states, Roumania, Bulgaria, and Serbia, which joined with Austrian Croatia to form the Kingdom of Yugoslavia. In each case their countrymen in the United States had money to send to their home folks, the banks here drew drafts on the banks in Europe, using the well-known forms of former times, and the banks abroad were happy enough to pay them. It was a very busy time for us, for we had little help, but new men were available as the troops came home, and the old hands who were left could show them what to do. We had plenty of money coming in, and when we had time to add it all up, we could see that we were making money.

I had my regular place in the office now, and the partners were glad enough to see me there. None of them knew much about our foreign business, but they were happy to see the money coming in. Early in the summer, Germany at last was opened up to the outside world, and with this there arrived a cablegram from Leipzig. They were still there, they said, and ready to do business, and they asked how we were, ending with the question, "How is your status". By this they meant our cash position, and I could see that they still had a friendly interest in us. Having heard from Leipzig, our partners felt that it was time to look up old friends in Europe, and they delegated one of the two new partners, James F. Shaw, to go to the other side, and to take me along to show him around.

We went first to London and to Paris, and then to Switzerland, where Mr. and Mrs. Shaw stayed while t made a flying trip into the Balkans. This was hard work, but very interesting. Then we went to Berlin and Leipzig, which were more interesting still. The country was in terrible confusion, with a Socialist government in charge, and this was having difficulties from two directions.

The "lunatic fringe" of the Social Democrats was off on its own as frankly Communist, and the Middle Class parties were frankly contemptuous of the S.P.D., the solid old party which I remembered so well, which had stepped in when there was no one after the Kaiser had fled, and which needed the support of sensible men from the other parties. The disadvantages of Bismarck's system, that had worked so well until it came to war, were showing themselves, for the German people refused to work together. People stood back and criticized, and that was easy, but no one seemed to want to work.

Our friends in Leipzig were in good shape, and ready to go ahead. They had lots of money, for the proceeds of four years of business were in their hands, but their money was not worth much now, - and the costs were high. They were astonished to hear how our business in New York was coming back, and of course were ready to resume the old relationship with us. We could make no promises in this direction, for Germany in the outside world did not stand well. In fact, the most interesting thing we found on our first visit was to see how little Germans knew about the outside world. In Berlin I met Gustav Stresemann, who five years later became their leading statesman, and his ideas about America at that time were simply childish. The Germans had such troubles of their own in those days that they simply had no time to think about the rest of Europe and the world.

When it came time to go, a strike tied up all the railways. We could have gone from Berlin to Switzerland by Zeppelin, but the Shaws balked at this, and instead we took a car. The trip was awful, it took four days, and ended in our driver being arrested for driving on a Sunday. We left him languishing in jail, and found a train that took us across the border into Basel. The Shaws were thoroughly disgusted by their experiences in Germany, and I was glad too to be back in civilization. Germany was still a long ways off from anything like normal life, and yet I felt that the German people at bottom still were sound. Once their new Constitution was adopted, and they got a government installed, I was sure that they would be what they had always been. They had got rid of the Kaiser, and ought to make a good republic and, after all, the rest of the world was also having troubles.

We returned to New York the day after Christmas, and while we were still on the "Mauretania", I got the news by radio of the birth of our fourth baby. What with that and all the rest of it, the days from Christmas to New Years were about the most hectic I have ever known. The news we got at the office was overwhelming. Since we had left in August, they had made any amount of money, not only in our foreign business, but in two stock issues they had brought out, which had been over subscribed and entirely successful. White Oil and Simms Petroleum had gone up since issue, and were being widely traded. Herbert Smithers, our new partner, who was in charge of the market, had bought a Cadillac, and looked down on the others who used the subway or the ferry.

They were taking me in as a partner on the first of January. I was greatly pleased to hear this, and to feel that I had earned rather than inherited the honor, as I thought I had. The announcements were all printed and ready to be sent, and looked very good to me. Altogether, it was a terrific time for me, and I hardly knew where to begin, with all the good news, at home and in the office.

Next morning Mr. Gubelman came to ask me to postpone my entry for a month, as he thought he had an even better plan for me. He wanted me to go to Leipzig, where Ernst Ulrich was now alone, and be a partner there, and the firm would back me with \$500,000.00 capital. I must say that the plan appealed to me in many ways, for I got along fine with Ulrich, my wife was at home in Leipzig, and I would rather be one of two partners than linked to half a dozen in New York. I did not know that it would take five years for Germany to regain its health, nor did I dream of Hitler in the offing, and I agreed to a postponement. Also, although I did not say so, I thought the last thing that they needed in Leipzig was more money. And I was glad to have a little time to think things over.

So there was the situation at the end of 1919. I was in as a partner, and then out again. The firm had made barrels of money, and everyone was pleased at that and feeling good, and some of the partners at least felt that they could dictate to the world. They did not know that the present boom on the Stock Exchange was not going to last forever. Rather, they took it as a sign of better times, and that it would be permanent. Nor did they know how precarious the situation really was, in Europe and in the United States, that the world had been through a revolution, the effects of which were just beginning to show themselves, that the masses were waking up, the former rulership had been discredited, and that Communism was starting on its day. Common sense was at a discount now, and so was caution, at a moment when both were needed as never before in history. Mr. Shaw and I, having just returned from Europe, were not quite as optimistic.

The first thing that happened in January of 1920 was that the Stock Market began to break. There were plenty of good reasons for this, one of the chief ones being that the business situation was not as good as people had been led to think. It had to be reorganized from top to bottom, now that the war was over. The place was full of servicemen all clamoring for jobs, and it took time to accommodate them all. The old year had been a time of hope, and now it was time to get to work.

As the market went down, it now developed that at the height of the boom, Mr. Smithers had been buying back the stocks we had already sold, and that no one had warned him to go a little easy. Simms and White had both been showing gains - of course they had, when he was buying them - and he proposed to make a little money as they went up. But when they started down instead of up nobody was buying them except himself, and he was "stuck" with what had once been sold already and then bought back at higher prices.

It was a tragic situation, and had it not been so serious for us, it would have been funny to see him hoist with his own petard. When their oil wells began delivering saltwater instead of oil, Simms and White were done for, and went down to nothing. We had been cheated in our hopes of being experts in the oil game.

It really was a terrible situation for the firm. All the money we were making in our foreign business, and that kept on as good as ever, now went to make up the losses we were suffering from our mistakes as a "House of Issue". The fine old reputation of our firm was more than offset by the acts of our present partners. Within the month, Mr. Gubelman had to tell me that his plan of supplying capital to Leipzig was off, for the time being at least. I did not know what to do. Should I go to Leipzig after all, even without the capital I had been promised, and which I knew to be quite superfluous? Or would it not be better to stay on in New York, hoping for a favorable break? The trouble with that was that if we got a break, it would go to the credit of the present regime, and make my task more difficult than ever. At least I was not a partner, that was something to be grateful for. I decided to stick it out and to do my best to maintain our reputation. At least, the world knew nothing of the fix that we were in. There might be some who had their doubts, but we were supposed to be strong enough to weather any storm.

But 1920 was a terrible year to live through. The partners tried their hands at speculation, but what they made when they were lucky they generally lost when things went wrong. Mr. Gubelman explained to me that he was convinced that the only way to make money was to "take a position", either long or short, to which I replied that my experience was just the opposite, that the only way to get ahead was by trading, in and out continually, with a multitude of little profits, rather than one big one, which might turn out to be a loss. Our foreign exchange manager built up a big position in Italian lire, on the short side, and when I got wind of it, I reported it, and he was directed to ease it down. This made him mad, and he closed it out at one fell swoop, buying a check for seventeen million lire from the American Express, which cost well over a million dollars, the largest check I ever had to sign. We made a lot of money on the deal, but the manager was fired, to my great relief. After that we turned to Leipzig, and things went better. They sold the dollars we received from selling foreign drafts, as they used to do before the war. Of course our firms were not identical, and technically we were strangers, but we operated on a joint account, and both of us made money.

And so this wretched year dragged on to its end, and when it did so, I found I was being made a partner after all. There was no ceremony about it, no signing of a contract, but simply an announcement to the outside world; but that sufficed to tie me up for life. With me they took in a Mr. John R. Hall, whom I had never met, but who turned out to be a very pleasant fellow, a college man like myself, with whom I could really talk. One evening, when we were both working late, he looked up from his figuring, and asked me what I thought our capital might be. I knew we had had losses, but guessed it might be from three to four million dollars.

"No", he said, "You are wrong. It's two hundred and fifty thousand", adding that the place was full of speculative accounts that ought to be wound up. Of course I was greatly shocked to hear this news, which was so much worse than I had thought, but at least we were still afloat and not quite bankrupt. Our cash position was all right, and no one knew about our plight, but we agreed that something had to be done at once to put us on our feet. As to that, it seemed that he knew a number of millionaires, and had come into the firm for the purpose of reorganizing it.

We had many more talks after that first one, while he was making his plans for cleaning us up, and I told him some things about the firm he did not know. He got two of his friends together in a group, and they agreed to advance us two million dollars, taking our own assets as security, and under a contract, carefully drawn to exclude the possibility of holding them as secret partners, a possibility not to be forgotten in dealing with a partnership. To reform a corporation is a comparatively simple matter, for a corporation is a single person standing by itself. But a partnership is a group of persons, any one of whom by himself can hold things up indefinitely. When he had got it all together, we all met in a room at the old Belmont Hotel on 42nd Street, my mother too, and signed the contract. This was on June 15, 1921, a memorable date for all of us, together with the same day two years later, when the contract was to expire. For two years at least our troubles were over, and John had his hands free to reorganize the firm. Next morning two million dollars in beautiful negotiable "blue chip" securities were put into our vault, and we all breathed easier, those of us at least who realized how precarious our position really had been.

Why John was not more drastic in his reorganization I could only guess. It was his job, of course, and I did not press my ideas on him, but I did think he would accept one at least of the resignations we had all tendered. A firm is no better than the men who run it, and six partners were too many for our business anyway. I suppose he saw something in the "House of Issue" that was hidden from me, provided you had the right sort of issues to bring out. There was a company called "Computing Tabulating and Recording" whose president was in the office a good deal, and who seemed to be looking for assistance. That would have been a better venture than oil stocks, but it fell to someone else to bring it out. As "I.B.M." it was successful enough to suit anybody. Evidently John did not realize that we lacked the people to make a success of anything, and two years was not enough to show him.

Neither did he realize that the situation in Germany was better than it looked. The marks were being peddled on the street at a million for a quarter, but none of us knew that the Germans were doing this on purpose, as a means of getting rid of their war debts. Since there was no one who would loan them money in the war, the Germans issued bonds to their own people, who put their savings in these. Germany never repudiated its war loans, but they went out of existence with the mark.

Canny Germans and the banks had money tucked away in Switzerland, in Holland, and in Sweden, and had we applied to our Leipzig friends, they could have found the money that we needed, and good men too to run our business. But we did not know this, and nobody could blame us for that. Germany looked like a hopeless case, that was not even mentioned. So we just went along as we had been doing, and toward the end we tried our hands at one more issue, a copper mine in Mexico called "Eldorado Mining & Milling". By this time, all the sharpers must have seen us for the easy marks we were, and this issue fell completely flat. This time our foreign business could not see us through once more, and our contract was coming to an end. When we asked for an extension, it was turned down. The older partners then threatened suit, to hold our friends who had helped us in our time of trouble responsible as secret partners, and that upset the applecart completely. There was nothing for it, when the time ran out, but to apply for a Receiver, and go into bankruptcy. (1923?)

And that was the end of our good old firm. Perhaps it was inevitable, things being what they were. Perhaps we might have tided over after all, and made another couple of million dollars, but if we had, it would have been by luck, not merit, and we would have crashed when so many others did, in 1929.

The fact was that it was not only our firm that got into trouble, it was the whole of American business. A whole era was coming to an end, not just ourselves. The heyday of the individual was over, be he Jay Gould or John D. Rockefeller, Pierpont Morgan or Henry Ford, the day of Big Business doing as it pleased. A new kind of business leader would develop to take charge - the Executive, we call him, for whom business was his profession, who considered his responsibilities, not just his opportunities.

It may be of interest to note that our Leipzig friends got over the calamity that took away their business and that might have laid them low. They had saved their money and were comfortably fixed. They were the largest single creditor of the New York firm, but in a noble gesture they forewent their claim. They continued as a local banking firm in Leipzig, and years later I joined up with them again. When Hitler came to power, I pulled out, but they continued on through the difficult years that followed, and through the second war. It was only when the Russians came to Leipzig, and the Communists took over, that they were closed down like all the German banks. This was in 1945, and they had been in business for ninety-three years. My grandfather, who had founded the firm in 1852, could not turn in his grave at sight of all these changes, for his resting place had been utterly destroyed by a bomb hit in an air attack on Leipzig in the war.

POSTSCRIPT

It is easy to moralize about the story of our firm. At times there was drama in it, as when the two Knauth brothers, Percival and Octavio Knauth, died in 1900, or when the war broke out so suddenly in 1914. There was also more than a little irony, as when the Germans lost the war, but it was our New York firm that failed, while the Leipzig one came through.

Indeed, it has been said that two lost wars have been the making of the German people, while two successful wars have split the world in two.

The failure of the New York firm, on that Saturday in June, was front page news in the New York Times, and a countrywide sensation that painfully affected many banks. It was generally ascribed, with not much reason, to the decline in the value of the German mark, and it was followed by the closing of some smaller banking firms that did a German business. In Europe the sensation was considerably bigger, for Knauth Nachod & Kuehne had been regarded as one of the soundest firms in the United States. If they went under, who in America could be considered safe? American institutions were making their first assay at leadership at that time, when those of Europe were in discredit. Indeed, the decade of the 1920's showed how much we had to learn. It took another decade to reform them, and by that time, another war was in the making.

Our failure was perhaps an early symptom of the trouble in this country. The day of unrestricted individual initiative was coming to an end, and the time drawing nigh for some kind of regulation. The Panic of 1907 had showed the need, and the Federal Reserve System was the first response. It brought the banks together into a team, and banking became a profession, for which men studied as they did for the law and medicine. It was a typically American solution of the problem, one that was not imposed, but that grew naturally in accordance with the call for it. We still have 15,000 banks, but they are no longer run by amateurs, and the failure of a bank, once not uncommon, is a rare event indeed.

The banking houses too have changed, in the business that they do, and in the way they do it. It was among the private bankers that rules for the profession were first worked out, for as individuals who operated for their own account they could take no chances. Among them Jewish bankers played a leading part, for Jewish discipline was very strict. The private banker was under no restrictions, his only guide his conscience, and the fear of open failure, and he was obliged to use the greatest care. No one but himself knew what he really had, and he stood and fell by his reputation, in contrast to the bank official, whose bank was an entity of its own, and which published its reports. The private banker was secretive, but he was also free to act as a free agent.

Knauth Nachod & Kuehne was a house of this kind, down to the first World War. When its two houses split apart, the one in Leipzig clung to its tradition, while the one in New York was glad to be rid of its German heritage. This was identical, as it happened, with sound banking principles, and the two were lost together. By the time that this was realized, it was too late. Trouble came too fast to be successfully repaired.

The break with Europe and with sound tradition affected other banking houses too. What happened to our firm happened to others too, as became apparent when the time approached its climax in 1929. Ours was the only important firm that actually failed, but others too made their mistakes, and had to be restored to health. The time was one of vast and swift transition, which could not be surmounted without some casualties. The place of London as the banking center of the world could not be held when Britain ceased to be the leading power in the world, and New York could not take over with the banking structure that it had in the 1920's. A whole new generation of business leaders had to be found and trained, and this took both time and vision. The crash of 1929 and the depression that followed simply had to come, not because the old order in itself was wrong, but because it was no longer suited to the time. When one thinks back at some of the awful things that happened in those days, one has to hold one's head. The day of private enterprise, unlimited, was over. It had served the nation well in the time when it was young, and spreading across the continent. The country now had reached maturity, and it called for other methods. The United States no longer lived in isolation, but it had become the leader of the whole free world. Out of the misery of the Depression there followed a new birth. We are building a new structure, as always by experiment and testing, and we can reasonably hope that it will be a good one.

NOTES IN REFERENCE TO KNAUTH BANKING RETROSPECT AND RELATED MATERIAL.

Kuhne is written Kuehne to indicate that there should be an umlaut over the "u" in Kuhne.

20. Chapter III - very inconsistent? First he says there is a universal lenience, and then says this is mainly in Britain.

In Chap. IV, is info. on foreign exchange essentially correct? 34. 7 shillings to the dollar.

40. Queen of England from house of Wettin - Leipzig-Slavic - Lipa, Linden, 1409, students from Bohemia - Prague.

41. and elsewhere, should have a few more dates sprinkled through to help orient the reader.

43. Bach as Kantor

44. Schrebergarten (allotments)

45. Saxon sayings

50. Fanny Knauth

52. Carl Schurz; inland drawing system was a concept introduced by the firm.

53. F.T. Knauth dies in 1874.

55. Date when DM 4.20 went to 4.0?

62. "now in 1959..." indicates date when Retrospect was written? 72. Leipzig - queer people.

80. Antonio Knauth was firm's lawyer.

84. Banking method

85. Harold McCormick (Chicago, wife daughter of J.D. Rockefeller.)

86. SOME MATERIAL MISSING

87. Teddy Roosevelt.

91. Gustav Stresemann

94. Precarious status of firm.

94. 95. Bankruptcy of firm.

Various Knauth addresses:

Percival Knauth built house:

302 W. 76 St. 3 clover leaves and a saw are in the insignia on the outside.

Whitmans:

232 W. 76th St.

Antonio Knauth:

39 W. 76th St., until? After A.K. died, moved to 321 W. 92 st., where Else Knauth was living at time Henry Dunbar and Ilse Knauth were married, in 1917.