**A Study of Merchant Bankers (2)**

――　The Dramatic History of M.M. Warburg & Co. based in Hamburg (2) ---

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1. **Introduction**

 As a prelude to this dissertation, I provided a summary of the dramatic history of M.M. Warburg & Co. banking company based in Hamburg in a Japanese dissertation that carried the title “A Study of Merchant Bankers (1) – The Dramatic History of M.M. Warburg & Co. based in Hamburg (1)” -- at the fourth issue of the Seinan Gakuin University Department of Economics Bulletin of Economics Dissertations (Vol. 27), published in March 1993.

 Now, let me present this dissertation under the title of “A Study of Merchant Bankers (2) ―The Dramatic History of M.M. Warburg & Co. based in Hamburg (2)” following my latest in-depth study of this influential privately-owned bank run by a prominent banking family of Jewish descent. This research was made possible by a seven-month research opportunity in Europe given to this author by the university from September 1998 through March 1999 under its Foreign Studies (B) program. Here, let this author manifest a heartfelt gratitude to the university leadership and my colleague professors at the Department of Economics for giving me this European study chance.

 Earlier, I presented a draft-stage manuscript for publication on an academic journal published for graduates of this university in response to a request by the journal’s editorial board to report the findings I obtained during the European research on the journal’s Volume 826, published in January 2000. Since there were some overlapping in contents between the manuscript and the 1993 dissertation “A Study of Merchant Bankers (1)”, I decided to review the manuscript and eliminate such overlapping as far as possible and added necessary information, thereby presenting here the results to readers of this bulletin as the “A Study of Merchant Bankers (2),” which this author hopes will be one of their key reference material in conducting a study of influential merchant banks of prominent German Jewish descent.

 In the afore-mentioned dissertation, “A Study of Merchant Bankers (1),” I made the life of Eric Moritz Warburg (1900-1990), the father of Max Warburg, an incumbent partner at M.M. Warburg & Co. in Hamburg, a central subject for the dissertation, while adding to it the entire Japanese translation of Chapter 5 of “Aus meinen Aufzeichnungen (My Memorandum)” authored by Max Moritz Warburg,” the grandfather of Max Warburg.

The chapter concerns a key impact which the Warburg family and Mr. Jacob Schiff, who is also related to the Warburg family with a familial tie, exerted on a crucial phase of modern developments of Japanese history. I had the honor of interviewing both Max Warburg, current partner of M.M. Warburg & Co., and his father Eric Moritz Warburg, respectively on February 14, 1999, and in February 1987, following my encounter with Eric M. Warburg dating back to as early as the autumn of 1964.

 This dissertation entitled, “ A Study of Merchant Bankers (2),” when compared with its preceding paper, “A Study of Merchant Bankers (1),” gives greater emphasis to the life of contemporary commercial banker Max Warburg, who assumed the post of a partner with an unlimited liability at M.M. Warburg-Brinckmann, Wirtz & Co. in 1982 prior to the bank’s renaming to its original appellation M.M. Warburg & Co. in 1991, as well as to his insight into risks involved in modern banking, while evoking the Warburg family’s tumultuous 20th-century history. This dissertation also makes references to some unforgettable comments made to this author by his father Eric M. Warburg.

 M.M. Warburg & Co in Hamburg marked the 100th anniversary of its founding in 1998. To commemorate the 200-year history, the bank published the book entitled, “M.M. Warburg & Co. 1798-1998, Die Geschichte des Bankhauses.” I cited the book as the 20th item in this dissertation’s references segment. In addition to this, Ron Chernow authored the book “The Warburgs, a Family Saga; The Twentieth Century Odyssey of a Remarkable Jewish Family,” which was published by Random House in 1993. The two-volume Japanese translation of the book, made by Kyoritsu Women’s University Professor Eiichi Aoki, was published by Nikkei Inc. in 1998. The book is cited as the 19th item on the references segment. The book furnishes readers with lots of information about the history of the banking family.

When I asked about the book in the 1999 interview, Max Warburg expressed a mild bewilderment, telling the author, “Since the book describes the history of my own family, it still can cause some puzzlements, even though events described there may be something of the past.” Chernow, himself a writer of Jewish descent, says he had a series of interviews with members of the Warburg family and M.M. Warburg’s bank officers when he was staying in Hamburg for as long as eight weeks for research to write the book. The book was honored with Columbia Business School’s George Eccles Prize for Excellence in Economic Writing, while the same author’s “The House of Morgan: An American banking Dynasty and the Rise of Modern Finance” was cited as one of the year’s 10 best books by the American Library Association.

　　Professor Aoki, which also translated the “House of Morgan” into Japanese, told me he found it extremely difficult to translate “The Warburgs” unlike the “House of Morgan,” due partly to the presence of quotes and words of multiple languages spoken by many Jewish families, the presence of archaic and poetic words and expressions used by such families, as well as due to its multiple references to the cultures and habits peculiar to the Jewish people, which were found throughout the book. Still, I found the translation to be have been done with graceful Japanese sentences of masterly style.

 This author was a senior official at Mitsui Bank, now part of Sumitomo Mitsui Banking Corp., before becoming a scholar specializing in the banking system. Looking back at major developments in my professional history, it was Mitsui Bank President Masuo Yanagi who in 1964 kindly directed me, the then 28-year-old fledgling banker who had just completed my nine-month apprenticeship at Dresdner Bank, to see and study firsthand German commercial banking operations at Brinckmann, Wirtz and Co. banking company in Hamburg, after he had a dinner meeting with the bank’s partner Eric Warburg and other top managers.

In the spring of 1964, Yanagi, who was then serving concurrently as the chairman of the Japanese Bankers Association, visited Tehran to attend International Monetary Fund and World Bank meetings before flying beyond to various German cities including Hamburg.

Before Yanagi and his wife Otome departed from Japan, he expressed his desire to pay a courtesy call to the Warburg family and M.M. Warburg & Co. in Hamburg in view of a five-decades-old relationship between the Jewish banking family and the Mitsui family. Yanagi’s father, Sotaro, was a Mitsui Bank managing director, the post that gave him management controls over the bank as its effective top manager, while serving as the top subordinate of Mitsui Bank President Takamine Mitsui who repeatedly paid visits to Max M. Warburg as a friend prior to the breakout of World War II. [For the greater details of the friendly exchanges between the Warburg and Mitsui families and this author’s brief analysis of the key universal lessons bankers worldwide should learn from the 1974 collapse of Bankhaus I.D. Herstatt K.G.a.A and its international repercussions, please see the other of this author’s two dissertations on the Warburgs which was published on the 4th issue of the Seinan University Department of Economics Bulletin of Economics Dissertations (Vol. 27). The English translation of the details and analysis on the fourth issue have been incorporated into the English rendering of this dissertation, titled, “A Study of Merchant Bankers (2).”]

 During his 1964 visit to Hamburg, Yanagi also wanted to have a reunion with Dr. Hans von Wuttke, who achieved excellent business results as a former Daimler-Benz board member in charge of the automaking giant’s global marketing operations and who was just then recruited as a M.M. Warburg & Co. partner. Yanagi had developed friendly ties with Dr. Wuttke as a close acquaintance of Jiro Yanase, president of Japan’s largest car importer-dealership network operator Yanase and Co. During his German tour, Yanagi also paid visits to Mitsui’s multiple correspondent banks at various German cities.

 The warm welcome given by the Warburg family and M.M. Warburg & Co to the chief of the Far Eastern bank with which it had kept the long and close relationship was very heart-warming. This author who accompanied Mr. and Mrs. Yanagi to the meetings with the Warburg family as his chief secretary also received the warmest possible welcome. They made me feel completely at home.

When Mr. Yanagi directed me to lengthen my stay in Europe, Mitsui Bank’s Tokyo headquarters and its London branch immediately remitted Deutsche marks needed for that prolonged stay to my account at the Dusseldorf branch of Dresdner Bank AG to enable me to clear any possible procedural complications that might otherwise have stemmed from the then still-stiff controls which were kept by Japanese financial authorities over the amounts of money that may be remitted to employees of the European branches of Japanese companies from their home country. My funds-raising need for a Hamburg apprenticeship was speedily satisfied thanks to the thoughtful interventions and related remittance instructions by Mr. Toneo Noda and Mr. Nobuo Takeyama, who were then the chief and deputy chief of Mitsui Bank’s European operations.

In those days, burgeoning moves to set up branches in West Germany were underway among 14 major Japanese banks seeking to catch up with Fuji Bank and the Bank of Tokyo, now part of MUFJ Bank Ltd., which were already running German branches as of 1964. This author was among 19 Japanese trainees sent into the German banking community from the 14 banks, the Finance Ministry and the Bank of Japan to get them familiarized with both European financial market practices and local languages as a preliminary step for such Japanese advance into the European banking community. In parallel with the Japanese move, a few German banks communicated desires to set up Tokyo branches to the Japanese financial authorities.

 This author was so lucky to be given an invaluable opportunity to receive training as a banker during the September-November period of 1964 in person from Eric Warburg, a seasoned banking professional who was then holding the post of a partner at Brinckmann, Wirtz and Co. at the commercial bank’s Hamburg head office in the immediate aftermath of the author’s nine-month apprenticeship at the various German branches of Dresdner Bank. It was in 1991 that Brinckmann, Wirtz and Co. was renamed to the bank’s original name M.M. Warburg and Co.

 From time to time, Eric Warburg lectured me on the reality of the European banking industry. He kindly assigned me to work and examine the operations at the Hamburg bank’s multiple divisions, such as the accounting, banking, and the syndicate loan sections, to maximize the efficiency of my learning curb during the period, while coming from time to time to my places of assignment to inquire about my learning progress to my German section superiors and colleagues and thereby encouraging the German bankers and clerks at the multiple sections to behave kindly to the fledgling Japanese banker.

 On the international political arena, the year of my Hamburg apprenticeship in 1964, the year which followed that tragic 1963 when U.S. President John F. Kennedy was gunned down on Nov. 22 in Dallas, was swamped by a string of tumultuous incidents such as French President Charles de Gaulle’s decision in January to open diplomatic relations with Mao Zedong’s China, the Japanese securities and banking industry’s decision to intervene into the stock market to prop up diving share prices that took blows from the Kennedy assassination, the August 2 Gulf of Tonkin Incident that led to the United States engaging more directly in the Vietnamese War, the Oct. 13 ouster of Soviet Communist Party First Secretary Nikita Khrushchev from the Kremlin, the British general election defeat of the Conservative Party to Harold Wilson’s Labor Party and persistently mounting currency market pressure on the British government to devaluate the pound amid the country’s economic and international balance of payments woes.

Although some of the strong momentum at the two countries’ banking communities to set up many branches in each other’s home turf was lost in the autumn of 1964 due to the above-mentioned rapid changes in the international situation and the resultant deterioration of each other’s domestic problems, it failed to spoil friendly mingling and mutual assistance among the 19 Japanese trainees from 14 Japanese banks as well as from the Japanese Finance Ministry and the Bank of Japan. The inter-personal exchanges were really heart-warming events that truly deserve the honorable name of the principle of “interbank” friendship, even though they unfolded against the backdrop of Japanese financial authorities’ the then still-harsh controls over the amounts of money that can be remitted out of Japan when banks pay renumerations to such trainee in those days. The trainees’ friendly relationship totally differed from the rivalry and enmity that later sprang up among the European branches of Japanese banks that made inroads into the European business community from the onset of the 1970s.

This period of active Japanese advances into the European market was followed by the subsequent era of the domineering influence of the “Japan Money” on the global financial market, which was then followed by the spectacular 1990 burst of the late 1980s asset price-inflated “bubble economy” phenomenon. Consequently, this author, who visited Europe from September, 1998, found the state of the international banking branches of Japanese banks in Europe to be quite disappointing in light of their miserable conditions that followed many Japanese banks’ pullouts from international money centers. This author could not help wondering where the dominant clout of the “Japan Money” has gone.

 This impression was shared by a Deutsche Bank AG veteran who is my longtime acquaintance at the bank’s Japan Desk. He told me, “In just three months’ time, Fuji Bank Dusseldorf, which is the longest-operating Japanese bank branch in Dusseldorf, is really withdrawing from this city, isn’t it?” On that occasion, a television news footage that was being beamed from the TV set at his office stood in sharp contrast with the Japanese misery. In it, Dr. Rolf-Ernst Breuer, the top manager of the bank, was announcing the bank’s decision to acquire Bankers’ Trust of the United States for 15.7 billion mark. Speaking in his position as the spokesman of the bank’s Board of Managing Directors, Dr. Breuer was in roaring spirits.

Here, let me express my deep gratitude to Ms. Etsuko Yamashita, the chief researcher at the European Division of the Research Department of Sakura Bank, now part of Sumitomo Mitsui Banking Corp., Mrs. Kuniaki Suzuki and Kunio Kinoshita, both of who served successively as the chief of Sakura Bank’s Dusseldorf Branch as well as to Dr. Hanns Gunther Hilpert of IFO Institut, all of who helped this author gather parts of information that was necessary for this dissertation.

1. **Main Text**

 **The “Resurrection” of M.M. Warburg & Co.**

--- The dramatic history of a bank run by a prominent German Jewish banking family in Germany –

 Hamburg’s Inner Alster Lake was frozen with fume-like powdery snow falling onto the lake’s surface amid the frosty atmosphere of a February day in 1999. I raised my eyes and found the building at the city’s FerdinandstraSe 75 to stand and radiate exactly same atmosphere as it used to do 35 years ago. The building is the head office of M.M. Warburg & Co. (AG & Co.) KGaA. The name of the commercial bank is derived etymologically from the name of the German town of Warburg in North Rhine-Westphalia. But should readers pronounce it as “wo:rrba:rg” in the English manner, it would conjure up the image of financial glory which S.G. Warburg & Co. was radiating in its heyday in the establishment of the City of London.

 In the autumn of 1964, when I was a Mitsui Bank official, I was given an opportunity to study the operations of this influential German private bank for two months as a trainee stationed at its Hamburg office who was entrusted by Mitsui Bank to M.M. Warburg & Co. under an apprenticeship program, as I explained earlier in this paper’s opening section.

 During this invaluable stint, I became acquainted with Eric Moritz Warburg. Giving me thoughtful attention, he assigned me to the bank’s multiple divisions to maximize the efficiency of my apprenticeship. I can never forget a witty joke Eric Warburg uttered about my habit of having lunch at the bank’s upper-grade dining hall for managers every day – even on Fridays when only fish cuisines like flounder and herring dishes are prepared and served by cooks and whose fishy smell apparently led some of the bank’s managers and section chiefs -- albeit frequenters to the dining room just like me on non-Friday working days -- to remember that the working day is a Friday, turn back along the corridor and go out of the bank building to “take refuge” at the Hamburg downtown’s restaurants that serve meat dishes on Fridays as well.

Eric Warburg, who was aware that I was born and raised in the northern Japanese port town of Hakodate, told me light-heartedly, “Since you came from a port town, you do not mind eating fish dishes, do you?” This pleasantry and his occasional visits to my places of assignments to encourage all employees at the Hamburg bank’s multiple sections to take a kind attitude to this then just-fledgling Japanese banker make evidence of the deep goodness in the soul of this German-Jewish banker. Exerting his common touch, Eric used to ask my section’s German colleagues, “Is our young and bright Japanese banker doing well here ?”

 Twenty-three years later – in the winter of 1987 – I had a reunion with Eric Warburg, who was then spearheading the Warburg family as a partner at M.M. Warburg & Co. He handed over to me a xeroxed copy of Chapter 5 of the “Aus meinen Aufzeichnungen” authored by his father Max Moritz Warburg. Then, Eric told me with a smile, “I have become 87 years old.” He stood up, letting go of a walking stick and hugging me lightly just as he did in 1964, when we first met.

 Then, Eric Warburg said, “All in my family line developed desires to become academics and only my father was skillful in conducting banking business transactions. I have become an old man. But I have done my utmost to collect most of my bank’s historical documents that had been either dispersed and lost or confiscated by the Nazis. I have managed to store these collected documents into the archive which I have established.” Eric seemed to penetrate me with his gaze. The expression of his eyes has remained that peculiar to the Warburgs. He has remained an eagle-eyed person. Three years after this reunion, he passed away at 90, terminating his life full of ups and downs and being buried at his native country.

 Eric Warburg was fortunate in two senses, given the fact that the number of Jews who were not allowed to die a natural death at their native countries across Europe by the year 1945 when Nazi Germany was defeated came to six million. Firstly, he eluded this cruel fate and passed away with his wife and children attending his deathbed. Secondly, he revived the time-honored honorable appellation Warburg to the Hamburg-based bank which had been taken away from his banking family, recovered the family’s management controls over the bank and died after handing over real management power over it to his scion Max Warburg.

 It is well known that merchant bankers of Jewish descent converged on Germany from around the 16th century until the time when the Nazi Party gained a domineering influence over the German government.

 It was in 1559 that Simon von Kassel, a Jew, was authorized to settle in the village of Warburg in the North Rhine-Westphalia and run the family business of a money exchanger and a pawnshop there. The Kassel family adopted the name of the village as their surname.

The year corresponds with the second year of Japan’s Eiroku era under Japan’s singular era-naming system, when General Yoshiteru Ashikaga was reigning as the 13th shogun of the Ashikaga shogunate. It also fell upon Japan’s bloody conflict-ridden period when feudal warlord Nobunaga Oda was consolidating his power via a series of battlefield victories over rivals with an eye to governing the entire Japan as its supreme political leader.

 In Europe, Gumprich Marcus, who was born as an eighth-generation descendant from Simon von Kassel, obtained permission to settle in Hamburg in 1773. Two of his sons, Moses and Gerson Warburg, founded M.M. Warburg & Co. in Hamburg in 1798, opening the path for the bank to mark the 200th anniversary of its founding in 1998.

 Here, let me present you a family tree diagram of the Warburgs with figures in parentheses denoting the year of the death of a person in question.



Outline of Warburgs’ Family Tree

( ) year of death

Family tree

FRB governor

married Frieda Shiff,

daughter of Jacob Shiff

 Sara Warburg, a daughter of Moses, gave birth to two sons, Sigmund and Moritz Warburg. Moritz fathered the “Famous Five” of Hamburg – Abraham (Aby) M., Max M., Paul M., Felix M. and Fritz Moritz Warburg – by his wife Charlotte. Aby became a scholar and established the Warburg Institute in London. Moritz’s number three son Paul emigrated to the United States, becoming an architect of the U.S. Federal Reserve System in 1913 and devoting himself as a member of its first Federal Reserve Board. Felix Warburg in 1895 married Frieda Schiff, only daughter of Jacob Schiff, head of the banking company Kuhn, Loeb & Co., and assumed duties as a partner at Kuhn, Loeb & Co. Moritz’s second and fifth sons, Max and Fritz Warburg., jointly assumed the helm of M.M. Warburg & Co. in Hamburg. Eric M. Warburg, whom I have described briefly in the preceding paragraphs, is the eldest son of this Max Moritz Warburg.

Author of Aus meinen Aufzeichnungen

Alice Magnus (spouse)

 After Eric passed away in July 1990, Max Warburg, who was born in 1948 in the United States, has spearheaded M.M. Warburg & Co. Max, 51 and almost 2 meters tall, has inherited intelligent eyes widely known as “the eyes of Warburgs,” from his father Eric. When I was conversing with him on February 14, 1999, he said, “I got married at the age of 44 and fathered four daughters during the subsequent six years.” He spoke with a straightforward American manner, thereby prompting my wife, who had accompanied me to the bank president’s drawing room, to ask him outright if he got married through a process similar to a Japanese-style “miai” pre-marital interview between promising bride and bridegroom candidates that is arranged by a match-making intermediary. Amused by this innocent question, he had a big laugh that reverberated at the high-ceiling room, saying, “No. No. My marriage was not a Japanese-style arranged marriage” and showing my wife the photograph of Alexa Krumbach, his wife.

Max Warburg is a tall, active, charming and humorous banker who radiates an air of strong vitality unlike the appearances of his father who has maintained until his old age his slender contours that conjured up the image of an eagle with an acute angular silhouette. “Under my stewardship, this bank has so far acquired five other banks and I intend to let it continue to follow this expansionary strategy until it absorbs two or three more banks,” he said. Judging from the fact that he spoke out his mind to this researcher from a foreign country and exposed this ambitious acquisition plan that would have astonished journalists on the economics beat, Max does not fall into the typical category of traditional European private bankers who tend to hide inward thoughts.

 A large photograph that grew yellowish with age is hung out on the wall of this drawing room. It is that of former Japanese Prime Minister Korekiyo Takahashi in full court dress worn for a state ceremony. The lower part of the photograph carries Korehiyo’s signature and dedicatory message that reads, “Following His Imperial Majesty’s order to this effect, I express profound gratitude to your venerable bank as the representative of the Imperial Government of Japan.” This message and signature were seen glistening and having an oblique angle at the lower part of the photograph.

 When the Russo-Japanese War broke out on February 9, 1904, Japan’s specie (gold) reserves came to the equivalent of only 52 million yen or 5.2 million pounds. The then Bank of Japan Deputy Governor Takahashi was ordered by the then Imperial Japanese Government to act as the government’s chief commissioner and negotiator on international finance affairs to borrow 10 million pounds through a flotation of government bonds to foreign investors. He was immediately sent to the United States. After his efforts to muster American underwriters for the bonds Japan was to issue hit a snag in New York, a despondent Takahashi set sail to London and restarted negotiations to find and muster such underwriters among British financial institutions – without a very meaningful success. In late April of 1904, Takahashi was invited to a London dinner party, where an American banker who came and sat next to Takahashi talked to him asking a series of questions to him in a friendly manner concerning the purposes for which he came to London and about social and economic conditions of Japan. The American was Jacob Schiff of Kuhn, Loeb & Co.

 The following morning, Schiff sent an emissary to Takahashi’s modest hotel and communicated his decision to single-handedly underwrite half the 10 million pounds in Japanese government bonds that Japan needed to float immediately, given the fact that Parr’s Bank and the Hongkong and Shanghai Banking Corp. had agreed earlier in April to jointly underwrite the remaining half, alongside a third bank. Later in the day, Takahashi paid a visit to Schiff at the Claridge’s in acknowledgement of his generosity.

Heartened at the success of the first bond issue, Japan floated a combined 800 million yen (80 million pounds) in government bonds to finance its war efforts against Russia in a sequence of six issues with the unwavering aid of Schiff. The total was three times the Japanese government’s general-account budget of 260 million yen for 1903. The amount was also equal to 52% of the combined expenditures spent by Japan to win the war against the Tsarist Russia. Although German and French financial institutions began to take part in the fund-raising, starting from the fourth bond flotation, such massive borrowing would have been an impossibility unless Schiff had acted as Japan’s strong backer.

 It is appropriate to say that the encounter between Takahashi and Schiff at the London party was the consequence of a celestial grace for the Imperial Japan facing a crisis threatening its survival. When Takahashi asked Schiff why he decided to come to the rescue of Japan, Schiff, the foremost Jewish leader in the United States from 1880 to 1920, explained the reason in just two sentences. The sentences were as follows; “The Russian Tsarist regimes have persecuted the Jewish people for many years. I wanted to strike back at the regimes even to a limited degree, even though I may have to risk seeing the Japanese bonds become heaps of wastepaper.”

 Royal families in European powers are related to each other. Many European intellectuals might have questioned the appropriateness of a Caucasian banker extending financial aid to a Far Eastern country of the yellow race that was then fighting a struggle with a Caucasian country. The dominant country-risk view among European bankers was probably that Japan, which recklessly stood up to Europe’s mightiest Russian Navy and Army despite Japan’s premature military modernization history of less than 30 years, would be squashed during the very early stage of the combat between the two militaries.

A Max Warburg-led German loan syndicate, which took part in the fourth flotation with the intermediation of Schiff, opened the path for the German financial community to start having financial ties with the poor Far Eastern country named Japan, although the community had been intimate with the Russian government historically and geopolitically. The syndicate kept on participating in subsequent Japanese bond issues. The photograph of Prime Minister Tahakashi which I have just described above was an effective thank-you letter from the Imperial Japan to Max Moritz Warburg, who is the grandfather of the incumbent general partner of M.M. Warburg & Co., Max Warburg. The feelings for Japan at bankers of the banking syndicates spanning major European Powers and financial giants like Kuhn, Loeb, N.M. Rothschild and Baring must have been a mixture of emotions.

 But we must note that Japan’s great good luck scaled its zenith with its victory at the Russo-Japanese War. Thirty-one years later　– in 1936 -- Takahashi was assassinated by rebelling military officers at the February 26 Incident who were enraged at his objections to a further rise in Japan’s military budgets and the Japanese military’s uncontrollable colonialist conquests in Asia. Japan’s glory then vanished decisively as a result of wars it started against the United States and Britain in 1941, when Japan entered the 37th year since its victory at the Russo-Japanese War.

 In the “Aus meinen Aufzeichnungen,” Max Moritz Warburg jotted down his own observation of Takahashi’s personality. “I found Takahashi to be a person more knowledgeable about fiscal and financial numbers than any other finance minister of any other country whom I have ever met in the course of my life. He remained well-mannered and decent in any moment of the extremely difficult bond flotation negotiations he had to undergo and remained a person who can be trusted absolutely and unconditionally.”

 His Memorandum does not provide a detailed explanation for his decision to live up to Japanese pleas for massive borrowings. The book only says, “With pleasure, I responded positively to a telegram inquiry from the U.S. lending syndicate led by the lead-manager Kuhn Loeb & Co. on whether my bank is willing to underwrite Japanese government bonds. I just handed down a decision which any able banker would have made as a matter of course. I immediately travelled to Berlin to secure permissions from State Under Secretary (Arthur) Zimmermann for necessary administrative procedures and departed for London.”

 Here, let me sum up Takahashi’s own descriptions on the same crucial development from his autobiography.

The day when Max Warburg responded positively to the telegrammed inquiry Schiff sent at the request of Takahashi on German banks’ willingness to help underwrite the Japanese bond issue fell upon the day of a yacht race in Hamburg which was being watched by German Emperor (Kaiser) Wilhelm II on board a ship that also carried Max Warburg and other German banking titans, including Reichsbank President Richard Koch. It was in June, 1905. The telegram read, “I want you to wire back to me your answer to this inquiry on if German bankers are willing to underwrite a 100 million yen portion of the 300 million yen to be raised through a planned bond issue by the Imperial Japanese Government, the fourth in a series of its war bond issues.” Warburg immediately passed round the telegram to the bankers aboard the same ship, who proposed that Warburg ask for the opinion of the Kaiser on this matter who was present at the very venue. When Warburg explained about the Japanese underwriting request sent via Schiff, the Kaiser gave his royal word on the spot, saying, “Grant their request.” Warburg wired back German bankers’ answer from the ship in a single sentence, “We okay the request.”

 This acceptance of the Japanese underwriting request turned the full-fledged attention of the U.S. and European financial community to the Far East. The German proposer Warburg began to have a hand in the formulation of German foreign policy. His bank’s relations with the German Foreign Ministry have since kept on growing.

 According to Takahashi’s description of his first meeting with Max Warburg in his autobiography, completed in January, 1936, one month before his own assassination, the date of their tete-a-tete meeting in London was Nov. 19, 1905.

 About this London parley, Mar Warburg, in his “Aus meinen Aufzeichnungen,,” recalls as follows;

 “This was the first time that I had a direct contact with a Japanese national. Mr. Takahashi, who was then acting as the Japanese government’s top negotiator on international financing matters, assumed, in subsequent years, a long series of key government posts including cabinet ministerial portfolios and the premiership. I found him to be a person of truly deep and wide culture. In the early stage of his professional career, he assumed some teaching duties at schools. While an infant, he was adopted into a family of high social standing in accordance with Japanese customs. Indeed, he scaled the summit of the Japanese social hierarchy – the premiership – at an astonishingly high speed. Although we had a pleasant chat for many hours, subjects of our conversations were many topics that were unrelated to our bond underwriting project.”

 In the ensuing paragraphs of his “Aus meinen Aufzeichnungen,” Max Warburg jotted down his pleasant recollections of a visit to Hamburg all the way from Japan by Takahashi, who brought with him his secretary Eigo Fukai, who later became the Bank of Japan Governor. Their Hamburg visit appears to have taken place some months (or a few years) after their encounter in London.

 The Memorandum reads, “Some time after the London encounter, he paid a visit to Hamburg bringing his secretary to manifest the Japanese government’s gratitude to our joint bond flotation undertaking. At that time, my family was residing in the Hotel Vier Jahreszeiten, because I was refurbishing my mansion in Hamburg. My parents extended an invitation to him to the hotel, alongside a few friends of his. After my father (Moritz Warburg) delivered a welcome speech to the Japanese delegation, everyone present at the gathering naturally developed expectations that Takahashi may deliver an address in reply. Indeed, Takahashi stood up and delivered the following impromptu speech. “Today, I travelled to this place from Japan to express my heartfelt gratitude to my friend Max Warburg. Today, he gave me the highest possible honor that a Japanese national can imagine to receive. It is the glory that has stemmed from his extending an invitation to me to the home of his parents.” After uttering this, he sat down wrapping up his eloquent address. Over the subsequent decades, he continued to send formal letters of invitation to me and my wife in which he kept on asking us to travel to Japan. The final among this long series of invitation letters came in 1936. At that time, his age has already passed the threshold of 80 with the letter communicating his hope of having a reunion with me by all means. The letter gave me the strong impression that he indeed wants us to have an opportunity to familiarize ourselves with Japan, along with its customs and cultures, as his friends. Then, I made up my mind to accept the hearty invitation and started preparations to travel to Japan via the United States. But a tragic news shortly pounded me out in the midst of the preparation period. It was the news of his assassination by the Japanese military.”

 His memorandum also evokes the establishment of friendly relations with various Japanese business leaders who were encouraged to travel to Hamburg from the 1910s through the middle of the 1930s by Takahashi, who used to communicate to Japan’s top political and business circles key information on the strong good influence exerted by Max Warburg and his family on the German business community until he was gunned down in Tokyo in 1936 with six bullets in the February 26 Incident.

 The Memorandum says, “A growing number of Japanese dignitaries have come to pay a visit to our bank as a result of Takahashi’s introductions as my relations with Takahashi grew closer and my bank’s reputation in Japan ascended. Among these dignitaries, Baron Takamine Mitsui cut the most conspicuous figure. He was the supreme leader of the famous influential Mitsui business conglomerate that lasted for more than 700 years. The Mitsui delegation (of 1910) included his key business partner Takuma Dan, who also was later assassinated under a conspiracy devised by the military exactly in the same manner with which Takahashi was gunned down. Mitsui’s description of the purpose of his visit to me was astonishing. He said he came to gain my advice and explanation on the reason for which all Warburg families are working in solidarity without developing a rivalry or feud among themselves despite the fact that the Warburgs have historically developed such a long family tree. All I could say in reply on the spot was that the Warburg family’s multiple households are also fighting a struggle with each other all the time, just as the multiple households belonging to the scions of the Mitsui family have been doing. However, Mitsui was not the type of persons whose search for the truth could be finished by such a perfunctory answer. He refused to back down, saying that I should have some knowledge on methods relating to how to inhibit and restrain any breakout of a strife among the households of the Warburg clan. He even provided me with detailed accounts of disputes that were then hounding the multiple households belonging to the Mitsui family. Because he listened carefully to all my advices, I decided to get Carl Melchior, who was the legal counsel to our bank, to take part in deliberations on the matter.”

The Memorandum goes on to say, “After conducting an in-depth study, I and Melchior put forward the following suggestion to the Japanese. Our suggestion called for setting up a parent company and let it grasp a command of multiple subsidiaries, whose management may be respectively entrusted to each of the households of the Mitsui family with each household exercising an authority to place these mutually and totally independent subsidiaries under full control. Citing a concrete example, we proposed setting up subsidiaries, each of which should be allowed to take complete charge of one of such business sectors as banking, shipping, insurance or a trading house business. And our suggestion also called for establishing the parent company as an umbrella organization for those subsidiaries at which representatives from each of the households are to be obligated to get together periodically to report what is underway at each of the subsidiaries. I gave a graphic representation of my suggestion by describing a single big circle to which each constituent subsidiary may belong, so that the Japanese businessmen may develop a clear understanding of our proposed systemic solution at a glance. I used such a graphic representation because I was aware that the Japanese have an especially strong philosophical attachment to the shape of a circle. When I was about to complete my explanation, I added that I am not sure whether it is feasible for this suggestion to be implemented in Japan, as I am not particularly knowledgeable about relevant Japanese laws. To this additional remark, Baron Mitsui immediately gave me a “classic” answer. He said, “Don’t bother about the laws. I’ll change the laws.””

 Of course, Baron Mitsui was expressing his resolve to use his influence over Japan’s top political circles to get the parliament to enact necessary legislation to actualize the changes. The Warburg Memorandum gives an account of an amusing sequel to the coaching event.

 “Then, after a while, Mitsui expressed his gratitude with a unique method. One day, I was notified by a forwarding company that a gigantic wooden box packed up with steal belts has been delivered to Hamburg after the box was transported via the Trans-Siberian Railway. What Hamburg Customs officers took out from inside the box was what looked like a traditional Japanese military commander clad in a magnificent feudal-era armor and helmet from top to toe with his face covered by an anti-sword protector mask. The imposing commander was seen carrying a military commander’s fan to communicate commands to his troops. A bundle of paper strips was seen being fixated to the end of the fan’s grip. The fan itself symbolized its bearer’ high status inside the military hierarchy. My wife wondered what this fan signifies and why this stern commander does not carry a sword. Six months or so later, a cargo of two majestic Japanese swords was unexpectedly delivered to Hamburg, along with a letter from Baron Mitsui. I found the swords to be the most magnificent artwork which a human can hope to possess. The letter read, “Please forgive me for having sent the armor set of the Samurai warrior and his accessories without making any sword accompany the armor set the other day. The truth is that the warrior’s elevated status did not require carrying a sword. However, now that I read a comment made by your wife when she first saw the armor set, I have no objection or reluctance in sending these swords to you. With the deepest pleasure and humility, let me present these additional gifts to you.”

 Although Max Warburg described this sequel to the coaching event with a rather reserved manner in his “Memorundum,” I found – more than seven decades after the Mitsui delegation’s visit to Hamburg in 1910 -- that the unexpected delivery of the Japanese billionaire’s present of the antique armor-helmet-mask set brought about a very humorous consequence at the Hamburg Customs Office when the customs officers opened the gigantic wooden box to inspect its contents.

 When I was conversing with Eric Warburg in 1987 at the office of the Hamburg bank, he explained what really happened on that “scary” day and how the military commander’s armor and mask struck terror into the minds of the Hamburg Customs officers.

 Eric Warburg told me, “The customs communicated a clandestine information to us, in which they said that a coffin has been just delivered from Japan and that they found a mummy lying inside the coffin. My father (Max Moritz Warburg) and I scrambled to the scene while bringing a group of 10 or so bank officers. I and the father jointly removed the lid from the box, while many customs officers surrounded us at a distance watching our movements fearfully. It was a matter of course that the customs officers had mistaken the military commander’s armor-helmet set for a mummy because the anti-sword protective mask was placed at where a human face lies ordinarily. My father later named the armor set “The Samurai,” which has been since displayed at the German Museum except for each year’s two-month period during which time the Samurai is temporarily returned to our bank for exhibition purposes.”

 In those days, there were two major categories of banks in Germany with the first category consisting of big major banks that were converging into six megabanks that were to exert strong controls over German industries. The second category comprised privately-held banks, known in German as privatbank(s), which helped finance an international business and branch expansion of German companies from behind the scenes.

Dr. Otto Jeidels provided accounts of the first-category banks’ activities in his famous 1905 book. On the other hand, bankers in the second category acquired strong influence over international financial markets by drawing strength solely from their own reputations, personal integrity and personal assets. The bankers drew their influence from their ability to analyze the international political and economic situations accurately as well as from their courageous pioneering spirits. A desirable balance of power was present between this group of private banks and the other group of megabanks that put emphasis on lending to large retailers and manufacturers.

 Such private banks run by bankers of both Jewish and non-Jewish descent totaled 1,220 across Germany as of the end of 1913. But the number of these singular banks, which took serious blows from the 1931 Great Depression, halved to 520 by the end of 1938. The number of Jewish private banks was estimated at 200 as of the end of 1933. These Jewish privatebankiers took a particularly ruthless beating, starting in the spring of 1933. The beating came from Nazi Germany’s “Aryanization” policy of expelling by force Jews from business life in Nazi Germany. Banks run by Jewish families were forced to sell to non-Jews their business and properties at extremely-low prices stemming from unrealistic property value assessment, while being subjected to cruel forced taxation.

 In September 1937, Reichsbank President and Reich Minister of Economics Hjalmar Schaft notified Max Moritz Warburg of a government decision to exclude M.M. Warburg & Co. from the prestigious underwriting syndicate for Nazi German government bonds. Schaft communicated this decision to Max, the very person whom he had long helped from behind the scenes. The notification decided the fate of Max Moritz Warburg and his bank. He emigrated in 1938. By the end of 1939, all banks run by bankers of Jewish descent were wiped out from the German economy.

 Now, I have to go back historically to the two family lines begot respectively by the two sons of Sara Warburg -- Siegmund (1835-1889) and Moritz Warburg (1838-1911). Siegmund Warburg’s son, Georges, fathered Siegmund George Warburg, the founder of S.G. Warburg & Co. in London. Born in Hamburg 1902, he apprenticed at N.M. Rothschild & Sons of London and Kuhn, Loeb & Co. of New York before joining the board of M.M. Warburg & Co in Hamburg in the spring of 1930. In March of 1934, he denounced Nazi German Foreign Secretary Konstantin von Neurath, one of his longtime acquaintances, for tolerating iniquitous arrests of numerous Jews. To this censure, Neurath, whose star was then in the ascendant, replied, “I also do not have complete political trust (of the Fuhrer).” Warburg immediately tidied up his household things and fled Nazi Germany, heading for London with his wife Eva Maria and children on March 31.

 Siegmund George Warburg’s legendary “escape tale” at which he reported having jumped onto a British freighter with only the clothes on his back and only 5,000 pounds in hand bringing his wife and two children may contain some fictional components. But there is not a single crumb of fiction in the 1958 incident at which S.G. Warburg played a central part in helping Tube Investments and Reynolds Metal Company of Virginia win a fierce battle to acquire British Aluminum, in the struggle now remembered as the “Aluminium War.” In the monumental fight that divided the establishment in the City of London into two groups, S.G. Warburg, initially regarded as a mere post-World War II up-start outsider, overpowered 14 of the City’s top 17 underwriter-banks, including Morgan Grenfell, Hambros Bank, Lazard Brothers and Samuel Montagu. The battle decided the fate of one of Britain’s gigantic industries and he scaled the zenith of fame in the City. In 1966, Siegmund Warburg was knighted.

 Max Moritz Warburg and his M.M. Warburg & Co. also had to navigate through a string of harsh hardships. Pressured by Nazi Germany, Warburg sold his bank to Rudolf Brinckmann, the then mere general manager at the bank, and Paul Wirtz, a fertilizer exporter with which the bank had a business tie, for a giveaway price before slipping away from Hamburg on May 30, 1938 and fleeing to the United States in August. A week earlier, Eric Warburg, the eldest son of Max, had left Germany for what he described as “a small trip to Sweden,” which turned out to be a great escape Odyssey to the United States. Eric’s uncle Fritz Warburg was arrested by the Gestapo in November, 1938, and spent some months in prison before he could leave for Stockholm of Sweden, his wife’s home country, in May 1939.

Eric obtained a U.S. citizenship, volunteering gallantly to serve in the U.S. Army Air Corps and taking part in various battles in North African and European theaters as a liaison officer between the U.S. and British military intelligence. Then, he returned to Germany as a lieutenant colonel and a German language speaker, interrogating Luftwaffe Supreme Commander Hermann Goring for a total of 20 hours in two successive days in May, 1945 in Augsburg. The event may be accurately called a reprisal from the history. Goring committed suicide by eluding the vigilance of prison guards and taking a potassium cyanide capsule the night before he was to be hanged in line with a sentence at the Nuremburg Trial.

 Max Warburg passed away in 1946 while he was in New York and away from his home country. After the war, Eric Warburg was flabbergasted to find his family bank to be still under the controls of strangers without any familial ties. Rudolf Brinckmann refused to return the right of management of the bank which had been renamed Brinckmann, Wirtz & Co. Eric Warburg stormed into “a state of war“ with Brinckmann and his backers by teaming up with his cousin Siegmund George Warburg of London. It was only in 1970 that he succeeded in getting the bank to alter its name to M.M. Warburg, Brinckmann & Wirtz Co.

 Earlier in 1956, Eric Warburg became a partner with unlimited liability at the bank before giving up the post twenty-six years later and assuming a post as a partner with limited liability in 1982. But his son Max Warburg took up his father’s efforts to establish the Warburg family’s controls over the bank where Eric left off, assuming the post as a partner with unlimited liability in 1982 and reviving the appellation of M.M. Warburg & Co. to the bank in 1991, a year after his father’s death. The half-a-century-long struggle to reestablish the Warburg banking family’s controls over the Hamburg bank came to a brilliant grand finale with the revival of the M.M. Warburg appellation.

 The destiny of the Alsterrufer Warburg family line, which was started by Siegmund Warburg (1835-1889), was harsh after the death of Siegmund George Warburg in 1982. S.G. Warburg was purchased by Swiss Bank Corp. in 1995, which then merged it with its own investment banking unit to create SBG Warburg. Two years later, SBG Warburg was merged with U.S. bank Dillon, Read & Co. to create Warburg, Dillon Read. Meanwhile, Kuhn Loeb & Co., which once contended for supremacy on the U.S. financial market with J.P. Morgan & Co., was merged with Lehman Brothers to create Lehman Brothers, Kuhn, Loeb Inc., which eventually revolved into Shearson/American Express after twists and turns. Thus, turbulence on the U.S. and British financial markets appears to be retiring the Warburg name from their markets. Now, M.M. Warburg & Co. in Hamburg is still preserving the honorable name of the Warburgs.

 Max Warburg, Eric’s son, told this author, “After S.G. Warburg & Co. offered its shares to the public, the interest the company could control eventually dwindled as low as 2 percent, opening the path for outside cash-heavy financial institutions to overwhelm the company. I have no intention of treading in the company’s steps. After Bankhaus I.D. Herstatt crumbled in 1974, the number of privately-held German banks plunged. Private bankers must respond to social and economic changes with keen sensibility. Sadly, I have to say that responses of private bankers to such changes have been inadequate with regards to their sensitivity and speed over the past 25 years. I do not have any intent to duplicate their blunders. Mergers between banks on an equal footing is essentially an impossibility, because banks, in their essence, are fighting entities that have their own individual unique cultures. Only my bank, among all entities run by multiple lines of my banking family, has survived all these turbulent years, so I feel a heavy sense of responsibility for the preservation of the appellation Warburg and my kin. Managing banks belonging to banking families of Jewish descent in Europe, especially in Germany, still carries inexplicable problems which the Japanese would find it difficult to comprehend amidst the ongoing maelstrom of mergers of megabanks. My father Eric Warburg was one of Jews who made, evanescent in a sense, efforts to be a great German and I respect my father from the bottom of my heart. The state of Jews in Europe, especially in Germany, still carries difficult problems, By the way, in 1988, West German President Richard von Weizsacker paid a visit to my father in his sickbed and gave him warm words of encouragement. I am sure that my father passed away free from care as a German respected by society. My mother (Dorothea Thorsch) is still well, though old.”

 The conversation between Weizsacker and Eric in his sickbed lasted for several minutes with no other person being present at the venue. The president kept the hands of the old Jewish banker in his hands from the beginning to the end of the dialogue. And Eric Warburg lived for two more years.

 Max Warburg’s insightful observations about the Herstatt debacle, its serious repercussions on both German private banks and the global banking community and the necessity of bankers’ keen sensitivity to changes in social and economic conditions deserve our intensive and careful analysis, because the observations conjure up key lessons on the brittleness of modern banking operations -- whose soundness can be instantaneously wiped out by the vulnerability of ostensibly harmless traders and their irresponsible supervisors to a temptation to seek quick and massive returns on foreign exchange and derivatives deals and hide losses once an investment blunder is committed -- amid national and international regulators’ inadequate ability to monitor cross-border deals on a real-time basis and comprehend the complexity of modern financial instruments and transactions.

 This author, who was serving as a banker at the Dusseldorf branch of Mitsui Bank at the dreadful day of the 1974 Herstatt debacle, became an eye-witness of the massive impact of the sudden closure of the small regional private bank ordered by the Bundesaufsichtsamts fur das Kreditwesen (BAKred) on the entire eurocurrency market as well as its grim lingering cross-border after-effects.

 On June 26, 1974, the BAKred forced the Cologne-based bank into liquidation. That day, the BAKred withdrew the bank’s operating license at 3:45 p.m. German time because of the accumulation of massive foreign exchange losses, a lack of income and capital to cover liabilities that were due. But some banks had undertaken foreign exchange transactions with Herstatt and had already paid Deutsche mark to the bank during the day in Frankfurt, believing they would be able to receive U.S. dolls later in the day in the U.S. from Herstatt’s U.S. nostro. But after 3:45 p.m. German time and 10:45 a.m. in New York, Herstatt stopped all dollar payments to counterparties, leaving the counterparties unable to collect their payment.

 The Herstatt failure inflicted greater damages on the international banking community than those it inflicted on German banks. It triggered a surge in Eurodollar market interest rates and a plunge in erurocurrency transactions as smaller banks in particular found it impossible to borrow on the market. Banks became more cautious, and privileged dealing with big familiar peers.

Immediately after the news of the Herstatt closure broke out, the eurocurrency market panicked with its trading coming to a halt. Even after transactions restarted, lenders on the eurocurrency market remained extremely cautious in weighing country risks and commercial risks involved in granting would-be borrowers’ pleas for funds.

The European branches of Japanese banks also took a harsh beating from the Herstatt debacle, especially because the economy of their home country had taken a severe blow from the preceding year’s oil crisis induced by the Oct. 16 announcement of a high-profile decision by six of OPEC members to jack up oil prices by 70%, leaving these European branches unable to take out dollar-denominated loans – which were absolutely necessary to finance Japan’s massive annual oil imports to run the economy of their oil-hungry highly industrialized home country -- without paying high premiums demanded by lenders on the Eurodollar market.

 Lenders either refused to extend loans or slapped extremely high premiums above the LIBOR. Although the London branches of Japanese banks were instructed in mid-July 1974 not to pay a premium for Eurodollar deposits in an attempt to try to contain the rate inflation, other European branches had to persuade the lenders into rolling over outstanding loans even by accepting such premiums. The phenomenon later came to be referred to widely as the “Japan Premium Incident.”

 The debacle made the elegant Bankhaus Herstatt building that stands on the right bank of the Rhine River into the most classic monument to remind international bankers that the world has entered the age at which even a bank with a long history can easily go belly-up once it makes a speculation blunder on the volatile foreign exchange market.

 The bank also became a reminder of the inadequacy of banking regulators’ ability to keep track of and grasp actual conditions at contemporary banks and of how bankers have come to engage in precarious uncollateralized and information-asymmetric transactions on the eurocurrency market as if they were skating on thin ice.

 The chic white Bankhaus Herstatt building was now the classic landmark to remind that undercapitalized private banks -- whose soundness hinges upon its top individual banker’s ability to detect latent risks and see through traders’ personality -- can be vulnerable to a credit crunch on the eurocurrency market against the backdrop of harsh competition on the global market.

 The Herstatt collapse also sharply undercut the “degrees of generosity” toward German private banks among German and non-German financial institutions, leading many of them to be either absorbed by megabanks or be closed. The number of private banks in West Germany also plummeted in the aftermath of the Herstatt debacle although the country once appeared to deserve the appellation of the “Private Banking Empire” in Europe. Even C.G. Trinkaus & Co., the biggest among German private banks, was subsequently acquired by foreign banks in a series of acquisition deals.

The Herstatt debacle also highlighted the necessity of strengthening and widening the scope of deposit-refund coverage under Germany’s inadequate deposit insurance system, because it is observed in various countries that a country’s deposit reimbursement limit in the event of a bank failure leaves depositors jittery about the fate of their deposits and often makes them start a run on deposits.

In the 1974 collapse, German banking regulators and leaders of the banking industry were alerted at the possibility that the Herstatt news would trigger both a run on deposits at Herstatt branches and a systemic risk, so the regulators had Deutsche Bank, the biggest bank in that country, immediately intervene to assuage and calm down depositors. The intervention softened depositors’ angst, thereby limiting the impact of the Herstatt failure on the domestic retail banking market. Consequently, long lines of individual depositors queued up only at a few Herstatt branches in Cologne.

But larger creditors started a race on the remaining assets of Bankhaus Herstatt. When I visited the head office of Herstatt on the right bank of the Rhine a few weeks after the debacle, I found pieces of banking business slips laying scattered about the bank’s business departments that once radiated a magnificent atmosphere, while all movable assets had been seized, leaving only torn-off telephone cables, electric cables dangling from the ceiling, a marble floor as well as an undetachable giant bullet-proof window that stretches from the floor to the ceiling of the Cashier’s Department. The wretched ruins of these abandoned floors conjured up the aftermath of street-to-street battles at the Yugoslav Civil War.

 It is widely known that the fundamental error of the BAKred lied in the German regulatory agency’s having placed greater emphasis on trying to keep credit order on the domestic banking industry than on preserving confidence of players on the international banking community.

The far-reaching repercussions of the Herstatt debacle spotlighted the issue of how national and international banking regulators should place controls and restraints on unscrupulous and excess behaviors of banks on the eurocurrency market, which had until then remained completely outside the regulatory jurisdictions of national financial authorities.

The deliberations on the grim impact of the Herstatt debacle and the possibility of a recurrence of a similar bank collapse that can have far-reaching repercussions for confidence on the global banking community led to the conclusion in December, 1975, of the First Basel Concordat concerning who should exercise an oversight authority over banks opening foreign subsidiaries.

 That year, the global banking industry was unsettled and deeply disturbed at news on how West German banking regulators have been supervising, or have been unable to supervise effectively, the investment activities of banks under their jurisdiction, as well as on how the regulators reacted once the massive losses at one of German banks and its insolvency became their knowledge.

 The Herstatt collapse came only one month after the management of the New York-based Franklin National Bank, the 20th largest in the United States, revealed huge losses relating to foreign currency trading and losses on loans to developing countries posing high country risks, leading depositors to start taking out large withdrawals in the run that was to trigger, five months later, the largest (at that time) bank failure in the history of the country.

When we scrutinize the sequence of these tragic developments for confidence in the international banking community, it may be appropriate for us to conclude that the very incessancy of the breakouts of the news on high-profile bank failures contributed to magnifying the international impact of the Herstatt debacle news.

 But it is necessary to note that the impact of the Herstatt failure perforated to the international banking community and unsettled depositors even more widely and strongly than that of the Franklin National Bank case, because the Herstatt issue splashed ultra-cold water on lenders’ confidence and plunged them into a fearful and suspicious frame of mind about borrowers’ credibility, despite the fact that confidence and credibility are both indispensable conditions for the healthy functioning of the eurocurrency market.

 The international banking community began to evoke risks that a speculation blunder on the foreign exchange market can generate gigantic losses and erode the stability of the entire banking system as the “Herstatt Risk” after the Luxembourg-based Bank of Credit and Commerce International (BCCI) stirred up an international controversy in 1992.

 And eight years after the Herstatt collapse, the international banking community and the eurocurrency market took yet another hammering-out from Latin American countries threatening to default on their borrowings from internationally active banks.

When I emerged from the M.M. Warburg & Co. building after saying a good-bye to Max Warburg on February 14, 1999, powdery snow was still falling onto the shores of Inner Alster Lake.

 I felt as if the smoke-like snow were blanketing the lake shores and their surroundings. The State flag of Hamburg, which was fluttering of the roof of the bank building, struck me as brilliant crimson against the backdrop of the gray sky.

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**List of M.M. Warburg & Co. founders, partners, board directors and Warburg family members evoked in this dissertation**

* 1. Moses Marcus Warburg (1763-1831)
	2. Gerson Warburg (1765-1825)
	3. Abraham Samuel Warburg (1798-1856)
	4. Sara Warburg (1835-1884)
	5. Siegmund Warburg (1805-1889)
	6. Moritz Warburg (1838-1910)
	7. Aby M. Warburg (1866-1929)
	8. Max M. Warburg (1867-1946)
	9. Paul M. Warburg (1868-1932)
	10. Fritz M. Warburg (1879-1962)
	11. Felix Warburg (1871-1937)
	12. Eric M. Warburg (1900-1990)
	13. Siegmund G. Warburg (1902-1982)
	14. Rudolf Brinckmann (1889-1974)
	15. Paul Wirtz (1881-1946)
	16. Christian Brinckmann (1927-
	17. Hans A. Wuttke (1923-2000)
	18. Max Warburg (1948-