

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



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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*



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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

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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



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in practice to solve even the most difficult problems thrown up by the

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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.