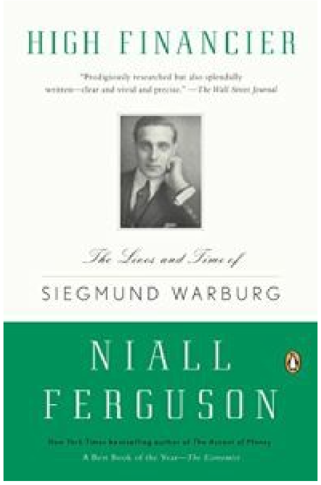

Book High Financier

The Lives and Time of Siegmund Warburg

Niall Ferguson
Penguin Group (USA), 2011

Recommendation

This panoramic biography of Siegmund Warburg reveals a complex man who built international banking in response to the great turbulence of the 20th century. Given access to previously unavailable personal letters and diaries, Niall Ferguson, a history professor at Harvard, spent 12 years profiling this singular man, who was shaped by early-20th-century Prussian Europe and lived through World War I, the rise of Nazism, the dark years of the Holocaust and post-World War II reconstruction. The book's title aptly describes Warburg's "lives," since he reinvented himself in the face of world and personal events. Ferguson artfully weaves Warburg's motives, business environment and family intrigues into the political evolution of Western Europe and the US. *BooksInShort* highly recommends this detailed, readable biography of an extraordinary man.

Take-Aways

- Siegmund Warburg (1902-1982) was born in Hamburg, Germany, into a wealthy family that could trace its lineage to the 17th century.
- The Warburgs structured their family banking empire much like the Rothschild dynasty.
- Warburg wrote that post-World War I events created "the First World Revolution," which fueled the demise of European empires and the rise of Russian Bolshevism.
- In March 1933, recognizing Hitler's brutal intentions, Warburg escaped to London after sending his family to Sweden.
- In England, he fought against appeasement and advocated anti-Nazi economic tactics.
- Warburg helped make London the world's financial center.
- He envisioned a trans-Atlantic banking empire with superb institutions in various locations around the world.
- He foresaw and lobbied for global business, earning the title "prophet of globalization."
- Warburg founded the Eurobond market and invented inflation-indexed bonds.
- His personal global business dream foundered in modern markets, but he remains significant for his leadership and philanthropy.

Summary

Family Fortunes

Siegmund Warburg (1902-1982) was born into a wealthy family that could trace its heritage to the money-changing and banking businesses of the 1640s. Family tradition held that male members should pool a portion of their wealth and use it as capital for the family business. Thus, family relationships remained cordial as relatives settled in the US, Sweden and England. Brothers, cousins and, occasionally, uncles shared power through the generations. A similar structure governed other Jewish family banking empires, including the Rothschilds', a banking dynasty where five brothers built a family fortune two generations before Siegmund's formative years.

> "Show me trouble and I'll show you profit." (Siegmund Warburg)

The Warburg family entered the banking business in 1798. Around 1900, Siegmund's uncle Max Warburg expanded into international and German industrial bonds to supplement the firm's existing arbitrage and commercial-paper trading business. The branch of the Warburg's bank in Hamburg prospered from 1890 to 1914, the "first age of globalization," during which manufacturing, commodity markets, capital and labor forged new worldwide networks. Hamburg thrived as the largest harbor in the world's fastest growing economy, much to the bank's benefit.

> "To Siegmund Warburg, control was everything."

Siegmund's father, Georges Warburg, studied agriculture and was not involved in the family business. In 1901, Georges married Lucie Kaulla, who was from a leading Jewish family. Siegmund was born in Tubingen, 400 miles from Hamburg. Lucie always remained close to her son. She taught Siegmund the German humanism and Jewish beliefs that shaped his career and outlook. Foremost was: "Happiness in life consists in the fulfillment of duties and not desires." Lucie believed in Judaism's traditions and its moral elements, but she was not religiously observant. She stressed attention to detail, and thinking a problem through to ascertain its consequences; she believed in pursuing identified goals relentlessly. Lucie, who died in 1955, instilled in her son a sense of self-discipline and self-examination.

> "Of all his mother's maxims, the one he repeated most frequently was: 'Some call it disappointment and get poorer, others call it experience and get richer'."

World War I adversely affected the family business, even though Max Warburg –Siegmund's uncle and eventual mentor – helped Germany's financial and diplomatic efforts. Max understood that Germany would be defeated when its submarines attacked neutral shipping, thus bringing the US into the war. Siegmund later wrote that post-World War I events cascaded into "the First World Revolution," which, on the one hand, spelled the end of the Romanov, Hohenzollern, Habsburg and Ottoman empires, and, on the other hand, the rise of Bolshevism in Russia. Siegmund came to admire liberal sociologist Max Weber and industrialist Walther Rathenau.

> "Besides asceticism, perfection and self-criticism, his mother drummed one other vital quality into Siegmund Warburg: an aversion to social snobbery."

The young Siegmund considered a career in politics. His uncle Max served as a delegate for Germany at the 1919 Versailles peace negotiations, seeking to minimize reparations while winning favorable finance and trade terms. Max turned down the position of finance minister, believing that the Germans would never accept a Jew in that position. Max's political activities impressed Siegmund, who finished school in 1920 and joined M.M. Warburg & Co. in Hamburg, using the job as a springboard into politics. Siegmund wanted to emulate his uncle Paul, who helped establish the Federal Reserve and advised President Woodrow Wilson.

> "The defining characteristic of the Warburg's style – as his secretaries knew better than anyone –was an obsessive perfectionism."

In 1926, Siegmund transferred to the Warburg operation in London. He married Eva Maria Philipson and developed a close relationship with her father, Swedish banker Mauritz Philipson. In 1927, the newlyweds went to Boston; Siegmund trained at an accounting firm. He understood US entrepreneurship but realized its benefits were eluding Warburg's New York branch. Siegmund envisioned a trans-Atlantic Warburg firm, which would include Kuhn, Loeb & Co. (where members of the Warburg family had married into top positions), the International Acceptance Bank (created by Paul Warburg) and other shareholder banks.

> "To be truly 'haute banque' was to be international in both outlook and mode of operation."

Germany was fragmenting along class, ideological and political lines. Exploiting 1929's economic turmoil, the Nazi party gained votes. The Warburg bank in Hamburg suffered significant losses in Germany's 1930 banking crisis. By 1933, Adolph Hitler was chancellor. At first, Warburg and other wealthy German Jews did not fully grasp what the Nazis represented. But by March 1933, Siegmund recognized Hitler's intentions. He sent his wife and children to Sweden and his mother to Switzerland. Siegmund moved to London and lived as a naturalized English citizen.

An Émigré in London

In London, Henry Grunfeld, a skilled negotiator and corporate restructurer, became Warburg's closest friend and an essential business partner. Warburg lobbied the British political establishment to resist appeasement, and he suggested propaganda tactics and economic warfare against Germany. He gathered economic intelligence throughout Europe and worked to deny Italy and Germany access to strategic materials.

> "If anyone could claim to be the father of the Eurobond market it was Siegmund Warburg."

After the war, the Warburg family's companies and bank branches were either empty shells or altered beyond recognition. Siegmund expanded into advising and banking for 15 to 20 industrial clients. In 1946, after intense family discussions, he launched S.G. Warburg & Co., his own merchant banking firm, with no family interference. He focused on Western Europe's educated, industrious populations. In 1952, S.G. Warburg merged with a metals brokerage (Brandeis Goldschmidt) and acquired Seligman Brothers. Siegmund's expansion plans dovetailed with an ambition dear to Bank of England officials: to make London the world's financial center. Siegmund advocated attracting foreign capital to London to finance the modernization of British industry.

> "To possess a certain talent for bluffing...is rather important in the banking profession.'" (Warburg)

Warburg founded a small trust, Merchants & General Investment Corp., and a "financial mediation firm," the New Trading Company. In 1954, he sold the common shares of S.G. Warburg to a holding company, Mercury Securities, to use for acquisitions and nonfinancial businesses. Siegmund arranged to float shares of German companies on the London Stock Exchange. In 1964, seeking a larger presence, he and a partner bank bought a Frankfurt bank. Siegmund remained interested in German political affairs and never assimilated into English society. Though he gained British citizenship, he remained an uprooted German. In 1970, he achieved his goal of restoring the Warburg name to the Hamburg bank, which had been retitled under Nazi rule.

> "I brought something to England which was a little bit different because I was a damn foreigner, a German Jew." (Warburg)

Warburg sought a united Europe and strong US-British relations. As an anti-Communist, he refused to do business with Moscow. In the 1950s, he advocated a NATO-like common market and common currency.

In 1956, Warburg launched a series of deals to transform his firm and the City of London's financial community. His pursuit of British Aluminum resulted in the first hostile takeover of a company that sold shares on the open market. His public struggle to expose British Aluminum's management pitted the City's financial insiders against Warburg, a relative upstart, and destroyed the City's (supposedly) gentlemanly way of business. Warburg's forces acquired 65% of British Aluminum; afterward, major City firms ostracized him.

> "By the early 1970s a paradox was firmly established: the success of S.G. Warburg as a bank seemed to proceed independently of the failure of the UK economy."

Still, his success attracted new clients for mergers and acquisitions. The experience reinforced Warburg's doubts about the Bretton Woods currency agreement and the usefulness of the United Nations (which he called the "United Hypocrites"). Throughout his life, and especially in the '50s and '60s, Warburg envisioned a financial triangle linking the US, London and Europe.

> Warburg "was a political agnostic."

The rise of the Eurodollar and Eurobond markets in the early '60s initially expanded the European Economic Community and added fuel to Warburg's vision. Warburg's pan-Europeanism led him to build the Eurobond market. These innovations required large, liquid US dollar deposits in European banks and multinational companies. To further develop the Eurobond market, Warburg advanced British entry into the Common Market.

> "With his extraordinarily clear and articulate vision of international financial reintegration, Siegmund Warburg more than any other contemporaneous figure deserves the title of 'prophet of globalization'."

Warburg saw Eurobonds as his creation and used the bonds to draw clients from competing firms. But his advantage was short-lived. Soon, foreign banks and new branches of British banks opened in London to offer Eurobonds, competing with Warburg while solidifying the City as a financial capital. Warburg came up with a twist: He created sterling-based Eurobonds, with a European currency option, providing investors with more choices among multicurrency bonds. He then lobbied for preferential tax treatment for foreign bonds. His innovations worked; today Eurobonds constitute about 90% of all international bond issues.

"Haute Banking"

As the firm solidified its reputation, Siegmund defined the characteristics of haute banking: high morals, efficiency, knowing the right people, a first-rate staff and excess capital. The firm disdained speculation. Its quality standards were rooted in the 19th century, and Warburg saw himself as an elite banker whose clients were first-class governments and corporations.

> "This last chapter of Siegmund Warburg's life as a banker is, in the end, a story of failure."

The firm's workday began at 8 a.m., and all large transactions required the presence of four Warburg executives. Every meeting generated a memorandum, and the participants verified all communications in writing. These documents were letter-perfect; Siegmund commented on even a missed comma. The firm had an open-door policy to encourage interactions among staff levels. Client meetings generally lasted only 30 minutes. Warburg nurtured junior partners and invited them on walks, hosted them at his apartment and asked them to accompany him on business trips. He discoursed on business motives and strategies. Colleagues said he would have made a wonderful teacher.

In 1967, Siegmund handed the company's daily management to his old friend Henry Grunfeld. The organization helped the British government correct its financial problems. When Harold Wilson became prime minister in 1964, he turned to Siegmund for guidance. However, Warburg's influence waned under successive administrations, even as the UK economy deteriorated.

Warburg pressed ahead with his global vision. In the early '70s, the oil shock and subsequent Arab-Israeli war sparked Warburg's interest in Israel. He took on unofficial peacemaking roles and promoted investments in Israeli software, agriculture, tourism and chemicals. Israel won the 1973 war; Arab OPEC nations enacted an oil embargo, and boycotted Jewish banks and investment firms, including Warburg, Rothschild and Lazard Frères. Warburg remained on the Arab blacklist until 1980.

By the mid-'70s, inflation wracked major world economies, destabilizing banks and individual portfolios. Siegmund advised the British government to offer bonds indexed to the inflation rate. Britain did just that. Warburg opposed a return to the gold standard and lobbied for the elimination of Bretton Woods. After his retirement, Warburg became more disagreeable and complained about issues ranging from the quality of food served in the company dining room to operations at his firm's investment management division. Toward the end of his career, Warburg entertained mergers with other major London banks, including the Rothschilds', but these never materialized. Instead, he created the Warburg Group, which eventually consisted of partners or subsidiaries in Germany, Switzerland and New York, plus the Warburg-Bank Paribas-A.G. Becker merger in 1974.

But Siegmund failed to understand the depth of US capital markets and how American business practices were different from Europe's haute banking culture. With these disagreements, tensions mounted, and by 1976, the head of A.G. Becker agreed to resign. In 1977, the family company's New York arm, Kuhn Loeb, gave his agreement to merge with Lehman Brothers. By 1978, Siegmund's vision of a global bank comprised of individual gems had evaporated.

After a series of strokes, Warburg died in London in October 1982. He was eulogized as an innovator who revitalized London banking and as a philanthropist who disdained wealth, criticized vulgar materialistic displays and embodied an old European Puritanism. At the time of his death, his estate was valued at £2 million. Despite his intensity, Siegmund had few enemies, while those who worked for him were exceptionally loyal and reverent of his many talents.

About the Author

Niall Ferguson teaches history at Harvard University and wrote *Empire*, *The Cash Nexus, The Ascent of Money* and several other books.