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Excerpt
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Introduction

THE TITLE OF THIS BOOK IS INTENDED AS HOMAGE TO MARCELLO DE Cecco's classic *Money and Empire, The International Gold Standard, 1890–1914* (1974). In de Cecco's story, the pound sterling is global money, managed by the Bank of England; borrowers and lenders from all over the world find each other in the money and capital markets of the City of London; and the British Empire is ruled, directly and indirectly, by elite graduates of Oxford and Cambridge operating out of Whitehall. As the dates of his book suggest, this sterling system came to an end with World War I, whereupon construction of the dollar system that would replace it began, bit by bit.

The present book tells the story of that construction. In my story, the dollar is global money managed by the Federal Reserve; borrowers and lenders find each other in the money and capital markets of New York; and global rule is outsourced to a variety of multilateral institutions and multinational corporations staffed by elite graduates of Harvard and Yale. For the dollar system, the myth of the United Nations plays the same role that the myth of the gold standard played for the sterling system, decorously veiling the political reality of dollar rule.

In a departure from de Cecco, the present book tells its story through the life and times of a single individual, Charles P. Kindleberger (1910–2003). It is in effect a Bildungsroman in which the development of the man parallels the development of the dollar system he devoted his life to understanding and advancing. As Professor of International Economics at MIT from 1948 to 1976, and author of the best-selling *International Economics* textbook (1953, 1958, 1963, 1968, 1973), he taught cosmopolitanism to a world riven with primitive nationalist instinct, continuing with unflagging energy even after official retirement.

For Charlie, the historical task of the emerging dollar system was the economic development of what we now call the Global South, a task requiring long-term capital flow from the Global North. Channels of public capital flow, such as the World Bank that had been established at Bretton Woods, could get things started, but the big money would necessarily come through private channels such as Wall Street and the multinational corporation. And, for that, the crucial infrastructure was the international monetary system.

From H. Parker Willis, his teacher at Columbia University, Charlie learned about the long battle for domestic monetary reform in the United States that finally led to the creation of the Federal Reserve System in 1913, thereby unifying the previously disparate clearing regions into a single system. Here is the origin of Charlie's own lifelong battle for international monetary reform, specifically his ambition to do for the world system what Willis had done for the United States. For Charlie, the economic advantage of a unified international monetary system was clear, and so Darwinian evolution could be depended upon to tend in that direction. But politics was the ever-present obstacle – even more so in a world of separate nation-states than had been the case within a United States of separate economic regions.

Just so, depression and world war sidetracked the course of Darwinian evolution for a while, as individual nation-states retreated to autarky. For a long time, what capital flowed between nations flowed in public channels following political logic, not private channels following commercial logic: Lend-Lease during the War, the Anglo-American loan after the War, and then the Marshall Plan for reconstruction of war-torn Europe. The turning point came only in 1958 when European currencies returned to convertibility and private channels began to develop in earnest.

From the beginning, the emerging dollar system had its opponents, both outside the United States and inside. Nondollar countries resented what they saw as "exorbitant privilege," while US authorities resented the global responsibility that came with issue of the global money. The three bogeymen of American politics – big government, big finance, and the big wide world – came together in the idea of a global central bank, which US citizens therefore instinctively and viscerally resisted, even as business practice pushed ahead with the construction of the global dollar system as a concrete reality.

Having himself been a central banker from 1936 until 1942 – first at the Federal Reserve Bank of New York, then the Bank for International Settlements, then back at the Board of Governors – Charlie worked to assuage the fears of his fellow citizens, using education as his main weapon. If people understood how the dollar system actually worked, he thought, they would stop trying to destroy it. Having served in the Department of State from 1945 to 1948, first guiding the German reconstruction effort and then coordinating the legislative effort to launch the Marshall Plan, Charlie thought the key was to educate the junior staffers who, in his experience, actually made the policy that their superiors subsequently announced.

But education didn't work. One reason was that his fellow economists were feeding the fears of the politicians. Economists such as Robert Triffin wanted to replace the dollar with a nonnational world currency, and Harry Johnson wanted to replace the Bretton Woods fixed exchange rate system with a flexible exchange rate system. Even Charlie's MIT colleagues, ambitious Keynesians who found in President Kennedy an eager student, were swayed by the arguments of Triffin and Johnson. And educating them was an even harder task, since their professional economic discourse increasingly took the form of mathematical and statistical modelling, a language that Charlie did not speak.

In the end, politics won out and the opponents of the dollar system got their way. In August 1971, President Nixon took the dollar off gold, and in 1973 abandoned any attempt to stabilize the exchange rate. For Charlie, it was a devastating blow: not only the abdication of a crucial responsibility, but probably the end of the dollar system. Roosevelt's decision in 1933 to torpedo the central bankers' attempt to stabilize currencies had doomed the world to Depression. Nixon's decision in 1973 now doomed the world to stagflation, or worse.

Speaking at a colloquy on "The Global Economic Crisis" held at Bucknell University, February 27–March 1, 1975, Charlie took as his theme "The Lessons of 1929–1933 for 1975." His latest book *The World* *in Depression, 1929–1939* (1973) (hereafter *WID*) had argued that the Depression was fundamentally caused by a failure of world leadership, Britain no longer able to lead, and the United States not yet ready or willing to lead. From this point of view, the present crisis seemed also to be a failure of world leadership, the United States having abdicated in 1971 and no one else yet ready or willing to take its place.

The Bucknell students, however, were having none of it, and after the talk they peppered Charlie with questions about socialist alternatives instead. He should have expected it. The keynote speaker the previous evening had been Paul Sweezy, Charlie's wartime buddy in London when they both worked at the Office of Strategic Services, speaking on the topic "The Crisis of Capitalism." And radical economists from the New School for Social Research and the University of Massachusetts at Amherst had been well-represented in other sessions. Only six months earlier, President Nixon had resigned in order to avoid impeachment and been pardoned by his successor Gerald Ford. Suffice it to say that leadership was a problem within the United States, let alone worldwide.

The next year (1976) was Charlie's last of full-time employment at MIT, having reached the mandatory retirement age of sixty-five. He would continue teaching part-time at MIT for another five years, followed by stints at Brandeis and Middlebury. The point of all this teaching was partly to supplement his meager retirement income, but also, more importantly, to feed Charlie's new research focus – economic history – launched by *Depression* and culminating in the book he would consider his "chef d'oeuvre," *A Financial History of Western Europe* (1984). In retirement, Charlie largely stayed out of policy debate, and mainly just watched while, after the chastening experience with floating exchange rates, amazingly the dollar system got put back together, starting with Paul Volcker's appointment as Fed Chair in 1979 and continuing with the Plaza Accord of 1985.

Charlie did not live to see the Global Financial Crisis of 2007–9, which shook the dollar system to its core, but which resulted ultimately in stabilization of that core with a system of permanent central bank liquidity swaps, and which was then followed by expansion of the dollar system from core to periphery as national champions in the Global South found themselves able to tap global dollar capital markets. Nor did he live to see the Covid Crisis of 2020, which the Fed met with rapid and massive intervention, acting now quite openly as central bank of the world, triple threat bogeyman no more apparently. In the end, Darwinian evolution thus seems to have got us where Charlie predicted after all, though of course it remains to be seen if the politics will hold.

The overall arc of this book follows the vicissitudes of the dollar system, as seen through the eyes of one of its keenest observers. But an important subtheme that also runs throughout concerns exactly why it was that Charlie could see things so clearly that were so opaque to others. A biography of the dollar, this book is also the biography of a man. Interestingly, Charlie wrote his own autobiography *The Life of an Economist* (1991), but it is a disappointingly unreflective and impersonal book, perhaps reflecting the WASP's ingrained reticence to talk about oneself. Most disappointing, there is very little discussion of his work or its larger context, just a chronology. Students and colleagues loved this man, for his wit and charm, for his integrity and responsibility, for his dedication and hard work, but more than one of them read his autobiography and came away disappointed. MIT colleagues admired his economic "intuition," but had no very good idea how he came up with what he did, since his process was so different from theirs.

Fortunately, I have found many other sources to fill in the gaps: a collection of papers at MIT, others at the Truman Library including Charlie's FBI file and the "Interim Biography" that he wrote in an attempt to regain his security clearance lost in the McCarthy witch hunt, family papers including a memoir "A 20th Century Family" put together by Charlie's sister, school records, and personal remembrances by colleagues and friends prepared for Charlie's eightieth birthday. And, of course, there is the work itself: thirty-one published books and hundreds of articles, but also unpublished memos he wrote at the Fed and BIS, speeches, and Congressional testimony. All that is more than enough to flesh out a three-dimensional picture of the man.

Born in 1910, Charlie came of age in the Roaring Twenties, the only son of a successful lawyer who wanted his son to follow him in the trade. Kent School formed his character, and he found economics at Pennsylvania University, but it was at Columbia University in the years of "hot money" (1933–6) that he became a scholar. Family finances having fallen apart in the Depression, he made his own way and chose his own intellectual fathers, all of them from within the tradition of American institutionalism. Not only Willis, but also James Angell and John H. Williams were critical intellectual influences, the latter mediated through Emile Despres, a student of Williams who became Charlie's lifelong friend and colleague. Williams' key-currency idea, first floated at the fateful 1933 World Economic Conference that Roosevelt torpedoed, was always core to Charlie's thinking. Later, it was Williams' Harvard colleague Alvin Hansen who drew Charlie's attention to the central importance of long-term capital flows to the Global South.

Equally important for his intellectual formation was Charlie's real world experience: as a practicing central banker starting at the New York Fed supporting the 1936 Tripartite Agreement, continuing at the BIS confronting the emerging challenges of war finance, and then back at the Board of Governors for contingency planning in the event of a German victory. But it was war service more than anything else that made Charlie into the mature economist he would be, pressing him to develop his analytical skills to the highest level, first as an intelligence analyst in the OSS and then in postwar service at the State Department. His Pantheon of heroes included the four great men he worked under in those years: Omar Bradley, William Clayton, George Marshall, and Allan Sproul. Closer to Charlie's own merely human condition, the demigods of his private religion were the economists with whom he worked: Emile Despres, Alvin Hansen, Edward Mason, and Willard Thorp. A self-diagnosed overachiever, Charlie never aspired to be one of the greats, but he could and did aspire to be an economist like these men.

It was only in 1948, at age 38, that Charlie landed his first academic appointment, at MIT, then as now primarily a school of engineering. Over the next decades, under the leadership of Paul Samuelson and Robert Solow, the department would pioneer the use of mathematical and statistical methods for economic modelling, and in so doing would transform itself into one of the leading departments in the world. Charlie himself, however, never retooled, and one reason is that he never felt the need. Twelve years in government service left him with a wealth of knowledge about how the system worked, and he had seen how the pragmatic empiricist method of the American institutionalists worked in practice to solve even the most difficult problems thrown up by the world. It was enough for him.

For Charlie, the bigger need to retool came when he lost his security clearance in 1951, as that meant he was unable to keep a foot in the world of practical policy as had been his plan. Subsequently, he came to rely instead on textbook writing as a more indirect means of influence, shepherding to publication multiple editions of both *International Economics* (1953) and *Economic Development* (1958) before his swan song *Power and Money: The Politics of International Economics and the Economics of International Politics* (1970). It was his students – in person at MIT, but also the readers of his books – who would have to solve the problems thrown up by the world, problems in which economics and politics were inextricably intertwined.

For the international money story, particular interest attaches to two of those students, Egon Sohmen and Robert Mundell, the former an early advocate of flexible exchange rates and the latter the originator of what became the standard model of open economy macroeconomics, for which he would be awarded the Nobel Memorial Prize in Economic Sciences in 1999. Charlie wrangled with them both, favoring fixed exchange rates against Sohmen and seeing Mundell's advocacy for a common European currency as an incorrect extension of Williams' key-currency approach. For Charlie, the optimal currency area was always the world as a whole, and the central problem was making the dollar system work, not finding alternatives to it.

After twenty years of this, as the MIT department changed along with the rest of the economics profession, Charlie came to see that it was time for a change himself, and that's when he embraced a new identity as economic historian. Most historians spend their days digging in the archives for new facts; Charlie instead used his intelligence analyst skills to spin stories about what the facts mean. Having mounted his first major effort in this vein, the *Depression* book, while still on the MIT payroll, he was ready to hit the ground running when mandatory retirement required him to step down, starting with *Manias, Panics, and Crashes* (1978), which became a best-seller and remains in print to this day.

In biographical context, we can read Charlie's self-identified 1984 masterpiece *Financial History* as a synthesis of the multiple strands of his life work. The first three Parts – titled respectively "Money," "Banking," and "Finance" – can be read as an attempt inductively to sketch for the reader his own analytical framework for understanding the international monetary system, building on his earlier nonhistorical works *The Dollar Shortage* (1950), *Europe and the Dollar* (1966), and *International Money* (1981). Here, in effect, we find his treatise on money. The second two parts – "The Interwar Period" and "After World War II" – use this analytical framework to make sense of the dramatic monetary events of his own life. In effect, *Financial History* is Charlie's own *Money and Empire*, a Bildungsroman of both the dollar and himself.

In all of this postretirement work, we see Charlie not so much turning himself into an economic historian, but rather using the material of economic history finally to do the kind of comparative political economics that he had intended to do when he left government service for the academy. Indeed, Charlie signals as much himself in the title of his final collection of favorite papers: *Comparative Political Economy, A Retrospective* (2000). Resilient in the face of multiple obstacles, Charlie ultimately achieved what he had set out to way back in 1933 when he found himself confronting the reality of global economic collapse and the necessity of making some kind of life for himself.