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Siegmund Warburg, the City and the Financial Roots of European Integration

by

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> The division between the Six and the Seven is potentially very disruptive and splits Europe into two parts which, if the present trend is allowed to continue, will not later merge. It was said that Great Britain needs Germany as Marlborough needed Prince Eugene of Savoy and Castlereagh needed Metternich. You are the unrivalled master in business mergers. As the most prominent Anglo-German you are the best qualified to work for the consolidation of Europe. With you background, knowledge, and your constructive, creative genius you should be successful in completing this noble task of peace … [leading] towards the unity of Europe, which I fervently hope will be realised.
>
> Fritz Oppenheimer to Siegmund Warburg, May 24, 1966[2]

I

The economic integration of Western Europe after the Second World War proceeded by a circuitous route. It began with the creation of a "Community" to regulate the production and pricing of coal and steel in six European states: West Germany, France, Italy, Belgium, the Netherlands and Luxembourg. The Treaty of Rome then created a "Common Market", formally prohibiting barriers on trade between these countries. Trade between them had been growing rapidly before the formation of this European Economic Community; it continued to grow thereafter—as did world trade generally. However, in other respects economic integration proceeded slowly. In agriculture the development of

[1] This paper is based on chapter 9 of my forthcoming biography of Sir Siegmund Warburg. I would like to thank Glen O'Hara and Andrew Vereker for research assistance. A full list of other acknowledgments will be published in the book.

[2] SGW, DME/AA.../CNZZ/5/, Fritz Oppenheimer to SGW, May 24, 1966.

an integrated market was positively hindered by the persistence of national subsidies until a Common Agricultural Policy superseded these. In manufacturing, too, national governments continued to resist pan-European competition by subsidizing politically sensitive sectors or by imposing non-tariff barriers. Such practices were less frequently adopted in the case of services, but only because services were less easily traded across national boundaries even under conditions of perfect free trade. In short, national markets were not being integrated because they were not really being liberalized. The exception to this rule was financial services, one of which—the sale of long-term corporate and public sector bonds to relatively wealthy investors—became integrated in a quite novel way in the course of the 1960s.

The rise of the so-called "Eurobond" market is often seen as an early step in the direction of financial globalization.[3] Earlier accounts have emphasized the role of the Bank of England in liberalizing the London market for foreign currency transactions at a time when other financial markets were becoming more, not less, regulated. But the birth of the Eurobond was also a major breakthrough in the history of European integration—though one largely unforeseen by the statesmen and technocrats Alan Milward has called the "saints" of the European Union's formative years.[4] True, the Treaty of Rome envisaged reducing the restrictions on the free movement of capital between member states "to the extent necessary for the proper functioning of the Common Market".[5] But the European Commission did not act as if it attached much importance to this. Its First

[3] For an introduction, see Ian M. Kerr, *A History of the Eurobond Market* (London, 1984).

[4] Alan S. Milward, *The European Rescue of the Nation-State*, 2nd edn. (London, 2000).

[5] Kurt Richebächer, "The Problems and Prospects of Integrating European Capital Markets", *Journal of Money, Credit and Banking*, 1, 3, Conference of University Professors (Aug. 1969), p. 337.

Directive on capital controls aimed to liberalize only flows associated with trade within the EEC, direct investment or investment in listed shares.[6] Although the 1962 "Action Programme" aimed to relax capital controls by the end of 1965, the Second Directive on capital controls was an empty gesture and a Third Directive was stillborn.[7] National governments generally remained wedded to capital and exchange controls. The development of the Eurobond market was thus an entirely spontaneous result of innovation by private sector actors, with some help from Britain's permissive monetary authorities. Within a few short years, the genesis and growth of this market transformed the European capital market, forging entirely new institutional links and networks across national borders. Nevertheless, it remains a largely unwritten chapter of post-war European history, rating literally no mention at all in most recent textbooks on the subject.[8]

This article seeks to redress the balance by putting the Eurobond market at the very centre of the history of West European integration in the 1960s. The key argument advanced here is that it was bankers, not politicians, who made the running in this period. In some measure, no doubt, their motive was narrowly self-interested; the prime motive was the profit motive. Yet there is also compelling evidence that the architects of the Eurobond market also had a political agenda. They regarded it not only as a way of making money, but also as a potent device for advancing Europe's political integration. In particular, they appreciated that European capital market integration could reinforce

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[6] Catherine Schenk, "Sterling, International Monetary Reform and Britain's Applications to Join the European Economic Community in the 1960s", *Contemporary European History*, 11, 3 (2002), p. 359.

[7] Ibid., p. 360.

[8] See e.g. William I. Hitchcock, *The Struggle for Europe: A History of Europe since 1945* (London, London, 2003)

the case for British membership of the EEC. Among the most powerful arguments against British membership was the legacy of sterling's historic role as a reserve currency. The accumulation in London of "sterling balances" by foreign governments and central banks made the ailing British economy vulnerable to periodic crises of confidence, so long as the country continued to run current account deficits. (Britain had international reserves of foreign exchange and gold of little more than £1 billion, but the sterling balances rose from just over £3 billion in 1958 to £6 billion ten year later.[9]) This was analogous to the contemporaneous American problem with the dollar: the providers of international reserve currencies had to run balance of payments deficits in order to supply the world with their currencies, but in so doing their currencies became vulnerable to crises of confidence. The French, convinced they were subsidizing the Americans, also feared they would end up having to prop up sterling if Britain joined the EEC, since membership was expected to worsen the UK balance of payments; this was a key reason for both de Gaulle's vetoes of British membership in 1963 and 1967.[10] The counterargument developed by the pioneers of the Eurobond market was that the French could not exclude Britain indefinitely if London re-established itself as Europe's financial centre for transactions in currencies other than sterling.[11] Part of the significance of the Eurobond market for proponents of British membership was that it turned the City of London from a liability into an asset.

In this story a leading role was played by the banker Siegmund Warburg. Though born in Germany, Warburg had emigrated to England in 1934 and by the early 1960s had

[9] Schenk, "Sterling, International Monetary Reform and Britain's Applications", p. 348.

[10] Ibid., p. 366.

[11] Ibid., p. 355.

established the bank he founded there with a group of other German-Jewish émigrés as the most dynamic and innovative merchant bank in the City of London. Despite having obtained a seat on the prestigious Accepting Houses Committee, S.G. Warburg & Co. was in many ways quite different from the established merchant banks, even those that had been founded by German-Jewish families in the previous century. The bank's core business was the provision of high-quality financial advice to British companies, for which it was able to charge substantial fees. This focus reflected the lessons Warburg and his collaborators had learned from the Great Depression about the dangers of conventional deposits-and-loans banking; it also reflected the changed circumstances of the post-war world, in which national capital markets remained subject to a plethora of exchange and capital controls. Nevertheless, Warburg always yearned for a return to the days of less regulated international finance and spent much of his later career trying to devise ways to link his London firm with other institutions in New York, Paris, Hamburg, Frankfurt and Zurich. At the same time, he was also a convinced proponent of European economic and political integration. In the 1920s and 1930s, he and other family members had been generous supporters of the Pan-European movement founded by Richard, Count Coudenhove-Kalergi.[12] To Warburg there seemed no necessary conflict between global—and particularly transatlantic—financial integration and European political integration. On the contrary, the experience of the 1920s seemed to suggest that they were complementary processes. It had been when capital was flowing across the Atlantic at the

[12] Katiana Orluc, "A Wilhelmine Legacy? Coudenhove-Kalergi's 'Paneuropa' as an Alternative Path towards a European (Post-)Modernity, 1922–1932", in Geoff Eley and James Retallack (eds), *Wilhelminism and its Legacies: German Modernities, Imperialism, and the Meanings of Reform, 1890-1930* (Oxford / New York, 2003).

time of the Dawes Plan that the prospects for Franco-German rapprochement had seemed rosiest. The breakdown of the global financial system in the Depression had been followed in short order by European disintegration. A second lesson Warburg learned from the 1930s, however, was that explicit calls for European union were unlikely to succeed because of the resilience of nationalism throughout the continent. By the post-war period, therefore, he had become convinced that the only way to advance the cause of European integration was by economic means—reversing Europeans into a united Europe through the back door of commercial and above all financial integration. Given his outlook and ambitions, it is not surprising that it was Warburg who was the driving force behind the creation of the Eurobond market. In its technical design—a supranational market that could somehow co-exist with continued national limitations on capital mobility—and its covert political function, it epitomized his subtle *Weltanschauung*.

II

As a young man in the Germany of the 1920s, Siegmund Warburg had been a convinced Pan-European. He believed, as he wrote to his friend Ernst Kocherthaler in 1927, "that Europe has passed the culmination point of nationalism, or rather particularism, and is moving with very slow steps in the direction of consolidation".[13] He discussed with Coudenhove-Kalergi ways of linking the latter's Pan-European movement to the contemporaneous campaign for international disarmament. Among Warburg's proposals

[13] SGW, VME/CL/CZ../2, SGW to Ernst Kocherthaler, July 20, 1927. "Europa hat den Kulminationspunkt des Nationalismus oder besser gesagt, Partikularismus hinter sich und geht mit sehr langsamen Schritten einer Konsolidierung entgegen."

at this time was one for “a central European ring of states united through a court of arbitration with pooled sovereignty in military matters and consisting of Germany, Holland and the Scandinavian states etc.”[14] Ten years later, with Hitler’s dictatorship firmly established and radical nationalists in power all over Central, Southern and Eastern Europe, such notions had come to seem naïve. Nevertheless, Warburg continued to assist Coudenhove-Kalergi—helping him, for example, to find an English publisher for his books. Even after the outbreak of war in 1939, Warburg clung to the idea of some kind of political union of Europe, seeing the wartime Anglo-French alliance as the potentially “sound foundament [*sic*] for a new Commonwealth which should not be all embracing, but a nucleus for a really strong combination of people with European background …”[15] With France defeated and no end to the war in sight, he continued to toy with schemes for “West European Association”, convinced that Britain’s post-war future lay in developing its ties with Europe, not the Empire.[16] In 1942 he urged Stafford Cripps to “to use the presence of all the refugee Governments residing here in order to declare the constitution of some sort of the United States of Europe in however fragmentary form it may be”.[17] A memorandum he drafted for Cripps proposed a post-war “Association of Western Europe under British Leadership” that would act as the “the nucleus for a European Commonwealth of Nations”. This Association, Warburg suggested, would have “Supreme Authority” over “(a) Military affairs; (b) Transport and Communications; (c)

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[14] SGW, VME/CL/CZ../2, SGW to Coudenhove-Kalergie, July 26, 1927. “einen zentraleuropäischen Ring gebunden durch Schiedsgericht vereinigt mit zwischenstaatlicher Kriegsoberhoheit, bestehend aus Deutschland, Schweiz, Holland und den Skandinavischen Staaten etc. zustande bringen könnte.”

[15] SGW, VME/CL/CZ../2SWG to Lilly Melchior-Roberts, February 16, 1940.

[16] SGW, VME/MA../ZZ../4, SGW Diary 1942, February 5, 1942.

[17] Ibid., February 18, 1942.

Planning of Public Works [and] (d) Currency arrangements". There was no use, he argued, in expecting the United States to make long-term commitments to Europe's post-war stability. Instead, the United Kingdom should take the lead in "convert[ing] a temporary coalition and war alliance into a free but durable and far-going merger of economic interests and effective power".[18] As in the 1920s, so in the 1940s, Warburg therefore remained committed to the idea of explicit political union. In a draft manifesto he sketched on the same theme, he explicitly called for an end to national sovereignty "in the old legal sense", proposing that in post-war Europe, states would "have to delegate certain privileges so far embedded in their sovereignty to their respective Federation, which will delegate certain rights to common European Institutions". In late 1942, he wrote an article entitled "The Principles of Federal Union", which developed this line of argument further.[19] He continued throughout the later 1940s to hope that some kind of European union might emerge under joint Anglo-French leadership.[20]

Yet even at this early stage Warburg was already suggesting that these common European institutions would have primarily economic functions, such as the regulation of "European traffic (railways, roads, waterways and air communications), and … European economical planning, money matters including currency, granting of credits and other

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[18] SGW, VME/CL/CZ../2, SGW, "A Few Fragmentary Thoughts on British Foreign Policy", April 14, 1942.

[19] SGW, VME/CL/CZ../2, SGW, "The Principles of Federal Union Applied to British Foreign Policy", December 7, 1942. An edited version was published under the pseudonym "Simplificator" in the *Federal Union News*, 95 (January 1943), pp. 4–5. These ideas were further developed by Warburg in a memorandum entitled "Problems Of British Foreign Policy Towards Europe", December 2, 1943. Interestingly, Warburg envisaged the break-up of Germany into "a separate Austria, Bavaria, Württembreg, Baden and Rhineland/Westphalia, Prussia, etc. within a Central and West European Federation": SGW to Otto Benzinger, August 15, 1944.

[20] SGW, VME/CL/CZ../2, SGW, "Notes on [a visit to] France", July 1945.

European common institutions".[21] Thus, when it became clear that the British government would not pursue the notion of a British-led European Association,[22] while the French government preferred to focus its attention on Jean Monnet's national economic plan, Warburg did not have to abandon his vision of European integration altogether. Governments might not be ready for a politically united Europe, but that did not preclude "private efforts" like the regular meetings of British and French businessmen he envisaged to promote "closer relations between the two countries".[23] Traveling regularly across the Channel, Warburg began consciously trying to achieve in the realm of business, and especially finance, the kind of integration that seemed to be out of political reach. Although he remained involved in a variety of federalist initiatives,[24] from the late 1940s onwards he diverted an increasing proportion of his energies to economic integration, in the belief that this would lay an indispensable foundation for political union in the more distant future. In July 1950, for example, he discussed with Cripps, who was now Chancellor of the Exchequer, the "advisability of starting West-European cooperation … with a unification [rather] of the West-European transport system than of West-European heavy industry as is proposed under the

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[21] SGW, VME/MA../ZZ../4, SGW Diary 1942, Draft Memorandum, April 27, 1942. See also the diary entry for April 30, 1942, on the subject of European railways.

[22] SGW, VME/MA../ZZ../4, SGW Diary 1943-1949, September 20, 1944. See also VME/MA../ZZ../4 SGW, "Notes for My Diary", January 2, 1947, for Warburg's vain efforts to persuade Stafford Cripps; and "Note for My Diary", March 12, 1948 on a conversation with Bob Boothby arguing for "a two-party motion of various members of the Labour Party and the Conservative Party in favour of a federation of Western Europe".

[23] SGW, VME/CL/CZ../2, SGW Memorandum enclosed in a letter to Lionel Fraser, February 2, 1947.

[24] Among them the Action Committee for a United States of Europe, the United Kingdom Council of the European Movement, the European Foundation.

Schuman plan".[25] The possibility that such a scheme could be financed with a loan "issued jointly by the United Kingdom and various countries of the European Continent" seemed much more promising than Coudenhove-Kalergi's now dated notions.[26] When the idea for Coal and Steel Community prevailed, Warburg overcame his initial skepticism and sought ways to develop the role of the ECSC's "High Authority" beyond its initial, rather narrow remit.

In Warburg's eyes, Britain's imperial days were over; there was simply no point in pursuing the economic development of her remaining colonies, or in promoting trade with the Commonwealth countries, as if these could be a substitute for European integration.[27] An early convert to the idea of British membership of the European Economic Community, he publicly supported the first campaign for British accession,[28] and refused to regard the European Free Trade Area as a viable alternative to the EEC. Once again, however, he saw the need to build economic support for British entry on

[25] SGW, DME/AA../CNZZ/5, Extract from SGW's Bi-weekly notes No. 60, July 26, 1950.

[26] SGW, Box 64, Half Weekly Notes No.14, March 29, 1952. Warburg's correspondence with Coudenhove-Kalergi in this period suggests a mounting impatience on the part of the former. As he observed caustically in February 1955: "While I have always had and still have a great personal affection for Codenhove I find that in recent years he has become a wishful thinker to an extent which is almost dangerous. He always sees the facts as he wants them and not as they are and as a result he has lost a great deal of his old reputation": DME/AA../CNZZ/5, SGW to Anne-Marie Kaulla, February 17, 1955.

[27] SGW, DME/AA../CNZZ/5, SGW to Julian Amery, April 27, 1951; Box 2, SGW to Mrs. Josette Aubrey, January 19. 1959. Indeed, Warburg argued (with the French model in mind), that "nothing would do more to strengthen the cohesion of the Commonwealth than the adherence of the United Kingdom to the Common Market, whilst nothing would do more harm to the cohesion of the Commonwealth than if the United Kingdom were excluded from the Common Market": Box 2, SGW to Sir Alexander Spearman, February 7, 1959.

[28] SGW, VME/CL/CZ../2, SGW to E.G. Thompson, September 10, 1956. He was one of over fifty "prominent persons" who signed a pro-membership letter to the press published in most major newspapers on October 8.

both sides of the Channel. A typical proposal was that "an informal group of a few men in the City—perhaps together with some industrialists trade unionists and politicians—might make a more active contribution to getting people from this country and from the Continent of Europe more closely together and to destroy some of the strong suspicions against British policy which have accumulated on the Continent".[29] When the British position shifted towards seeking membership in 1960, Warburg gave little of the credit to "official circles".[30] Foreseeing insuperable differences between Britain and "the Six", since the former saw membership as essentially a matter of trade policy, while the latter assumed "the creation of political structures would automatically solve the economic problems", he urged that the decision be referred to "a small group of so-called 'Wise Men'."[31]

The fact that Warburg envisaged an American chairman for this group illustrates that he saw no contradiction between Atlanticism and European integration.[32] At times, indeed, he talked of the expansion of the Common Market grouping as a prelude to "an Atlantic economic union".[33] He opposed the idea of a European Defense Community, seeing the North Atlantic Treaty Organization as the only viable structure for West European security.[34] More importantly, Warburg recognized that European integration in the post-war period could only proceed smoothly with the assistance of American aid. To be sure, the relative contribution of the Marshall Plan to Europe's post-war economic

[29] SGW, Box 64, SGW, Daily Report, September 23, 1958.

[30] SGW, Box 3, SGW to Max Kohnstamm, June 23, 1960; DME/AA../CNZZ/5, Kurt Birrenbach to SGW, July 12, 1960.

[31] SGW, DME/AA../CNZZ/5, SGW to Kurt Birrenbach, August 2, 1960.

[32] SGW, DME/AA../CNZZ/ 5, SGW to Count Coundenhove-Kalergi, November 12, 1951.

[33] SGW Box 8, SGW to Nicholas Kaldor, November 13, 1962.

[34] SGW, Box 62, SGW to R. H. Grierson, November 30, 1953.

recovery continues to be debated by historians; the total sum, after all, amounted to less than three per cent of the recipients' combined gross domestic product. On the other hand, American aid and loans undoubtedly helped European economies to contend with the inevitable current account deficits they ran as they sought to re-equip their dilapidated industries. They may also have helped to avoid the kind of zero-sum industrial relations that bedeviled Europe in the 1920s.[35] From Warburg's standpoint, however, the key thing was that, in addition to priming the European pump with dollars, the American administrators of the plan positively encouraged European economic integration, pressurizing recipient countries to reduce trade barriers.

Warburg had argued in 1947 that a "comprehensive programme of West-European reconstruction in which Great Britain would play the leading role would obtain [more] wholehearted and generous support in the U.S.A." than "the arrangement of a large number of Dollar loans to various European countries", as envisaged in the Marshall Plan.[36] But it soon became clear that dollar loans could themselves be used to encourage Europeans to cooperate. The most obvious example was the creation of the European Payments Union in July 1950, which linked together the international payments systems of the recipients of American aid. In the succeeding eight years of its operation, the EPU enabled the French and British economies to run substantial payments deficits with booming West Germany, and certainly contributed to the rapid growth of intra-European trade. To Warburg, however, this was merely a beginning. His ambition was to

[35] J. Bradford DeLong and Barry Eichengreen (1993), "The Marshall Plan: History's Most Successful Structural Adjustment Programme", in Rüdiger Dornbusch, Wilhelm Nölling, and Richard Layard (eds.), *Postwar Economic Reconstruction and Lessons for the East Today* (Cambridge, Mass.), pp. 189-230.

[36] SGW, Box 62, Report 12, June 14, 1947.

see an end to the kind of exchange and capital controls that persisted in all save the West German economy throughout the 1950s and 1960s. He encouraged the ECSC (which he always preferred to call "the High Authority") to enter the international capital market as a borrower, in the belief that this might enhance its standing as well as increasing its resources, while at the same time enticing American private investors to follow their government's lead in financing European recovery.[37] In 1957, after long and difficult negotiations, these efforts bore fruit with the issue in New York of a $35 million bond issue for the ECSC.[38] Another somewhat larger loan for $35 million followed in 1958; a third for $25 million in 1960 and a fourth for the same amount in 1962.[39] Warburg also sought to encourage Euratom and the European Investment Bank to raise funds on the New York bond market. Such transactions Warburg explicitly characterized as "a small contribution" to the end of "European integration".[40]

It should be stressed that arguments of the sort Warburg put forward were not widely supported in the City, Westminster or Whitehall. In that sense, despite his family's long-standing links to established firms like Rothschilds, Warburg was undoubtedly an "outsider".[41] Indeed, as late as 1979, he could still complain about the

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[37] SGW, Box 64, SGW, Daily Report, March 3, 1956. There are numerous letters in Warburg's papers on the subject of the ECSC's finances. Of particular importance in this regard was his friendship with Hans Skribanowitz, the Director of the ECSC's Finance Division.

[38] Yale University Library, William Wiseman Papers, Box 19 f.137, SGW to William Wiseman, April 15, 1957.

[39] SGW, Box 1, SGW to Edmund Stinnes, May 24, 1958; Box 64, SGW, Daily Report, June 2, 1958; SGW, DME/AA../CNZZ/5, SGW to William Wiseman, June 10, 1958; Box 8, SGW to Valéry Giscard d'Estaing, November 5, 1962.

[40] SGW, Box 1, SGW to Hans Skribanowitz, July 3, 1958.

[41] R.C. Michie, "Insiders, Outsiders and the Dynamics of Change in the City of London since 1900", *Journal of Contemporary History*, 33, 4 (1988) esp. pp. 557. See also Paul Thompson , "The Pyrrhic

generally "passive if not obstructive attitude of the City towards the European Economic Community".[42] But he was not a completely isolated visionary. Others who shared his approach to the question of European integration included Sir George Bolton, a member of the Court of Governors of the Bank of England, and Sir Frank Lee of H.M. Treasury. A crucial role was played by Hermann Abs of the Deutsche Bank, whom Warburg had known since before the war and whose conduct between 1933 and 1945 he found it expedient not to scrutinize.[43] Another kindred spirit in Germany was the German Christian Democrat politician and diplomat Kurt Birrenbach.[44] In the United States he found an active sympathizer in Jack McCloy, who had played a leading role in the American occupation of Germany before becoming Chairman of the Chase Manhattan Bank in 1953. (It was McCloy who was supposed to chair Warburg's committee of "Wise Men" in 1960.)

At first, it was to the question of exchange rates that this group addressed themselves. In theory the major European economies were all linked to the dollar, which was in turn linked to gold, through the system of pegged exchange rates that had been established at Bretton Woods. In practice their divergent economic trajectories necessitated periodic devaluations (of sterling and the French franc) and revaluations (of the deutschmark). As early as 1955, Warburg raised with Bolton "the necessity of getting

Victory of Gentlemanly Capitalism: The Financial Elite of the City of London, 1945–90", *Journal of Contemporary History*, 32, 3 (1997), pp. 287, 290ff., 295.

[42] SGW, Box 41, SGW to H.R. Hutton, June 11, 1979.

[43] See most recently Lothar Gall, *Der Bankier: Hermann Josef Abs – Eine Biographie* (C. H. Beck, 2004). Gall understates the importance of the Abs-Warburg relationship.

[44] See Hans-Peter Hinrichsen, *Der Ratgeber: Kurt Birrenbach und die Aussenpolitik der Bundesrepublik Deutschland* (Berlin, 2002)

the European countries more closely linked in currency matters" with a view to achieving "complete interchangeability of European currencies".[45] Two years later he remained convinced that "neither the common market arrangements nor the so-called free trade area arrangements will work unless there is a joint European stabilisation fund, which for all practical purposes means a joint sterling/D[eutsche] mark stabilisation fund".[46] Abs, Birrenbach and he collaborated on an abortive project for an Anglo-German exchange rate stabilization fund—which Warburg at one stage conceived of as "an Anglo-German currency alliance".[47] There were obvious reasons for such a project. Nothing caused more disruption to British post-war economic policy than the recurrent sterling crises of the period, which were due as much to the relative uncompetitiveness of British exports as to the large and precarious sterling balances.[48] At the same time, German policy makers were increasingly concerned by the opposite tendency of their currency to appreciate as their country ran current account surpluses. However, it proved impossible to progress beyond the drawing board with such schemes.[49] European monetary authorities preferred national or international solutions over European solutions, for fear of being committed to expensive interventions on behalf of their neighbors. As Warburg noted in 1960, the principal obstacle to monetary integration was the "present completely unilateral policy

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[45] SGW, Box 64, SGW, Daily Report, April 23, 1955.

[46] SGW, Box 64, SGW Daily Report, September 2, 1957.

[47] SGW, DME/AA../CNZZ/5, SGW to Kurt Birrenbach, December 4, 1957: "ein englisch-deutsches Waehrungsbuendnis". See also SGW, Box 63, SGW Daily Report, September 7, 1957.

[48] Gerold Krozewski, "Sterling, the 'Minor' Territories, and the End of Formal Empire, 1939–1958", *Economic History Review*, New Series, 46, 2 (May, 1993), pp. 239-265.

[49] For Warburg's discussion of the idea with John Stevens, a Bank of England director, see SGW Box 64, September 15, 1958.

adhered to by the German Central Bank and other authorities".[50] Although the EC's 1962 "Action Programme" had specified monetary union as a long-term objective, nothing more was heard of the idea until Hague Summit of 1969 and the Werner Report of 1970.

Instead, Warburg began to consider the possibility of integrating European capital markets rather than currencies. At first sight, this might seem a contradictory step. After all, it was precisely the lack of capital market integration in Europe that allowed the Bretton Woods system of fixed exchange rates to operate to operate alongside more or less independent national monetary policies. However, we must distinguish here between full-scale capital market integration and the more limited form of integration Warburg had in mind.[51] As a partner for many years in the New York firm of Kuhn, Loeb & Co., Warburg had seen at first hand how major American bond issues were conducted by large syndicates of New York banks. This had also been a well established practice in the days when London had been a major capital exporting market. The discernible demand of European institutions and investors for the four ECSC loans issued in New York[52] made Warburg and others appreciate the possibility that similar syndicates could quite easily be created within Europe for dollar-denominated issues of bonds by European entities. Such syndicates could, under the right regulatory conditions, operate across European borders without violating existing rules on exchange and capital controls, not least because the

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[50] SGW, DME/AA../CNZZ/ 5, SGW to Coudenhove-Kalergi, September 15, 1960.

[51] See on this point Oscar L. Altman, "The Integration of European Capital Markets", *Journal of Finance*, 20, 2, Papers and Proceedings of the Twenty-Third Annual Meeting of the American Finance Association, Chicago, Illinois, December 28–30, 1964 (May, 1965), pp. 209–221;

[52] American investors accounted for, respectively, 38 per cent, 38 per cent, 37 per cent and 57 per cent of the four loans; in other words, a majority of the dollar denominated bonds ended up in European hands: SGW, Box 8, SGW to Valéry Giscard d'Estaing, November 5, 1962.

loans in question were denominated in dollars. This fundamental insight was the basis for the birth and growth of the Eurobond market. It was, as Warburg had realized by 1958, hard to imagine a continuation of "the present state of affairs in regard to the distribution of European dollar bonds … namely that the American issuing houses underwrite these dollar loans for European borrowers but that the European banks and banking houses place most of the bonds."[53] It was equally hard to envisage European capital market integration proceeding on the basis of some kind of artificial "currency of account", or "some kind of multiple currency clause".[54] The inference Warburg drew was that dollar-denominated bonds could be issued in European markets, if an international market could be created there that avoided the restrictions of national exchange and capital controls.

The necessary precondition for the Eurobond market was the existence of a large pool of liquid dollar deposits in European hands. These "Eurodollars" were a direct consequence of the American balance of payments deficits, which left a growing quantity of American currency in the hands of multinational companies, European commercial banks and central banks, well as supranational entities like the Bank for International Settlements. There were also significant numbers of wealthy individuals who preferred to hold a portion of their assets in dollars.[55] Why were these not dollars simply deposited with American institutions in New York? The answer is that "Restriction Q", introduced during the Depression, restricted the interest rate payable on short term deposits to 1 per cent in the case of 30-day deposits and 2.5 per cent in the case of 90-day deposits 2.5 per

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[53] SGW Box 1, SGW to John Schiff, October 30, 1958.

[54] SGW, Box 2, I. J. Fraser, "SGW and I. J. Fraser's visit to Brussels", April 17, 1959; SGW, Box 3, SGW, Daily Report, February 16, 1960.

[55] Catherine Schenk, "The Origins of the Eurodollar Market in London, 1955–1963", *Explorations in Economic History*, 35 (April 1998), p. 232.

cent.[56] In addition, the Soviet Union and its client states had no desire to deposit their dollar holdings—which were not insignificant—in the United States, where they might be liable to confiscation.[57] When British interest rates rose significantly above American rates in mid-1955, the Midland Bank seized the opportunity to offer non-UK residents dollar deposit facilities.[58] At first this was a mechanism for channeling American deposits into the British economy, since Midland switched the funds into sterling and lent them on. But when it became clear that the Bank of England was prepared to tolerate this, other banks were not slow to create Eurodollar accounts; by April 1963 the London offices of American banks accounted for a third of all UK banks' overseas liabilities.[59] By 1963, most Eurodollar deposits were being recycled as loans to companies and governments outside the UK. The Eurodollar market in London grew with extraordinary speed, from \$1.5 billion (1959) to \$50 billion (1970);[60] its annual growth rate peaked in 1969 at just under 50 per cent was and never below 10 per cent throughout the period from 1965 to 1979.[61] Yet this money was by its very nature "hot" money, on short-term deposit. That was what made other central banks so nervous about allowing Eurodollar markets to develop. The challenge was to use it as the basis for a new market in long-term securities.

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[56] Schenk, "Origins of the Eurodollar Market", p. 222.

[57] Burk, "Witness Seminar", p. 76.

[58] Schenk, "Origins of the Eurodollar Market", pp. 224f. Midland then sold these dollars spot for sterling and bought them back forward at a premium", so that it could obtain sterling at a rate 50 basis points below Bank Rate.

[59] Schenk, "Origins of the Eurodollar Market", p. 230.

[60] Burk, "Witness Seminar", p. 66.

[61] Catherine Schenk, "Crisis and Opportunity; The Policy Environment of International Banking in the City of London, 1958-1980", in Youssef Cassis and Eric Bussiere (eds.), *London and Paris as International Financial Centres* (Oxford, 2004), pp. 207–228.

III

By the end of the 1950s, Warburg was feeling distinctly disillusioned by the institutions that had been set up to promote European integration: the ECSC, Euratom and the EEC itself, to say nothing of the European Investment Bank, which had also been created by the Treaty of Rome and which Warburg viewed with some suspicion. He feared that the continent was heading towards "a time of renewed crisis in intra-European relations".[62] He detected only "inertia" and "intrigues" in Brussels and Luxembourg.[63] These were intimations of the stagnation that was to characterize the official integration process throughout the 1960s. To be sure, as President of the European Commission between 1958 and 1967, Walter Hallstein strove energetically to implement the terms of the Treaty of Rome by enhancing the power of the Commission. But his efforts do not seem to have impressed Warburg. More discouraging was the diversion of the EEC's energies (and most of its resources) into what ultimately emerged as the Common Agricultural Policy, a system designed to protect French and German farmers from anything resembling the free play of market forces. With the French pressing for protective tariffs and a market for their state-subsidized tariffs, and the Germans pressing for artificially high prices, Europe embarked on the very worst kind of economic integration, based on price supports, stockpiling and protection.

For a time, Warburg held out hope that Britain's decision to apply to join the EEC in 1961 might revitalize the existing European institutions; this, after all, was what he had been advocating for nearly twenty years. To help bolster the case for membership, he

[62] SGW Box 2, SGW to Edmund Stinnes, April 23, 1959: "zur Zeit einer neuen Krise in den inneneuropaischen Beziehungen".

[63] SGW, Box 2, SGW to Max Kohnstamm, April 23, 1959; SGW to Réné Sergent, May 21, 1959.

recruited the former British diplomat Lord Gladwyn, who had just served for six years as Britain's ambassador to France, to become a dedicated campaigner for British entry into the Common Market in the capacity of a non-executive director at Warburgs. As in the 1940s, Warburg felt "certain that if Britain joins the Common Market, and is represented in the various European organisations in the right way, the UK Government will be in a position to lead Europe and has no reason to fear that anything will be done which is strongly opposed by Britain as against the interests of the UK or the Commonwealth".[64] He enthusiastically supported schemes for a Channel bridge or tunnel, as much for their symbolic as their commercial potential.[65] Economic evidence by now strongly supported the case for British membership. The British economy was growing at less than half the rate of Germany and Italy, and was also lagging some way behind the other members of the Six. Meanwhile, the importance of Commonwealth markets to British trade was declining, while the importance of the EEC was growing. However, at a press conference on January 14, 1963, de Gaulle brusquely vetoed Britain's application for membership. It was all too obvious to the French that to admit Britain before a deal had been done on the Common Agricultural Policy would reinforce the proponents of relatively free trade, not least because Britain's farming sector was so much smaller than that of any EEC member. At the same time, as we have seen, the French had no desire to share responsibility for the chronic instability of sterling as a moribund reserve currency.[66] For his part, Warburg had grasped from an early stage that "as regards the giving up of

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[64] SGW, Box 5, SGW to Sir Richard Jessel, June 22, 1961.

[65] SGW, Box, 6, SGW to Lord Gladwyn, August 22, 1961; see also SGW to Lord Gladwyn, October 31, 1961.

[66] Schenk, "Sterling, International Monetary Reform and Britain's Applications".

national sovereignty the French—and in particular de Gaulle—are even more hesitant than most of the people in this country".[67] But he underestimated the lengths to which de Gaulle would be prepared to go to defend French national interests: not only rejecting British membership, but also boycotting European institutions in 1965 (the "Empty Chairs" crisis) and insisting that member states should have a national veto when measures were referred to the Council of Ministers (the Luxembourg Declaration).[68] Disgusted, Warburg accused de Gaulle of aiming to create "a new Europe from Paris to Moscow under Franco-Russian leadership as a counterweight against what he considers Anglo-American preponderance in the Atlantic Community".[69]

Warburg never entirely gave up hope of a belated British entry into the Common Market.[70] In the course of the 1960s, however, he became so disillusioned that he began to question whether or not Britain should continue to seek EEC membership "now that that bus had been missed".[71] At one point he even predicted a break-up of the EEC because "most of the Common Market countries will rather join the American and the British than be dependent on the French".[72] The EEC was "a protectionist tariff club—in

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[67] SGW, Box 5, SGW to Sir Richard Jessel, June 22, 1961.

[68] Warburg's low opinion of the French political elite was not improved when Gladwyn sought to broker a meeting between him and the French Finance Minister Valéry Giscard d'Estaing. The latter initially asked "who that strange fellow Monsieur Siegmund was" (though the meeting subsequently went ahead): SGW, Box 8, SGW to Gladwyn, September 26, 1962.

[69] SGW, Box 9, SGW to Lord Avon, February 1, 1963.

[70] Hence his support for the organization Britain In Europe: Cambridge University, Churchill Archive Centre, Gladwyn Papers GLAD 1/3/6, SGW to Gladwyn, May 30, 1963. Typically, Warburg pressed Britain In Europe to merge with the European Atlantic Group, which he also supported.

[71] SGW, Box 22, Roll to SGW, Policy Committee, Korner, Whitman, Sharp, Hopper, November 6, 1968.

[72] SGW Box 10, SGW to L.V. Randall, September 6, 1963.

reality not a real European Community".[73] In an internal memorandum of April 1968, he excoriated the degeneration and dissipation of the various EEC institutions:

> A narrow-minded bureaucracy working in a kind of "luftleerer Raum" [airless space]—a sort of meaningless vacuum unattached to any super national or national authority—has replaced what was a genuine and enthusiastic European organisation operating within a sound and efficiently functioning framework. What makes the present situation especially bad is the division of the European Commission into various sections, partly located in Brussels, partly located in Luxembourg. Whilst the Commission as such and its various industrial sections, in particular coal, steel, and energy are operating from Brussels, the Finance Section and the Administration attached to the European Parliament are operating from Luxembourg, with the European Parliament as such meeting in Strasbourg. In fact there are apart from the Luxembourg sections about thirty different sections or groups in Brussels which are badly co-ordinated or not co-ordinated at all and which are torn to pieces by intrigues either emanating from Brussels or caused from without through the Governments of the six EEC member countries.[74]

In his calmer moments, Warburg still hoped for a gradual *rapprochement* of the EEC and EFTA; this was what he advised Harold Wilson to aim for.[75] But so long as de Gaulle remained in power in France, he was not optimistic. "Those who advocated the entry of

[73] SGW, DME/AA../CNZZ/5 , SGW to L.V. Randall, December 11, 1967: "… den protektionistischen Zollklub der Sechs—in Wirklichkeit keine richtige europaeische Gemeinschaft

[74] SGW, Box 21, SGW to Whitman, Roll, Kelly, Bonham Carter, Daus, Burkhardt, van der Beugel, April 27, 1968.

[75] SGW, Box 12, SGW note, "Visit to Harold Wilson on 30th November 1964", December 1, 1964.

Britain into Europe", he wrote in October 1964, "should have admitted defeat in regard to the wider ranging aims and concentrated on a few very limited objectives."[76] He seems not have taken much interest in the second British bid for membership in 1966–7. Not until the General's departure from office four and a half years later did he regain his belief in the idea of British membership of the EEC, though only "if we can be reasonably sure that the protectionist tendencies are restrained".[77] As he explained in an interview in 1970:

> Today the chief characteristic of the European Economic Community is clearly the tariff wall which is erected around it and which, of course, would be still higher if it had not been for the Kennedy Round. Within the borders of this tariff wall little has been achieved towards the creation of common European endeavours in the field of helping under-developed areas or towards a European currency. Indeed the European Economic Community has at present more of an inward than of an outward-looking image. In these circumstances Britain has to be very careful about joining a movement which may be rather retrograde than progressive. Only if we should succeed in becoming members of a European Community in which the emphasis would be less on building up a joint tariff wall and on agricultural subventionism [*sic*] than on the constructive pooling of the great human resources of Europe in tackling big tasks both within and beyond Europe would I be in favour of Britain becoming part of the Common Market. Furthermore if in the post-Gaullist period a more generous European spirit could be rekindled, I would return to my old enthusiasm with regard to Britain's role in

[76] SGW, DME/AA.../CNZZ/5/, SGW to Lord Gladwyn, October 20, 1964.

[77] SGW, Box, 23, SGW to Fritz Karsten, August 13, 1969.

Europe. Indeed, within the framework of a really outward looking Europe Britain could play a special role as a bridge builder between Europe and the wider circle of the Atlantic Community as well as the underdeveloped countries, following in this way some of the best traditions of her old Commonwealth ties.[78]

Nevertheless, the stalling of official integration did not rule out the continuation of that *financial* integration that had first suggested itself to Warburg at the time of the second ECSC loan of 1958. The essential building blocks were to be the underwriting and selling syndicates of banks that were formed on an *ad hoc* basis for new dollar-denominated issues. In the 1950s these had been largely composed of the big Wall Street "bulge bracket" firms. As we have seen, however, the market for dollar-denominated bonds issued by European borrowers turned out to be larger in Europe than in the still domestically-focused US market. This indicated that at least a portion of Eurodollar deposits in London might be available for investment in longer-term securities.[79] Increasingly, Warburg and other European financiers asked why it was that the American firms did the lucrative work of underwriting, leaving the European institutions to do the more lowly work of selling bonds to non-financial clients. (In the words of Julius Strauss, of the stockbrokers Strauss Turnbull, "the American houses got all the cream but did none of the work.")[80] This seemed to make less and less sense, the more European investors dominated the market for such bonds.

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[78] Patrick Hutber, "Sir Siegmund Warburg speaks", *Sunday Telegraph*, January 21, 1970.

[79] Morris Mendelson, "The Eurobond and Capital Market Integration", *Journal of Finance*, 27, 1. (March 1972), p. 113.

[80] Kathleen Burk, "Witness Seminar on the Origins of Early Development of the Eurobond Market", *Contemporary European History*, 1, 1 (1992), p. 67.

The very existence of the Eurodollar market in London reflected the predisposition on the part of the British monetary authorities to allow the City to act as a centre for offshore finance.[81] The Bank's position was one of tolerance in the interests of London's revival: "However much we dislike hot money we cannot be international bankers and refuse to accept money."[82] This was vital for the development of all the Euromarkets in London, since, other things being equal, they might more easily have developed in Switzerland or Germany, where supplies of domestic savings for export were more plentiful than they were in Britain.[83] While other monetary authorities acted to restrict flows of "hot" money,[84] however, the Bank was *laissez faire*. The paradox was that London was in other respects a more heavily regulated market than Zurich or Frankfurt. Purchases of foreign securities by British subjects were effectively prohibited other than with strictly regulated "investment dollars". In 1957 the Bank of England also banned City firms from financing third-party trade in sterling; refinance credits were also banned.[85] Though these restrictions had been lifted by 1960, there remained a 4 (later 2) per cent stamp duty on new domestic issues and tax was deducted at source from interest paid to British bondholders. At the same time, the London Stock Exchange continued to list the sterling price of dollar securities as if the post-war depreciation of the pound had

[81] Schenk, "Origins of the Eurodollar Market", p. 228.

[82] Schenk, "Origins of the Eurodollar Market", p. 235.

[83] Anon., "To What Extent did the City Determine that No Restrictions Were Placed on the London Eurodollar Market in the Period 1960-3?", unpublished Final Honours School thesis (Oxford University, 2002).

[84] The Swiss, French and German authorities all introduced regulations to limit the influx of hot money and currency instability prompted West Germany to reintroduce capital controls in 1961: Schenk, "Origins of the Eurodollar Market", p. 234.

[85] Schenk, "Origins of the Eurodollar Market", pp. 223f.

never happened. And exchange controls for residents remained in place until 1979. Yet it was precisely this dichotomy between the treatment of residents holding sterling and the treatment of non-residents holding dollars that made it possible to establish a completely separate and unregulated dollar bond market in London. As one market participant later recalled: “The Bank could allow traffic in foreign currency securities on its capital market and activity in foreign currencies because it was completely isolated from the management of the domestic monetary mass.”[86]

That said, the Bank still needed to be handled with care, and it was with some trepidation that George Bolton broached the subject with the Governor, Lord Cromer, in June 1962. “I spoke to you last week”, wrote Bolton warily, “about a certain exchange of ideas that is currently taking place regarding the opening of the London market to a wide variety of borrowers for loans denominated in foreign currencies.” The exchange of ideas had involved representatives not only of Warburgs, but also of Barings and Samuel Montagu; Hambros became involved the following month. However, no one wished to “proceed more actively unless the ideas have the general blessing of the authorities”. The aim, as Bolton explained, was simply to help “restore London’s function as a capital market”:

> [T]he restoration and revival of the London Market machinery to enable issues of foreign loans to be made [is] a matter of immediate importance to the Western World. … The only centre that can help New York is London, as we are all

[86] Burk, “Witness Seminar”, p. 80.

> uncomfortably aware of the isolation and inefficiency of the European capital markets.[87]

Cromer's reply was positive: "We are sympathetic to this proposal", he wrote, "and will give it what practical support we can."[88] The Bank particularly liked the fact that it might "mop up some of the very volatile Eurodollars at present in London".[89] Warburg's correspondence makes it clear, however, that he and his City associates were also seeking to convey a subtle threat to the Bank. "Unless the Government was prepared to take action in regard to stamp duty and other measures which would make the London issuing market competitive with other foreign capital markets", they would go elsewhere—perhaps to Luxembourg.[90] Indeed, the London Stock Exchange was so reluctant to allow the new dollar bonds to be quoted in London that it first they were indeed quoted in Luxembourg.[91] Amsterdam was also investigated as a possible market.[92] It was through this kind of bargaining that Warburg and his associates were able to persuade not only the British authorities but other European governments as well to waive various national tax rules that might have been applied to Eurobonds, of which the most important was the withholding tax that was generally deducted from the interest paid on bonds issued in national stock markets.

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[87] David Kynaston, *The City of London*, vol. IV: *A Club No More 1945–2000* (London, 2001), p. 276.

[88] Ibid.

[89] Schenk, "Origins of the Eurodollar Market", p. 232.

[90] SGW Box 8, SGW to Grunfeld, Korner, Whitman, Grierson, Sharp, Stheeman, August 2, 1962. See also SGW circular to Grunfeld, Korner, Grierson, Whitman, Sharp, Stheeman: Draft, "European issues of multiple currency loans", to be sent to Bolton for Bank of England scrutiny, August 8, 1962.

[91] Cathy Coutney and Paul Thompson, *City Lives: The Changing Voices of British Finance* (London, 1996), pp. 88f. In the words of one participant, the Stock Exchange truly "missed the boat": Burk, "Witness Seminar", p. 78.

[92] SGW, Box 9, Stheeman to SGW, Korner, Grierson, Whitman, Sharp, April 1, 1963.

There were several possible candidates for the first true Eurobond issue. The Japanese government expressed an interest in such a loan.[93] There was also talk of a Norwegian loan for the City of Oslo. In his exasperation with the EEC, Warburg even contemplated a dollar loan for the Commonwealth Development Finance Co. Ltd.[94] By April 1963, however, he and his colleagues had reverted to the more logical and familiar vehicle of the European Coal and Steel Community. This was how they explained their scheme to the Bank of England:

> It would be a straightforward dollar loan with no currency options and … as far as the U.K. Exchange Control is concerned this would be a foreign currency security for which U.K. residents would have to pay a premium. Consequently they did not expect any subscriptions from this country. Nevertheless they would endeavour to get a quotation in London which could be regarded as a basis throughout Europe and thus encourage dealings through London.[95]

The Bank was attracted to the idea, though there were fears that the Foreign Office might regard it as "inappropriate in any way that a Common Market organisation should appear

[93] SGW, Box 9, Gurney to Grierson, Whitman, Sharp, May 13, 1963.

[94] SGW, Box 9, SGW note to Korner, Whitman, members of steering group, February 13, 1963; SGW note to Korner and Whitman, February 16, 1963. This idea was one to which Warburg reverted repeatedly during the 1960s, arguing that issuing dollar bonds on the security of government colonial assets such as the government shares in the Suez Canal company would allow the Bank of England to strengthen its dollar reserves.

[95] Bank of England OV47/6 64, C.R.P.H. Note for Record for Mr. Stevens, April 25, 1963. Warburgs later qualified this assurance. "It is expected", the Bank was informed, "that no more than a nominal amount will be purchased in the U.K. … [T]here will be no circulation offering the Bonds but that a few "friends" in the U.K. will subscribe with 'switch' dollars, and it is for this reason they are been quoted in London and a prospectus issued to meet Stock Exchange requirements": PRO T 295/885, R.G. Gillings to Mr. Blacker, June 18, 1963.

to be borrowing in London in the light of the Brussels breakdown". As the Bank's John Stevens explained to Sir Eric Roll, who had been in charge of the negotiations for British Common Market entry, "from the purely financial angle" such an operation would be "welcome":

> As the foreign bond market is not available for loans in sterling to the Continent, an operation of this type (of which there have been several before|) keeps London alive as a financial centre even if the business is not done in Sterling. I would hope that you felt that sufficient time had elapsed since the Brussels breakdown. In fact it could be argued that there is a positive virtue in showing that at least there has not been a breakdown on the financial front and that this is an example of the intentions expressed after the breakdown that every step would be taken between ourselves and the Common Market to make it easy for the negotiations to be resumed.[96]

It was a view that was endorsed by the Treasury and Foreign Office.[97] However, the need to secure approval from the Finance Ministers of all six EEC members, and the hesitancy of Skribanowitz at the ECSC led to months of delays.[98] As a result, the first Eurobond issue ended up being Italian.

At the suggestion of the Governor of the Banca d'Italia, Guido Carli, Warburgs had alighted on an Italian steel company, Finsider, a subsidiary of the giant state holding

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[96] Bank of England OV47/6 66, J.M. Stevens to Sir Eric Roll, April 26, 1963.

[97] PRO T 295/885, J.G. Owen to Sir Eric Roll, April 26, 1963; Bank of England OV47/6 67, D.P. Reilly, F.O., to Sir Eric Roll, Treasury, April 30, 1963; PRO T 295/885, G.B. Blaker to Mr. Radice, May 8, 1963; Bank of England OV47/6 68, G.B. Blaker to J.M. Stevens, May 9, 1963.

[98] Bank of England OV47/6 69, J.M. Stevens Note for Record, May 21, 1963. Skribanowitz preferred to stick to the tried-and-tested method of issuing dollar bonds in New York.

company the IRI. Once again, avoiding national taxation was crucial, so the bonds were issued not in the name of Finsider, which was legally obliged to deduct Italian taxation from any coupon payments, but in the name of Autostrade, the Italian toll-motorway company, which was able to pay coupons gross.[99] The transaction—a $15 million six-year loan—was managed by a consortium consisting of Deutsche Bank, Banque de Bruxelles and Rotterdamsche Bank; underwritten by a syndicate of British and European banks, led by Deutsche Bank; and then marketed to investors through a wider network of associated intermediaries led by Strauss Turnbull, White Weld Zurich and Credit Suisse Zurich.[100] (It should be noted that despite the breadth of the network of distribution that swiftly developed, Eurobond issues were not initial public offerings in the American sense, but widely sold private placements.)[101] In the words of Ian Fraser, it represented "a compromise between a conventional London 'placing' and a conventional New York 'offering'."[102] It was Fraser who did most of the hard toil of drawing up the contract and organizing the issue, working closely with the lawyers Geoffrey Sammons and Robin Broadley at Allen & Overy.[103] Available in relatively small denominations (typically $1,000), the bonds sold well. As bearer bonds they were anonymous and portable; they were also free from withholding tax. The typical investor was "the only half-mythical figure of the Belgian dentist—a high-earning individual, living in a country with a

[99] Kynaston, *City of London*, vol. IV, p. 277.

[100] Gordon, "Autostrade". Banque Internationale à Luxembourg handled the Luxembourg listing, which the Bank of England had insisted on so that UK investors could buy the bonds with so-called "investment dollars".

[101] Mendelson, "Eurobond", p. 111.

[102] Gordon, "Autostrade".

[103] Burk, "Witness Seminar", p. 68.

bureaucratic tax system where domestic bonds were liable to tax at source, and where there was a limited choice of investment opportunities”.[104]

European plans for a dollar-denominated bond market were thus quite well advanced even before the U.S. government proposed its Interest Equalization Tax in July 1963, the aim of which was remove the incentives for American citizens and institutions to invest in Europe by imposing a deterrent tax.[105] Indeed, if there had been no IET, the Eurobond market would still have developed because of the implicit subsidy provided by exemption from withholding tax.[106] There is no question, however, that this measure—and subsequent measures designed to restrict on U.S. capital export—gave a stimulus to the growth of the Eurobond market. Without the IET, the Austrian government would probably have gone ahead with a dollar loan in New York; instead it raised $18 million in Eurobonds issued by Warburgs, Hambros, Rothschilds and the Creditanstalt. This loan paved the way for a succession of new issues in the course of 1964. By the end of the year, a total of forty-four foreign dollar issues had been made in Europe, raising a total of

[104] Burk, “Witness Seminar”, p. 70.

[105] The measure essentially imposed a 15 per cent tax on US investment in long-dated foreign issues. On its effects, see Richard N. Cooper, “Should Capital Controls be Banished?”, *Brookings Papers on Economic Activity*, 1 (1999), pp. 89–141. The U.S. government’s intentions in this regard had, admittedly, been signaled in a speech by Secretary of the Treasury Douglas Dillon in May 1962. But the tax was not actually enacted until September 1964. Some American observers erroneously interpreted the Eurobond market as a result of the IET: Ira O. Scott, Jr., “The Problems and Prospects of Integrating European Capital Markets: Comment”, *Journal of Money, Credit and Banking*, 1, 3, Conference of University Professors (Aug. 1969), p. 350. See also John R. Griffith, Jr., “The Effect of the Interest Equalization Tax Act and the Interest Equalization Tax Extension Act on Purchases of Long-Term Bonds of Selected Countries Marketed in the United States: 1959 to March 1966”, *The Journal of Finance*, 24, 3 (June 1969), pp. 538f.

[106] Mendelson, “Eurobond”, p. 119.

$681 million.[107] By 1967 more foreign securities were being issued on the Eurobond market than in the United States and five times more than in European national markets.[108] In 1968 the volume of new issues exceeded $3.5 billion; four years later the total was $5.5 billion.[109] Although public borrowers like the Austrian government and the cities of Oslo and Turin had initially predominated, from 1966 until 1973 the majority of issues were by private sector entities.[110] Gradually, too, a secondary market began to develop, which had been conspicuous by its absence at first (when most investors had adopted a "buy and hold" strategy).[111] Purely transactional problems due to cross-border differences in delivery rules, methods of computing interest and allocation of costs were significantly reduced with the creation of two clearing systems, Euroclear and the Luxembourg-based Cedel.[112]

IV

Siegmund Warburg was understandably proud of the Eurobond market; he had no doubt that it was "our [meaning Warburgs'] primary initiative".[113] But what were his motives for pushing its development forward? One obvious hypothesis is that the profit motive predominated—in other words, that the rise of the Eurobond was a straightforward case

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107 Kynaston, *City of London*, vol. IV, p. 284.

108 Richebächer, "Problems and Prospects", p. 344.

109 Richard Roberts and David Kynaston, *City State: A Contemporary History of the City of London and How Money Triumphed* (London, 2001), p. 89.

110 Schenk, "Crisis and Opportunity", p. 211. For a list of Eurobond issues managed by Warburg, see SGW, Box 16, "List of some issues in chronological order", May 13, 1966.

111 Mendelson, "Eurobond", p. 122.

112 Ibid., p. 124.

113 SGW, Box 12, SGW note to members of the 9.15 meeting, July 9, 1964.

of product innovation designed to enhance S.G. Warburg's bottom line. This was without doubt a factor. As John Craven later recalled, "Siegmund was clever enough to realize that if you quietly developed a [new] product, namely a Eurobond, which the other [City] houses would probably treat with a certain amount of disdain", then it was possible legitimately to approach their established clients. "It was in fact a very clever ploy to get in the back door."[114] Moreover, once the initial Autostrade issue had established a template, Eurobond issuance was comparatively easy. The fixed commissions that banks charged— conventionally 0.5 per cent for managing banks and underwriters and 1.5 per cent for selling banks and brokers—reflected the fact that it was the lowly sellers who did the hard work. There was effectively no downside risk to the underwriters since issues were either reduced or pulled outright if demand proved to be slack.[115] On the other hand, as so often is the case with financial innovation, entry barriers were low and first mover advantage was short-lived. At the weekly directors' dinners he held in the mid-1960s, Warburg warned his younger colleagues: "Once a new line of business was invented, all the competing banks wished to have a share in it and the only result could be that profit margins for the banks went down or disappeared; this was bound to happen and it would soon happen with our Euro-bond business."[116] So it proved. As more and more American and Swiss banks entered the market—the number of branches of foreign banks in London increased from 51 to 129 between 1962 and 1970—the early dominance of Warburgs, Hambros and Rothschilds was challenged.[117] From 1967 until 1972 it was Deutsche Bank

[114] Burk, "Witness Seminar", p. 82.

[115] Burk, "Witness Seminar", p.81.

[116] William Lionel Fraser, *All to the Good* (London, 1963), pp. 271f.

[117] Schenk, "Crisis and Opportunity", p. 209. For 1966, the top seven banks in the Eurobond market (ranked by issues initiated and managed) were: White Weld ($141 million), Deutsche Bank ($106 million),

that led the rankings in terms of new Eurobond issuance; quite simply, the merchant banks lacked capital base to compete.[118] And profit margins were squeezed, just as Warburg had predicted. Though his bank did better than the other merchant banks in terms of the annual issuance rankings, we should not exaggerate how much money was actually being made from this line of business. As Warburg himself reminded his executive directors in October 1967:

> [H]owever important Euro bond issues are, this must not be our first priority and that indeed our chief interest should be to look after our important industrial clients in this country, in the United States, and on the Continent of Europe. One fee which we earn from giving good service to one of our large industrial clients can be far in excess of what we earn in a whole year in connection with Euro bond issues.[119]

John Craven later confirmed that "because SGW had no distribution powers at all … We didn't make money, we never made serious money for years and years." In Peter Spira's words, "It was a wonderful prestige business," rather than an especially profitable business.[120]

A second motive—the one most frequently cited in the existing literature—is that the architects of the Eurobond market shared the Bank of England's desire to rebuild London's pre-war position as an international financial centre. This certainly played a part in Warburg's calculations. It was his view that in any "truly European capital market

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Kuhn Loeb ($94 million), S.G. Warburg ($92 million), First Boston and Morgan Stanley ($85 million each), and N. M. Rothschild ($72 million): Kynaston, *City of London*, vol. IV, p. 326.

[118] Roberts and Kynaston, *City State*, p. 89.

[119] SGW, Box 20, SGW to all Executive Directors, October 31, 1967.

[120] Burk, "Witness Seminar", p. 82.

… London could and should play a leading role irrespective of the present division between EEC and EFTA".[121] This also explains Warburg's passionate belief in the need to denominate the second wave of Eurobonds in European rather than American currency. As he explained to his colleagues, who complained that dollar bonds were easier to sell, "Anyone who has studied the situation thoroughly and objectively must know that if we continue with the issue of foreign bonds expressed in dollars, the entire business will and should go to New York, and the London market will have no material part in it any longer. The only chance for the London market to participate in such issues is through arranging loans in other denominations than Dollars."[122] The obvious European currency to choose was the deutschmark, not least because German long-term interest rates were trending below the European average in the course of the 1960s.[123] From Warburg's point of view, however, a purely deutschmark Eurobond market had little appeal, for the obvious reason that it would inevitably strengthen the already powerful position of the big German banks. In December 1963 he therefore proposed to Abs the idea of sterling bonds with a deutschmark option, combining—as Warburg explained to Cromer—the strongest EFTA currency with the strongest EEC currency.[124] Once the approval of the (admittedly uneasy) British and German monetary authorities had been secured—which was only after what Warburg called "a fight"—it was this sterling/deutschmark model that was adopted for the £5 million loan issued in 1964 for

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121 SGW, Box 13, SGW note, "London as an international capital market", April 13, 1965.

122 SGW, Box 12, SGW note to members of 9.15 meeting, October 5, 1964.

123 Richebächer, "Problems and Prospects", p. 343.

124 SGW, Box 10, SGW note, "Bank of England", December 31, 1963. See also SGW, Box 11, SGW note to Whitman, Grierson, Fraser, Kelly, Stheeman, Spira, Jessel, January 21, 1963; SGW to Whitman, Korner, Grierson, Fraser, Kelly, Stheeman, Cripps, Jessel, January 27, 1963.

the city of Turin.[125] So excited was Warburg by this transaction that he took the exceedingly rare step of writing a series of newspaper articles for *The Times* on the subject, in which he was at pains to explain that it posed no threat to the stability of the British currency or balance of payments. London, he argued, was simply providing a service for foreign holders of Eurodollars and other liquid funds to buy European bonds. These could be denominated in whatever currency investors found attractive; hence the beauty of multiple currency bonds.[126] Warburg did not expect such bonds to replace dollar-denominated Eurobonds in the near future, but he expressed the view privately that "if European capital markets are gradually developed … European currencies or European currency units will have to be made more popular than they are at present".[127] Peter Spira, for one, was sceptical of such arguments. At first baffled by the idea of sterling/deutschmark Eurobond, he concluded that the only reason Siegmund had devised it was to ensure that "a UK house could appear as lead manager" of what was essentially a deutschmark security.[128]

The dual currency bond was only one of a number of ways Warburg worked to secure London's position at the centre of the Eurobond market. In 1965, for example, he joined forces with Rothschilds to lobby the Bank of England to exempt foreign bonds issued in London from stamp duty; at the same time, they pressed the Treasury to lift the

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[125] SGW, Box 11, SGW note, "Sterling/Mark loans", February 27, 1964; SGW draft memorandum on sterling loans to the Italian Government, March 13, 1964; SGW note, "Bank of England", March 18, 1964; Fraser note to SGW, Gunfeld, Korner, Grierson, Whitman, Kelly, Spira, Jessel, April 7, 1964; SGW to Fraser and Spira, April 28, 1964.

[126] SGW, "Double Currency Clause", *The Times*, March 19, 1964 p. 19; SGW, "London As A Market For Foreign Bonds", *The Times*, March 20, 1964.

[127] SGW, Box 11, SGW to Samuels, April 10, 1964.

[128] Burk, "Witness Seminar", p.83.

requirement that income tax be deducted from the interest on bonds issued by UK-domiciled companies.[129] Not only did Warburg share the Bank's objective to resurrect London as an international financial centre; he was pushing the Bank to move faster in the direction of liberalizing London's facilities for international investors.

Yet it would be quite wrong to see either his firm's profitability or the dominance of London as Warburg's prime motivation in devising and developing the Eurobond market. For he always conceived of it as simply a first step towards linking together the European capital markets and thereby advancing the wider project of European integration. Warburg meant what he described sterling/deutschmark bonds as securities designed for a *European* capital market. As he put it in a memorandum he wrote in April 1965:

> The main motive force both for the creation of the EEC and EFTA ... was the recognition that for its optimum scale modern industry required a larger market than could be supplied by any one European nation. As this policy bears fruit and industry becomes organised on a truly European scale, there will be an increasing need for a truly European capital market.[130]

Contemporaries were not slow to see this possibility. By 1969 it was possible for an academic economist to conclude: "The Euro-bond market has grown to such a stature as to foreshadow a real European bond market."[131] It was true, as René Larre noted that same year, that the borrowers and investors it brought together came not just from Europe

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[129] SGW, Box 13, Fraser and Kelly note to the Bond Team, February 4, 1965. See also SGW to Sir Eric Roll, February 22, 1965.

[130] SGW, Box 13, SGW note, "London as an international capital market", April 13, 1965.

[131] Richebächer, 'Problems and Prospects", p. 346.

but from "all over the world"; yet there was no doubt that the Eurobond market was making "a significant contribution to the modernization of financial and banking practices in Europe".[132]

Typical of the way Warburg saw the Eurobond market as a vehicle for European integration was his response to the minor teething troubles the market experienced in the later 1960s. For a time in 1966, there were so many new Eurobond issues that Warburg publicly warned of a glut.[133] Yields on some new issues rose above 6 per cent for the first time. To Warburg, this suggested the need for some form of light regulation (meaning self-regulation by the financial markets). But he made it clear that this would need to be done at the European level, and not just in the City of London. In 1966 he argued that the Eurobond market should adopt the kind of "queuing" system used in Switzerland to prevent too many new issues happening at the same time. As Warburg remarked, it was "obviously impossible to visualize the formation of a European capital issues committee which would have any legally enforceable powers". But here was another opportunity for further unofficial European integration:

> If under the sponsorship of say the six or seven leading central banks of Europe, a small committee of representatives of these banks were established, it should be possible to arrange for the issuing houses concerned to register with such a committee the issues they are planning, and to be guided by the committee in regard to the timing and the maximum size of these issues.[134]

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[132] Rene Larre, "Facts of Life About the Integration of National Capital Markets", *Journal of Money, Credit and Banking*, 1, 3, Conference of University Professors (Aug. 1969), pp. 325, 327.

[133] SGW, "Indigestion on European Capital Market, B.I.S. To Control Queue?", *The Times*, March 29, 1966.

[134] Ibid.

He returned to this theme in 1970, when the market threatened to be overwhelmed by an "avalanche" of borrowing demands.[135] Now Warburg argued that "a Committee be set up consisting of representatives of one issuing house in each of the following countries: Belgium, France, Germany, Holland, Italy, Switzerland, and the United Kingdom".[136]

The same kind of thinking underlay Warburg's response to the challenge posed by the "invasion" of Wall Street firms, which was to form larger European syndicates. In many ways, this was the most important kind of European integration the Eurobond market encouraged. To begin with, many of the key decisions were taken as a result of regular consultation with Abs and a few others. As Warburg later recalled, he and Abs "were continually in touch regarding the terms of the Euro issues on which we were working and were also checking with one another the attitudes of our … firms towards the Euro transactions done by our competitors on both sides of the Atlantic".[137] In 1967, an informal agreement was reached to create a more or less permanent alliance between four of the biggest banks involved: Warburgs, Deutsche Bank, Banque de Paris et des Pays-Bas (Paribas) and Banca Commerciale Italiana.[138] This British-German-French-Italian combination was an imposing one. It was also quite typical of the kind of European financial structure Warburg aspired to build, foreshadowing his subsequent attempt to bring about a full-scale merger between Warburgs and Paribas. A similar initiative was the "Transatlantic Bond Fund" which linked together Warburgs, the Bank

[135] SGW, Box 26, SGW to Korner, Craven, Lewisohn, Wuttke, Adams, Constance, Policy committee, June 17, 1970; SGW to Korner, Craven, Members, policy committee, June 29, 1970.

[136] SGW, Box 26, SGW & Co. draft memorandum, "Establishment of machinery for the coordination of Euro-issues", August 3, 1970; SGW & Co., draft memorandum, August 21, 1970.

[137] SGW, Box 43, SGW to Roll, Scholey, Members, Monday meeting, Directors, International Department, August 26, 1981.

[138] SGW, Box 19, SGW to Whitman, text of announcement which may be made, June 16, 1967.

of London and South America, Banca Nazionale del Lavoro and Stockholms Enskilda Bank.[139] By 1970 the group with which Warburgs liked to work had expanded to include the Dutch bank Amro, the German banks Commerzbank and Dresdner and the French Société Générale.[140] British entry into the Common Market did not radically alter this pattern, contrary to the expectations of those who expected major structural changes in the banking world after 1972.[141] As Warburg put it, "with this new European background … major financial houses on the continent and here in this country [would] become linked together … [b]ut linked in such a way that they do not lose their autonomous management, their autonomous style, their autonomous plans, their autonomous structure, including their separate close connections to many parts of the world".[142] The next stage in financial evolution were the consortium banks that flourished in this period.[143]

Warburg was therefore perfectly sincere in conceiving of the Eurobond market as a stage in the process of European integration. This, rather than its inherent profitability or its advantages to the City of London, was his principal reason for pursuing it. A case in point was the spate of UK public-sector issues proposed by Warburg in 1967 to coincide with the British government's second bid for EEC membership.[144] By October 1971

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[139] SGW, Box 16, SGW note, "Transatlantic Bond Fund", May 25, 1966.

[140] SGW, Box 25, Martin Gordon to SGW, Kelly, Korner, Boas, Mortimer, Saher, Policy committee, International Department, NY office, April 29, 1970.

[141] SGW, Box 29, Roll to SGW, Grunfeld, GC Seligman, Scholey, Spira, January 6, 1972.

[142] "Sir Siegmund Warburg, interview", *Investors Chronicle*, April 13, 1973.

[143] Schenk, "Crisis and Opportunity", p. 212.

[144] Warburg suggested arranging such a loan for the Commonwealth Development Finance Co., the Central Electricity Generating Board or the National Coal Board: SGW, Box 19, SGW to Whitman, Fraser, Kelly, Bonham Carter, Jessel, May 20, 1967; SGW to Steering Group, September 27, 1967; Box 20, SGW to

British public-sector agencies had raised $122 million through such loans.[145] Conversely, when his bank was left out of a Eurobond issue by the EEC in 1977, Warburg was incandescent not so much because of foregone commissions, but because it seemed to him a slight after his firm's pioneering role in creating and developing the Eurobond market.[146]

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There were, nevertheless, practical limits as to how European the Eurobond market could actually be. It is important to emphasize that the public- and private-sector entities that raised money on the new Eurobond market were not all European (nor, for that matter, were the European ones all based in the EEC). Between 1965 and 1970, 37 per cent of Eurobond issues were for American companies; and 68 per cent were dollar-denominated.[147] Among the major issues handled by Warburgs in 1967 was one for Chrysler, the American car manufacturer; Mobil Oil was another client that year. Nor

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Steering Group, October 3, 1967; SGW, Box 22, SGW to Spira, Policy Committee, Korner, Whitman, Sharp, October 5, 1968; SGW to Roll, Grunfeld, Korner, Fraser, Spira, October 21, 1968; Spira to SGW, Policy Committee, Bonham Carter, Fraser, Kelly, Korner, Whitman, Sharp, Guard, Seligman, Craven, Adams, Boas, Constance, Salina, November 4, 1968; Roll to Roy Jenkins, November 6, 1968. Such loans were also contemplated for British Steel, the Atomic Energy Authority, the Gas Council, the Post Office and the Greater London Council. Despite considerable reservations in Whitehall, the Treasury was willing to contemplate such loans, and indeed to offer an exchange rate guarantee for maturities of less than ten years.

145 SGW & Co. memorandum, "UK balance of payments: long term borrowing", October 15, 1971.

146 Not to mention the help he had offered to give Roy Jenkins in his new role as President of the European Commission, for which this seemed scant reward. SGW, Box 38, SGW to Roll, Grunfeld, Korner, Seligman, Scholey, Darling, Gordon, Greenhill, Lewisohnk, Salina, van der Wyck, May 23, 1977 and May 25, 1977; SGW to Salina, Roll, Gordon, Lewisohn, van der Wyck, June 2, 1977; Salina to SGW, Korner, Roll, Boas, Goodwin, Lewisohn, Spira, Barrett, June 30, 1977.

147 Mendelson, "Eurobond", Table 1.

was it realistic to expect to exclude the big American banks from this burgeoning new market. Although cooperation between European banks certainly increased as a result of Eurobond management and underwriting syndicates, American banks also featured prominently in the lists—so-called "tombstones"—of syndicate members that were published in the financial press on the occasion of each new issue. Moreover, it was often the Americans who pushed forward the innovation frontier. By 1969 a large syndicated loan market had emerged for short-term loans which, along with the certificates of deposit introduced in 1966, filled the middle ground in the term structure of Euro interest rates between the Eurodollar and the Eurobond market.[148] The idea of floating rate issues, though pioneered by Warburgs from 1970, was originally the brainchild of Evan Galbraith of Bankers Trust International.[149] Significantly, the $425 million loan organized on this basis for the Italian Electricity Authority ENEL (and hailed in the press as "the largest finance transaction done by a private group in Europe") was managed by a syndicate that comprised not only Warburgs, Banca Commerciale Italiana and Credit Suisse but also Bankers Trust and White Weld.

A second difficulty was that with the advent of floating exchange rates, the attractiveness of the Eurobond market was bound to diminish for corporations in weak-currency countries like Britain and Italy, which were unlikely to want to borrow in deutschmarks, Swiss francs or even dollars, even if loans in those currencies could be had at lower interest rates than were available on their domestic markets. Why would British Leyland want to saddle itself with deutschmark-denominated debt if the pound was going

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[148] Kynaston, *City of London*, vol. IV, p. 338. See also Richard Roberts, *Take Your Partners: Orion, the Consortium Banks and the Transformation of the Euromarkets* (London, 2001).

[149] Kynaston, *City of London*, vol. IV, p. 339.

to continue sliding inexorably downwards against the German currency?[150] The case of the Italian company Finsider—which, as we have seen, had been behind the first Eurobond issue—is especially telling. By 1970 the company had accumulated Eurobond debts totaling $410 million, but they were now desperately trying to repay them or convert them into lira because they were "extremely gloomy over the future of the Italian economy and hence the strength of its currency".[151] It was with this kind of problem in mind that Warburg discerned more and more the advantages of some kind of European monetary integration, beginning with the creation of a unit of account—"Euro moneta"—based on a basket of different national currencies (possibly composed of the six EEC currencies plus or minus the Swiss franc). A loan on this basis was briefly contemplated for the ECSC in 1968. As Warburg observed, such a transaction would not be one in which a British bank could play a leading role:

> It will obviously be impossible for a British house to obtain a leading position in a High Authority issue based only on EEC currencies, and it will probably be impossible both from a political and currency angle to associate the Sterling currency with such an arrangement. However, if we make a worthwhile intellectual contribution to the present deliberations going on in the Finance Section of the European Commission (no longer the High Authority), such a contribution might not only be valuable for the sake of the good cause but might

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[150] For discussions of other ways to insure British borrowers against the exchange rate risk, see SGW Box 22, SGW, enclosure to Grierson, Fraser paper, "Exchange guarantees for UK borrowers", October 11, 1968. As Warburg noted, offering some kind of insurance against sterling depreciation in return for a percentage commission would simply make the effective interest rate of any loan too high.

[151] SGW, Box 28, Salina to SGW, Roll, Korner, Craven, McAndrew, di Robilant, Spira, September 28, 1971.

also justify our group in taking a part in a financial transaction which may ensue in due course.[152]

In practice, however, most issuers (including the ECSC) were put off by the complexities of such devices. Most Eurobond issues in the late 1960s and early 1970s were denominated in either dollars, deutschmarks (as the German government sought to encourage capital export) or Dutch guilders.[153]

There were limits, too, to the speed with which European financial integration would lead to the more general industrial integration to which Warburg looked forward. In an interview he gave to the *Sunday Telegraph* in January 1970, Warburg foresaw "a new challenge in the field of establishing organic and integrating links between industrial firms in this country and on the Continent of Europe. There exist already several links of this nature and even if Britain does not join the European Economic Community the combinations between industries on the two sides of the Channel will go on expanding."[154] Three years later, he was still talking enthusiastically about the possible emergence of "'European' companies owning holdings in various 'national' companies in Europe".[155] However, despite official encouragement for his idea of an "EEC Industries Fund",[156] it proved much harder in practice to bring about the kinds of pan-European

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[152] SGW, Box 21, Kelly to SGW, Korner, Whitman, Fraser, Bonham Carter, Roll, January 8, 1968; SGW, Box 21, SGW to Whitman, Roll, Kelly, Bonham Carter, Daus, Burkhardt, van der Beugel, April 27, 1968.

[153] SGW, Box 26, SGW & Co. draft memorandum, August 21, 1970.

[154] Patrick Hutber, "Sir Siegmund Warburg speaks", *Sunday Telegraph*, January 21, 1970.

[155] "Sir Siegmund Warburg, interview", *Investors Chronicle*, April 13, 1973.

[156] The idea was to create "a private sector, i. e. non- governmental, international financing instrument to support major new initiatives involving the industries of more than one EEC country with medium and long-term finance": SGW, Box 31, Bonham Carter to SGW, Roll, Spira, Kelly, O'Neill, February 22, 1973; SGW to Guth, February 28, 1973.

mergers Warburg had in mind. At various times in the early 1970s he floated ideas for cross-Channel mergers in the automobile industry (British Leyland-Volkswagen, British Leyland-Daimler Benz), the chemical industry (ICI-Bayer) and the electrical engineering industry (GEC-Siemens, GEC-AEG). These schemes were far ahead of their time, not least because there was no very obvious benefit to first class German companies in taking over their less competitive rivals in the ailing UK market. For many years to come, most big European companies would continue to pursue sectoral integration through national rather than pan-European mergers.

Nevertheless, despite these limitations, it does not seem unreasonable to agree with Warburg that the creation and growth of the Eurobond market was a significant step in the process of European integration. By firmly establishing London as Europe's dominant financial centre, it undoubtedly helped to pave the way for British entry into the EEC. By revealing the costs of multiple floating currencies, it strengthened the case for some kind of European monetary coordination, pointing the way ahead to the European Monetary System, the Exchange Rate Mechanism and ultimately Economic and Monetary Union. Warburg never imagined that the goal of a single currency could be achieved in the way that the Eurobond market had been created, namely by private sector initiative. As he wrote to Gladwyn in October 1972, "an economic and monetary union cannot be envisaged without a political union. I think it was Bismarck who always talked about 'das primat der politik ueber die wirtschaft' and this is as true today as it was in his age.'[157] Throughout his life, however, he saw economic integration as a viable substitute

[157] SGW, Box 30, SGW to Lord Gladwyn, October 20, 1972.

when political union appeared to be log-jammed. That had seemed to be the case in the 1960s; the result was the Eurobond market.

On the question of Europe, Warburg was a lifelong idealist, as he made clear to George Steiner in 1976:

> Today I feel that if we do not bring about a new European renaissance—going far beyond the Renaissance of 400 years ago—we will lose the last remnants of that specific element of freedom which was created by the Greece of Socrates and Sophocles and which since the Renaissance has expanded and spread in wider and wider circles throughout the private lives of European, and throughout the European places of learning and teaching and research, as well as throughout European economic and political activities. It is a kind of freedom which in my opinion does not exist to the same extent anywhere else in the world; the freedom of conscious and adamant non-conformists who enjoy to produce perpetually different views and perspectives but at the same time are not only tolerant of differences but welcome a never-ceasing growth in the variety of attitudes.[158]

Yet he understood much better than most European idealists the interdependence between individual freedom and economic freedom. Though he liked to cast himself as a man of the Left (and he was certainly much closer to the Labour Party than any other City figure of his day), he never ceased to champion market liberalization and to see European integration always as part of a wider project of international economic integration—what we would now call "globalization". In the words of an article he co-wrote in the wake of the European currency crisis of late 1968:

[158] SGW box 37, Box 37, SGW answer to Steiner question, August 2, 1976.

> *Izvestia* and *Pravda* repeat the Communist doctrine that such crises are inherent in the capitalist system. This is a total fallacy. … The recurrent economic crises, just as the recurrent wars we have suffered since the beginning of this century, are the inevitable symptoms of the titanic clash between modern industrialism and technology on the one side and the outdated 18th-century political system of the sovereign nation states on the other side … The extraordinary evolution of science and technology and the ever-growing yearning of the masses for more consumer goods and luxuries, require production facilities and sales organisations covering increasingly wider areas of the world … but we insist that the economy, which is no longer a national but a world economy … should be developed within the outdated political framework of the sovereign nation-state structure which divides the world into smaller and smaller compartments.[159]

The thrust of this article was that Europe must ultimately have not only a common market, but also a common currency and ultimately a federal government. To be sure, little that had happened in the 1960s or the 1970s encouraged Warburg to expect that these goals would be attained in his own lifetime.[160] In the meantime, however, the creation of an integrated European capital market was no mean achievement.

Today Eurobonds comprise around 90 per cent of international bond issues.[161] The Eurobond market is "one of the world's biggest and freest sources of long-term public

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[159] SGW, Box 23, SGW, enclosing Emery Reeves draft of article/letter to Poole with amendments by SGW, January 7, 1969.

[160] For Warburg's continuing dissatisfaction with the EEC, see SGW, Box 33, SGW to Roll, "Rough draft", April 1, 1974.

[161] Roberts and Kynaston, *City State*, p. 114.

funds".[162] The fact that around 70 per cent of all Eurobond issuance and secondary trading is in London is no accident of history,[163] but the result of a conscious effort by Siegmund Warburg and his associates in the 1960s.[164] Though doubtless partly motivated by a desire to enhance their companies' profit and loss accounts and to re-establish the City as an international financial centre, the architects of the Eurobond market understood quite well that they were simultaneously advancing, by financial means, the process of European integration.

[162] Anouk Claes, Marc J. K. De Ceuster and Ruud Polfliet, "Anatomy of the Eurobond Market, 1980–2000", *European Financial Management*, 8, 3 (2002), pp. 373–86. It is worth noting that since 1980 European countries have accounted for around a third of all issuance. Around 40 per cent of the face value of Eurobonds issued in that period were dollar denominated. It seems likely, however, that euro-denominated issues will soon overtake dollar-denominated issues.

[163] David Clementi, "The City and the Euro: Innovation and Excellence", Speech at the City Seminar on "London in the 21st Century", Palace Hotel, Tokyo, February 13, 2001.

[164] Roberts and Kynaston, *City State*, p. 72.