1. Introduction
Liberal Protectionism and German Bank Internationalisation

1.1. The lightning rod

From the early 1970s onwards, both the global economy and international finance witnessed unprecedented change and transformation.[1] Measured by the total increase in cross-border capital flows, the rising ratio of financial assets to GDP, or the vast rises in executive pay in the finance industry – the growth and expansion of the international financial system are crystal clear. International banking has since become a lightning rod for political and public discontent with financial globalisation. In academia, too, political economy concerns home in on how offshore banking and, relatedly, financial globalisation reduce state power.[2]

Meanwhile, in a more nuanced fashion, financial historians agree that the development of offshore financial markets (or the 'Euromarkets') from the late 1950s 'represented a turning point in the history of international finance' at which the offshore segment 'emerged as the core of international banking'.[3] Among historians, offshore money and capital (in the form of short-term Eurocurrencies, mostly Eurodollars, and long-term Eurobonds) are believed to have helped Western banks and businesses to circumvent national post-war regulations, allowing freer financial flows to promote international trade, investment, and growth. Furthermore, it is widely understood 'that banks operating in offshore dollars enjoyed both competitive advantages *and* higher profits'.[4] Indeed, private financial institutions alongside financial centres and

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1 Frieden, *Global Capitalism*; Schenk, *International Economic Relations since 1945*; OECD, *The New Financial Landscape*; McCauley et al., 'Seven Decades of International Banking'.
2 Rodrik, *Globalization Paradox*; Binder, *Offshore Finance and State Power*. On financial globalisation see, e. g., Bussière and Warlouzet, 'Mondialisations financières et histoire globale'.
3 Quotes in Cassis, *Capitals of Capital*, p. 219, and McCauley et al., 'Seven Decades of International Banking', p. 64.
4 Roberts, *Take Your Partners*, p. 5.

capital markets were (and are) core to mediating international capital flows. And if, as Youssef Cassis has pointed out, 'global business comes down to international capital flows', then international banks rank among the key makers and enablers of the global economy.[5]

There is, however, a rash assumption that, by the 1980s, global finance and international banks had been naively unleashed by governments and authorities to serve their own private interests rather than the interests of the 'real economy' or (Western) societies at large. Such narratives on the rise of neoliberalism tend to suggest that powerful banks and financiers capitalised on their already strong positions to expand their influence and clout, lobbying for the implementation of policies that promoted deregulation, securitised financial products, or ever freer capital markets. The collective failure and misconduct of bankers and traders, which became palpable during the Global Financial Crisis of 2007–2008, naturally corroborated this jaundiced view. But such mistrust had already long been fuelled by what many in the social sciences have come to dismissively call 'finance capitalism' or 'financialisation'. Additionally, an array of financial crises and episodes of banking instability since the 1970s have elicited repeated, ever louder calls for a better governance of international finance.

However, although the relevance (and at times rancour) of international banks is recognised, analytical explanations for their evolution are scant. Only a few historical studies have so far examined the characteristics of the structural changes in global finance based on archival evidence, and even fewer centre on a business history perspective. Any business history of a major bank in the post-Bretton Woods era requires an understanding for how national and international factors shaped managerial decision-making. This encompasses the views and conduct of regulators, monetary officials, and policymakers. But despite consensus on their import, the stories of the individual actors – their motivations, aims, and concerns – are only partially identified by historians so far, and barely explored for the case of West Germany (hereafter Germany).

Instead, both international and German business and financial history often rely on findings from across sociology, economics, and political economy that reach back into the last decades of the 20th century. This literature, however, tends to develop rather stylised views of the transformation and institutional change in industrial economies, the world of central banking, or the global economy at large. Hence, with international banking lingering as a lightning rod, there is ample reason for historians to take a deep dive into the formative years of financial globalisation.

5 Cassis, 'Banks and Capital Markets', p. 109.

1.2. Aims of the study

The purpose of the present study is to make an original argument about the key characteristics and foundations of German bank internationalisation in the post-Bretton Woods era: What defined the German trajectory of banking internationalisation? What explains it concretely? And which proxy could be used to provide a narrative that establishes qualitative and quantitative evidence, without compromising analytical rigour and clarity?

In using Deutsche Bank as a case study, the dissertation traces the development of an individual firm to explore how German bank internationalisation came about between the terminal phase of the Bretton Woods monetary system (late 1960s) and the onset of full globalisation by the mid-1980s. In this period, Deutsche Bank was the largest and most politically connected German lender, boasting an unparalleled international outlook. Deutsche ranked among the world's biggest banks by total assets. And, based in Germany's (and thus Europe's biggest) vibrant export-led economy, the bank developed an expertise in wholesale banking, foreign exchange dealing, and trade finance, exposing it to recurrent policy debates on cross-border financial regulation.

Three explicit questions are addressed:

1. What were the key regulatory foundations (broadly conceived) for the internationalisation of Deutsche Bank?
2. To what extent did Deutsche Bank's conduct in turn shape the German regulatory regime?
3. What conclusions can we draw for the governance of international banking?

Concerning theory, the study offers an interpretation of the internationalisation of German commercial banks that is informed by the modern theory of economic regulation.[6] The emphasis of regulation is justified by the considerable importance of the regulatory environment for the business of banking: 'To what extent can banks alter the economic environment in which they are working, and to what extent are they straitjacketed by this environment? All the major debates in banking history have ultimately revolved around this question'.[7] Although now more than 20 years old, this verdict by Youssef Cassis still holds. In practice, 'regulation, restriction and control has been the fate of the banking industry in every developed economy' (Geoffrey Jones).[8]

Moreover, bank behaviour and regulation mutually influence each other. International financial activity may either follow or lead real-sector transactions (non-policy),

6 The significance of business regulation for market economies is set out by Balleisen, 'The Dialectics of Modern Regulatory Governance'.
7 Cassis, 'Before the Storm', p. 49.
8 Jones, 'Banks as Multinationals', p. 8.

while also responding to regulatory, tax, and supervisory incentives (policy).[9] The international business of banking is heavily defined by the regulatory and policy environment, given that cross-border transactions are affected by a variety of jurisdictions. Likewise, global competition in banking creates (and spreads) financial risks across borders.

In theory, a multinational bank is more able than a purely domestic bank 'to maintain stable flows of funds over time, with a favourable effect on profit levels'.[10] However, the multinational spread of banking also means a diversification away from the direct influence of domestic regulation such as banking supervision and monetary policy. Naturally, any profound investigation of international banking requires an understanding for the remit, attitudes, and actions of policymakers and regulatory agencies.[11]

By tying Deutsche Bank's case into discussions on national and international regulatory reform, this study furthers our knowledge on the evolution of Germany's regulatory regime. Why is this relevant? First, the study provides fresh insights into the Euromarket business of a major international bank (and, to lesser extent, its domestic peers) hailing from Germany. As the first such in-depth research on a German case (and in English to boot), the study addresses both a German and an international business history audience. This is motivated by the aim of the discipline to provide 'a rich, nuanced, empirically based understanding of how business interacts with and influences the world around it'.[12]

Understanding Deutsche Bank's case helps us, second, to reveal the evolution of national banking policies from the 1970s, and to examine what perhaps distinguished Germany from other countries, especially in Europe. This contribution to international financial history may illustrate the variety and stickiness of national regulatory approaches, explaining why international convergence in bank regulation is difficult to accomplish. In addition, it may offer (policy) suggestions on which regulations proved effective (and which did not). Third, in addressing a major gap in German historiography and political economy, the study attempts to show how early financial globalisation indeed challenged national financial and monetary policymaking. The economic upheaval of the 1970s and 1980s lends itself to examining how actors on a nation-state (government and central bank) and private (business) level sought and struggled to steer economic transformation.[13]

Importantly, the study's purpose is *not* (!) to provide a classic company history, i. e., another account of how banks become multinationals following certain patterns. De-

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9 Bryant, *International Financial Intermediation*, pp. 63–73.
10 Weston, *Domestic and Multinational Banking*, p. 392.
11 Cf. Braithwaite and Drahos, *Global Business Regulation*, pp. 88–142.
12 Wilson et al., *Business History: A Research Overview*, p. 3.
13 On current German contemporary history narratives see Doering-Manteuffel and Raphael, *Nach dem Boom*; Metzler, *Der Staat der Historiker*, pp. 286–93; Voigt (ed.), *Since the Boom*; Wirsching, '"Kaiser ohne Kleider"'. See also Doering-Manteuffel, *Entmündigung des Staates*, and Streeck, *Buying Time.*

spite some quantification, the study is not deeply embedded in financial economics either. Nor does it offer a full exploration or exhaustive account of Deutsche's geographical expansion, client relationships, or organisational restructuring between the 1960s and 1980s. The lack of access to pertinent sources (especially customer data) would frustrate such efforts, and Deutsche's geographical dispersion and diversification is anyway sufficiently covered by existing literature. Conversely, given an over-abundance of other kinds of records, not least from public archives, any new portrayal of Deutsche Bank risks becoming too idiographic barring a grounding in social science theory.

Instead, this study is motivated by the need to generate analytic narratives which can be analysed by social scientists as data to inform generalisations. The analytic narrative approach draws on economic theory (albeit parsimoniously) while offering detailed empirical evidence common in history. To construct such a business or banking history narrative, causation is a key concern.[14] And to make a persuasive case requires a clear, yet context-specific conceptual framework focussing on select governance issues of banking internationalisation (see section 1.4 below).

Hence, methodologically, the present text combines the business history of a financial institution and the political economy of state intervention and regulation, embedding the evolution of Deutsche Bank in the origins of financial globalisation from the 1960s through the 1980s.[15] To allow for an analytical approach to the historical narrative, the research confines itself to Deutsche Bank's international money and capital market businesses or Euromarket operations. The analysis emphasises Deutsche Bank's attitude to risk and financial innovation, rather than structural or organisational matters, though these are also reflected.[16]

These international operations, on the other hand, sparked debate (and intervention) among (and by) monetary authorities, financial supervisors, and politicians. Engaging with their regulatory perspective improves our understanding for continuity and change in the political economy of German banking and securities markets. As a result, the present thesis is at the intersection of business history, international financial history, and German contemporary history. It thus offers historical and analytical insights into how bank internationalisation and financial regulation evolve, setting out implications for the governance of international finance in a global economy.

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14 The seminal text is Colvin, 'The Past, Present and Future of Banking History'. For an introduction to the analytic narratives concept and further references see Koyama, 'Analytic Narratives'. Brownlow, 'Back to the Failure', offers a business history paper.
15 Cassis, 'Financial History and History', p. 30.
16 See Schenk, 'Review of Altamura, *European Banks*', on this point.

1.3. State of research

Amid renewed globalisation after World War Two, the post-Bretton Woods era was characterised by unprecedented international financial instability.[17] One strand of the economic and political economy literature since the late 1980s has thus far focussed on the macroeconomic aspects as well as the politics of financial globalisation and international banking. For instance, Eric Helleiner has stressed the significance of government policy for the advances of offshore markets and global finance.[18]

Likewise, the importance of the policy environment facilitating the advent and growth of the Euromarkets through regulatory competition and arbitrage across financial centres has been surveyed.[19] Other parts of the literature analyse the institutional shifts and shocks that followed the breakdown of the Bretton Woods monetary system between the late 1960s and early 1970s, how the fallout of the Latin American debt crisis from 1982 was managed by authorities, or why and how the Basel I capital rules were formulated in 1988 to reduce bank fragility.[20]

Major international financial institutions such as the IMF and the BIS (particularly the crucial Basel Committee on Banking Supervision, BCBS), but also important central banks like the Bank of England and their coordination efforts have been meticulously studied through in-depth archival research.[21] Moreover, the making of the European Monetary Union, the process of European economic integration, and the

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17 See, e. g., Bordo, 'An Historical Perspective'; Grossman, *Unsettled Account*, pp. 260–89; Obstfeld, 'The Global Capital Market Reconsidered'; Portes and Swoboda (eds.), *Threats to International Financial Stability*; Taylor, 'The Great Leveraging'; Schenk, *International Economic Relations since 1945*, pp. 58–77.

18 Helleiner, *States*; Bryant, *International Financial Intermediation*; Kapstein, *Governing the Global Economy*; Cohen, 'Phoenix Risen'.

19 Balaban, 'Establishment'; Burn, 'The State, the City, and the Euromarkets'; Cassis, *Capitals of Capital*, pp. 200–41; Cassis and Bussière (eds.), *London and Paris*; Green, 'Anglo-American Development'; Mourlon-Druol, 'The Rise of International Financial Centres'; Schenk, 'Origins'; Schenk, 'Crisis and Opportunity', Schenk, 'Regulatory Foundations'. See also Altamura and Daunton, 'Finance, Financiers and Financial Centres'; Kim, *The Euromarket*.

20 For recent research on the demise of Bretton Woods, see Bordo, 'The Operation and Demise of the Bretton Woods System'; De Groot, 'Western Europe and the Collapse of Bretton Woods'; Eichengreen, *Globalizing Capital*; Eichengreen, 'Bretton Woods after 50'; Sargent, *A Superpower Transformed*, pp. 100–130. On the debt crisis of the 1980s, see, e. g., Altamura and Flores Zendejas, 'Politics, International Banking, and the Debt Crisis of 1982'; Cline, *International Debt Reexamined*, and, as a new definite account, Sgard, *The Debt Crisis of the 1980s*. For an overview of the origin of the first Basel Accord see Kobrak and Troege, 'From Basel to Bailouts'. See also Singer, *Regulating Capital*.

21 Borio et al (eds.), *Promoting Global Monetary and Financial Stability;* Boughton, *Silent Revolution*; Capie, *Bank of England*; Chwieroth, *Capital Ideas*; Drach, 'Basel Banking Supervisors'; Drach, 'Globalization Laboratory'; Drach, 'Supervisors Against Regulation?'; Drach, *Liberté Surveillée*; Drach and Cassis (eds.), *Financial Deregulation*; Goodhart, *Basel Committee*; James, *International Monetary Cooperation*; James, *Making a Modern Central Bank*; Monnet, 'The Diversity'; Mourlon-Druol, 'Trust Is Good, Control Is Better'; Rischbieter, 'Risiken und Nebenwirkungen'; Schenk, 'Summer in the City'; Schenk, 'Coordination Failures during and after Bretton Woods'; Wood, *Governing Global Banking*; Yago, 'Crisis Manager'.

protracted emergence of a European banking union have been detailed.[22] Finally, Martin Daunton has documented that the international monetary system proved foundational to global economic governance from the 1930s.[23]

In sum, the international financial architecture between the 1960s and 1980s is well known.[24] Building on this research, the present study confirms that government policy is indeed critical to understanding trends and upheavals in banking markets and offers a novel German perspective that has so far been underrepresented in the literature.

On the other hand, there had long been little microeconomic analysis of actors from the private banking sector. This mainly reflected constraints in accessing company archives but also a rather scant interest among business historians in examining this period.[25] Recently, this picture has changed in large part thanks to contributions by Edoardo Altamura, Alexis Drach, Emmanuel Mourlon-Druol, and Catherine Schenk, among others.[26] These authors provide inside accounts of British and French financial institutions from the 1970s, highlighting their international or Euromarket operations. It is this literature in particular that the present study engages with. Further, Ioan Achim Balaban has detailed the multinationalisation strategies of Italian banks until the late 1960s.[27] Arjen Mulder and Gerarda Westerhuis have examined general internationalisation patterns of large European, Japanese, and US banks since c. 1980.[28] Other contributions, too, reflect on the global factors determining European bank management actions.

Based on this research, the institutional and structural environment for West European banks post-1945 has now been well mapped out by scholarship: From the 1960s, the challenge from American (and later Japanese) banks, innovations in technology and communications, and European economic integration including intra-European regulatory harmonisation constituted the major forces requiring strategic responses

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22 Drach, 'Removing Obstacles to Integration'; James, *Making the European Monetary Union*; Leucht, Seidel, and Warlouzet (eds.), *Reinventing Europe*; Mourlon-Druol, *A Europe Made of Money*; Mourlon-Druol, 'Banking Union in Historical Perspective'; Patel, *Project Europe*, pp. 84–115; Teixeira, *Legal History*.

23 Daunton, *Economic Government*.

24 Abdelal, *Capital Rules*. See also Forsyth, Laborie, and Abdelal, 'Débat autour de *Capital Rules*'.

25 For an early exception, see the contributions in Battilossi and Cassis (eds.), *European Banks and the American Challenge*.

26 Altamura, *European Banks*; Drach, 'Reluctant Europeans?'; Drach, 'From Gentlemanly Capitalism to Lobbying Capitalism'; Drach, 'An Early Form of European Champions?'; Schenk, 'Rogue Trading'; Schenk, 'Inflation, Risk and International Lending'; Quennouëlle-Corre, 'French Bankers'; Quennouëlle-Corre, 'Naissance'. On non-European banks see, for instance, Alvarez, *Mexican Banks and Foreign Finance*; Alvarez, 'International Banking and Financial Fragility'.

27 Balaban, *International and Multinational Banking under Bretton Woods (1946–1971): The Experience of Italian Banks*; Balaban, 'Banking and Eurodollars in Italy in the 1950s'.

28 Mulder and Westerhuis, 'Determinants'.

from Western European banks. Financial innovations, which accelerated through the Euromarkets, became a mainstay of international banking.[29]

Concerning Germany, the perspectives of the Bundesbank, the German government, and the federal supervisory office (*Bundesaufsichtsamt für das Kreditwesen*, BAKred) on global financial markets have not received similar attention, though efforts by Günter Franke and, more recently, Clemens Krauss or Christoph Kaserer have enhanced our knowledge.[30] Unlike in other larger member states of the European Community (EC), especially the UK, statutory banking supervision in Germany was not exclusively subordinate to the central bank. Direct financial (or prudential) supervision was instead the responsibility of a separate authority, the Federal Banking Supervisory Office (*Bundesaufsichtsamt für das Kreditwesen*, BAKred), which was founded in 1962.

The Supervisory Office was first an arm of the economics ministry before being transferred to the finance ministry in 1972 as part of a wider reshuffle of competencies. The German Banking Act (*Kreditwesengesetz*, KWG) from 1961 stipulated that the dependent BAKred and the independent Bundesbank were obliged to cooperate in regulatory and supervisory matters. This created a division of labour, with the Bundesbank however enjoying greater power thanks to its autonomy.[31] Furthermore, findings from scholars working on International and Comparative Political Economy in the 1990s and early 2000s still offer important insights into the evolution of the German financial marketplace.[32] By and large, though, there are still substantial gaps to be addressed through archive-based analyses.[33] The new research presented here is the first to explore this complicated relationship between the German institutions.

The stability imperative of German monetary and financial authorities is part of William Gray's diplomatic history research straddling the 1960s and early 1970s. As West Germany stepped up to become a global 'trading power' (Gray) starting from the 1960s, it became heavily exposed to the volatility of global markets. Naturally, conflicts of interest arose more and more frequently. The Federal Republic was, for instance, among the most fervent supporters within the European Communities of liberalising

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29 Battilossi, 'Financial Innovation and the Golden Ages of International Banking'; Canals, *Competitive Strategies*; Gardener and Molyneux, *Changes in Western European Banking*; Larson et al., 'Strategic Responses'. On Swiss banks see the master's thesis by Ruettimann, *A Catalyst for Internationalization?*.

30 Franke, 'The Bundesbank and Financial Markets'; Kaserer, 'Fifty Years'; Krauss, *Geldpolitik im Umbruch*. On the Bundesbank and the BAKred in general see Deutsche Bundesbank (ed.), *Fifty Years*, and Mayer, *Bundesaufsichtsamt*.

31 Becker, 'Banking Supervision'.

32 Lütz, 'Convergence within National Diversity'; Vitols, 'Financial System and Industrial Policy in Germany and Great Britain'; Vitols, 'Are German Banks Different?'. For a classic interpretation, see Zysman, *Governments, Markets, and Growth*, pp. 251–65.

33 Contemporary contributions, especially from German legal scholars, include Bauer, *Recht*; Bester, *Aufsichtsrechtliche Kontrolle*; Wagner, *Tätigkeit*; Zeitler, *Internationales Bankgeschäft*. Yee, 'A State of Supervision', traces the evolution of German banking supervision in the early 20[th] century.

capital flows between member states. On the other hand, the Bundesbank was heavily disinclined to allow the Deutsche Mark to become an international investment and reserve currency, openly refraining from the requirements and obligations to intervene in times of currency crises or monetary upheaval. To understand West Germany's place in international relations, Gray calls for business and economic history to make a stronger contribution and to communicate with scholars of international history.[34] This study corroborates Gray's findings, adding important new detail to the public-actor side whilst stressing the leverage of private-sector commercial bankers.

In contrast to that for other countries, comparative historical research on German bank internationalisation after the Second World War is still rather scant, even though internationalisation has been identified as a major trend of German commercial banking alongside the move into retail services.[35] Among the key characteristics of the structural challenges for German private sector commercial banks since approximately 1970, Martin Hellwig points to a significant increase in interest rate and currency risk; a secular downward pressure on net interest margins due to rising competition, and, crucially, soaring inflation until the late 1970s. He further identifies strong competitive pressure following innovations in communication and information technology, and, finally, considerable pressure on contribution margins (*Deckungsbeiträge*) as banks' staff costs soared.[36] Such aspects may certainly apply to non-German banks, too, but are not systematically covered in the literature mentioned above. They are therefore taken up in this study.

Christopher Kopper, Ulrich Ramm, Friederike Sattler, Richard Tilly, and Harald Wixforth have explored general trends of German bank internationalisation from the 1950s through the 1980s.[37] Additionally, a recent special issue of the *Jahrbuch für Wirtschaftsgeschichte* edited by Sattler and Dieter Ziegler complements our understanding of this period.[38] The existing research finds that German universal banks embarked on rapid internationalisation, (belatedly) following the patterns of foreign peers in Europe and elsewhere. Yet despite the iconic fall of Bankhaus Herstatt in 1974 as well as the near-collapse of the private bank Schröder, Münchmeyer, Hengst & Co.

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34 Gray, 'Foreign Relations'; Gray, '"Number One in Europe"'; Gray, 'Floating the System'; Gray, 'Toward a "Community of Stability"?'; Gray, *Trading Power*. Hesse, '"Sovereignty at Bay"' offers a succinct overview of current research on how Germany dealt with economic globalisation from the 1970s onwards. On the German stability imperative, see Lindenlaub, 'Deutsches Stabilitätsbewußtsein'.

35 Sattler, 'Geschichte der Banken und Finanzmärkte'; Büschgen, 'Zeitgeschichtliche Problemfelder', pp. 385–96; Pohl (ed.), *Geschichte der deutschen Kreditwirtschaft seit 1945*; Steinke, *Internationalisierung*.

36 Hellwig, 'Banken zwischen Politik und Markt'.

37 Kopper, 'Abschied'; Tilly, 'Internationalization'; Ramm, 'German Banks'; Sattler, 'Das Geschäft mit den Staatsschulden'; Wixforth, '"Global Players" im "europäischen Haus"?'. See also the concise overviews in Huber, 'Internationalisierung des Bankgeschäfts'; Steuber, *International Banking*, and Ost, 'International Activities of German Banks'.

38 Sattler and Ziegler, 'Deutsche Banken auf dem Weg in die zweite Globalisierung'.