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On Kindleberger and Hegemony: From Berlin to M.I.T. and Back

Stephen Meardon
Bowdoin College, smeardon@bowdoin.edu

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Abstract

The most notable idea of Charles P. Kindleberger's later career is the value of a single country acting as stabilizer of an international economy prone to instability. It runs through his widely read books, *The World in Depression, 1929-1939* (1973), *Manias, Crises, and Panics* (1978), *A Financial History of Western Europe* (1984), and kindred works. "Hegemonic stability," the idea is called in the literature it inspired. This essay traces Kindleberger's attachment to the idea back to his tenure as chief of the State Department's Division of German and Austrian Economic Affairs from 1945 to 1947 and adviser to the European Recovery Program from 1947 to 1948. In both capacities Kindleberger observed and participated indirectly in the 1948 monetary reform in Western Germany. In the 1990s, during his octogenary decade, he revisited the German monetary reform with a fellow participant, economist, and longtime friend, F. Taylor Ostrander. Their collaborative essay marked Kindleberger's effort to reclaim hegemonic stability theory from the scholars who developed it following his works of the 1970s and 1980s.

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[1] Department of Economics, Bowdoin College, Brunswick, Maine 04011. E-mail to smeardon at bowdoin.edu. I thank Jeremy Lewis for his valuable research assistance and conversation, and Frank Ostrander and Tryntje Shapli for access to F. Taylor Ostrander's collections of papers, books, and photos. I have benefited much from discussions with Peter Temin and participants in the 2013 History of Political Economy conference on "M.I.T. and the Transformation of American Economics," Durham, North Carolina, April 26-28. Any errors are mine.

> "My instinct, or political prejudice, suggests that Nature abhors a vacuum, including one of power, and that the United States is assisting the work of Nature in its worldwide intervention."
>
> – Charles P. Kindleberger, *Power and Money* (1970), p. 83.

Introduction

In the large trove of Charles P. Kindleberger's "historical economics," comprising *The World in Depression, 1929-1939* (1973, 1986), *Manias, Crises, and Panics* (1978, 1989, 2000), *A Financial History of Western Europe* (1984, 1993), and kindred contributions, the most conspicuous idea is the value of a single country acting as stabilizer of an international economy prone to instability.[2] "Hegemonic stability," the idea is called in the literature it inspired (e.g. Keohane 1986). This essay studies Kindleberger's attachment to the idea, which, as the epigraph shows, was more than an idea. It was an instinct honed by his personal experiences during the Second World War and its aftermath.

Kindleberger himself wrote occasionally about his wartime and early post-war experiences, including his tenure as chief of the State Department's Division of German and Austrian Economic Affairs from 1945 to 1947 and adviser to the European Recovery Program from 1947 to 1948 (Kindleberger [1968] 1987; 1987; 1989; 1991; [1997] 1999). Here and there he gives a glimpse of their importance to the big idea (e.g. Kindleberger 1987, 181-184). One set of experiences of special importance to his subsequent career was his observations on and indirect participation in the 1948 German monetary reform. With the reform, the United States impelled Germany's conversion of old currency and other paper assets to new currency at a fraction of their former nominal value, to the end

[2] For corroborating views of the centrality of the idea in Kindleberger's oeuvre see Kirshner, Gourevitch, and Eichengreen (1997) and Temin (1999, ix).

of dismantling price controls without fomenting price inflation. This, too, Kindleberger wrote about – fifty years later, at the back end of his octogenary decade, and in collaboration with a longtime friend and fellow economist whose acquaintance with him dated back to the early '30s. In the collaboration Kindleberger emphasized the relevance of the German monetary reform to the idea of hegemonic stability and other timely questions, not to *development* of the idea through his own life and work. This essay shifts the emphasis. The primary materials of the collaboration – notes, correspondence, printed materials, unpublished manuscripts – help to explain, as Kindleberger himself did not, how he got his "instinct" and what it meant for development of the hegemonic stability idea.

Early careers of Kindleberger and F. Taylor Ostrander

Kindleberger's collaborator was Frank Taylor Ostrander, an economist of exactly the same vintage as he (b. 1910). The two first crossed paths at a Students International Union conference in New York City in the spring of 1931, Kindleberger representing the University of Pennsylvania and Ostrander Williams College. Both were in the class of '32, both would be elected Phi Beta Kappa. From the strength of their conference participation both won scholarships to the Geneva School of International Studies in the summer of '31, where they got better acquainted with each other and the nexus of economics and international affairs. After Geneva they followed parallel routes for the better part of two decades. For starters, Kindleberger went back to Penn and onward to graduate studies in economics at Columbia University, Ostrander to Williams and then the same at Oxford and the University of Chicago.[3]

Unlike Kindleberger, Ostrander did not finish his Ph.D. He succumbed first to an offer of an instructorship at Williams and then to Aaron Director's call from Washington to run a U.S. Treasury-sponsored project for collection of tax data. But the two young men were situated similarly once again by the latter half of 1936. From that time until the United States' entry into World War II, both were economists in government service (or, in Kindleberger's case, quasi-government service): Ostrander mostly at the Treasury

[3] The biographical material in this paragraph and the following one is drawn from Kindleberger (1991) and Ostrander (2009a; 2009b).

Department's Division of Monetary Research, working under Harry Dexter White, Kindleberger mostly at the New York Fed and at the Bank of International Settlements in Basel.

The war drew Kindleberger into the Office of Strategic Services in Washington D.C. and London, then into the 12th Army Group in Europe, where he held the rank of Captain and later Major. The end of the war in 1945 drew him into the State Department, which set up a new Office of Economic Security (OES) with three divisions. Each division concentrated on the economic and legal affairs of a different set of defeated or neutral countries. Here the abbreviations proliferate: Kindleberger became Chief of the Division of German and Austrian Affairs (GA) and in that capacity devised economic policy for the Office of the Military Government, U.S. (OMGUS). In broadest terms his charge was making the Allied agreement on reparations operational while fostering the recovery of the countries under his purview (Kindleberger 1991, 112-120). Fostering the recovery of Europe at large became his charge after Secretary of State George Marshall's famous speech at Harvard on June 5, 1947; the event occasioned his transfer inside the State Department to an advisory role for the European Recovery Program (ERP), a.k.a. the Marshall Plan (ibid., 122). From these positions Kindleberger made his wartime and postwar observations on the German economy and participated in planning the monetary reform of 1948. In the summer of that year, just as the reform was carried out, he decamped for his new career at M.I.T.

Kindleberger's work at GA reconnected him with Ostrander, who, after his tenure at Treasury and subsequent positions in and out of government, had migrated to OMGUS in Berlin in late 1945 (Ostrander 2009, 92).[4] Ostrander was chief of price control in OMGUS and the U.S. member of the Price Control Committee at the four-power Allied Control Council (ACC). In February of 1948 he was appointed Deputy for Negotiations at the ACC Economic Directorate (Ostrander 1996/2001, 2), where the terms of the monetary reform were under dispute. Physical control over printing the new money was the stickiest point (Tenenbaum ca. 1958, 13:11). The Soviets wanted it; the Americans did not want them to have it. In March, soon after Ostrander's appointment, the top

[4] Kindleberger's contemporary report on his meeting with Ostrander in Berlin may be found in CPK to John DeWilde, 3 Aug. 1946, in Kindleberger (1989, 6).

Soviet member of the ACC abandoned the council, signaling the rupture between the Soviet Union and the Western Allies. The rupture suspended the work of all the ACC directorates. In its sequel in late June the Soviets blockaded Berlin. But before that, and more to the point of this essay, the rupture ended the Allied impasse over monetary reform. Like Kindleberger, only more so, Ostrander was an indirect participant in the reform.

The German monetary reform

The reform of 1948 is not a subject lacking historical attention. Besides Kindleberger and Ostrander's treatment (2003) there is Buchheim (1993), Renger (1988), and Sauermann (1979), to name just a few of the scholarly works in English. The aim here is to review only the details necessary for explaining our two protagonists' perspectives on the reform in the late 1940s and then again in the late '90s.

In the aftermath of the war Germany remained beset by wartime monetary impairments. Although the Hitler government had resorted to the usual expedients of war finance, namely, explicit taxation and seigniorage, it had preferred "noiseless" methods. It had compelled the deposit of workers' wages in savings banks that were compelled in turn to buy government debt. Insurance and social security funds had been under similar compulsion. Corporations had been ordered to use retained earnings to buy treasury bills. At the same time, businesses had been prohibited from replacing pre-war stocks of merchandise, and any other business and consumer spending had been impeded by price controls and rationing (Tenenbaum ca. 1958, 4: 13-16). By war's end, the result was a plethora of paper and account-book claims in a prostrate country producing few goods to be claimed.

The Allies were on a precarious footing to grapple with that result. They agreed at Postdam to promote the development of local German responsibility, but the monetary problem was a national one and no national German government existed to solve it. They agreed to reconstitute Germany as a democracy, but they also agreed to impose whatever controls were necessary for a "balanced economy" and for distributing goods equitably during a moment of acute scarcity.[5] What it all implied for the Hitler price controls was unclear, but from the start of the occupation the various zone commanders decided to maintain them and in late 1945 the ACC ratified their decision (Mendershausen 1949, 647). So, for a while at least, the controls would remain and the monetary problem would fester.

Administering the controls in the American zone fell to OMGUS (which, in late 1946, combined efforts with the British for bizonal administration) together with subsidiary German Price Formation Offices (OMGUS 1947 [Sept.], 144-154). Kindleberger observed the administration firsthand during his reconnaissance trip to Berlin for GA in August 1946. The trip included multiple meetings with Ostrander and his Price Control group. Kindleberger noted the satisfaction Ostrander took in the efficacy of his group's work, insofar as efficacy meant holding the line against official price rises (CPK to John DeWilde, 4 Aug. 1946).[6] But Ostrander was not blind to the unintended consequences of the work – and those, too, Kindleberger noted (CPK to DeWilde, 7 Aug. 1946).[7] The consequences were manifest in the extraordinarily low physical productivity of people. Low productivity was due partly to lack of calories. That part of it was more or less inevitable in the immediate aftermath of the war. But it was also due partly (and, over the next couple of years, increasingly) to people's calculated responses to price controls, and thus to OMGUS for maintaining the controls. As under the Hitler government, people responded to price controls by resorting variously to black markets and to forms of barter.

The norm favored barter: most thought it better to pay the "insurance premium" of cumbersomeness in transactions than to brazenly flout the controls (Mendershausen 1949, 651). The main form of barter retained the use of Reichsmarks but made a trader's sacrifice of some units of "Good A" for Reichsmarks at official prices contingent on his receiving some units of "Good B" for some additional A, the ratio of the contingent transaction also being determined by official prices. One trader's sacrifice at official prices compensated the other's, so a viable trade was in effect goods-for-goods at black

[5] Potsdam Agreement, 2 Aug. 1945, as excerpted in Office of the U.S. High Commissioner for Germany (1951, 6).
[6] In Kindleberger (1989, 17).
[7] In Kindleberger (1989, 35).

market relative prices with some currency thrown in for a veneer of legality (OMGUS 1947 [June n.d.], 6).[8] "Compensation trade," the authorities called it. While it maintained a function for official prices, it was fantastically expensive. "With compensation trade in general," Ostrander observed, "the amount of time spent in locating partners and consummating deals makes up a very sizable part of people's time and constitutes a major drag on productivity. It destroys the efficiency inherent in the division of labor" (OMGUS 1947 [Sept.], 150).[9]

By the first half of 1947 the urgency of changes in the price system was obvious, and not only for productivity gains. Dr. Heinrich Rittershausen, chief of the German price formation officers in the Office of Economic Administration (Verwaltungsamt für Wirtschaft, VAW), conveyed a dire warning to the Allied policy authorities. Without quick and conclusive action to fix money and prices, the authorities could expect "an early collapse of the public and economic order" (OMGUS 1947 [June n.d.], 3).

The fix was monetary reform. What that entailed in general was clear enough. New money with a new name would have to be printed and then exchanged for old money at an appropriately small ratio of new units to old. Then, sooner or later, people would be allowed to trade money for goods and goods for money. Stated that way monetary reform may have seemed like a logistical question. The better way to state it was as a question of "bring[ing] total outstanding money and monetary claims against the government into some approximate balance with the reduced wealth and national income" (Stolper 1948, 102). Logistics, however complicated, were as yet the lesser part of it. Monetary reform entailed figuring out whose claims would be honored and whose repudiated. The destruction of wealth and income wrought by the war were so vast – perhaps a third of real wealth had been wiped out, and income reduced by half from the

[8] An example drawn from real life: at official prices, 50 liters of gasoline cost 30 RM, as did 1 tire. But at black market prices 50 liters cost 600 RM while 1 tire cost 2,000 RM. A typical owner of a tire would not trade it for 50 liters, much less for 30 RM. But if his trade of 1 tire for 50 liters (a legal transaction) could be made contingent on another transaction whereby he gave 60 RM for an additional 100 liters (also legal), then he could be persuaded to part with it. In sum, his 1 tire plus 60 RM would get him 150 liters of gasoline. Exchanging 1 tire for 150 liters came pretty close to black market relative prices. Parting with some extra Reichsmarks was a transaction cost – and certainly not the biggest one that either trader faced (OMGUS 1947 [June n.d.], 6).

[9] Wolfgang Stolper (1948, 97) expressed the problem succinctly. Germany had become "a nation spending a large part of its life in searching for the means of survival rather than working."

prewar level (Colm et al. 1946, 1) – that, when the figuring was done, the effects of monetary reform would be "tantamount to a social revolution" (Stolper 1948, 102).

Finding consensus among either Allies or Germans on questions of revolutionary scope was unlikely. The British wanted to foster a social-democratic Germany, the French to prevent it from prospering more than France (Tenenbaum ca. 1958, 13: 8-9). The Soviets aimed to nationalize industry, the Americans to decartelize it (Van Hook 2004, 53-62). As for the Germans, their ideas of fairness and property were increasingly polarized as Social Democrats and Christian Democrats struggled over their country's future course (ibid., 139-149). Numerous proposals for monetary reform, embodying equally numerous priorities, circulated from 1945 to 1948 (Tenenbaum ca. 1958, ch. 12). As early as January 1946, Ostrander and Raymond Goldsmith, a German émigré and U.S. State Department economist, discussed the possibility of outside consultants studying the proposals and making recommendations to OMGUS. Their discussion gave impetus to a commission ultimately comprising three men: Goldsmith; Gerhard Colm, another German-born U.S. government economist; and Joseph M. Dodge, a Detroit banker and financial adviser to the chief of OMGUS, General Lucius D. Clay (Kindleberger and Ostrander 1997, 170, 176-177). The Colm-Dodge-Goldsmith report, submitted to General Clay on May 20, 1946, was the main reference point for official discussions of monetary reform for the next two years. It did not reflect consensus among Allies or Germans but helped guide a decision.

The Colm-Dodge-Goldsmith report recommended monetary reform in three steps (Colm et al. 1946). (1) A new currency, the Deutsche Mark, would be created and all monetary claims including private debts written down to 10 DM = 100 RM. Reich debt would be the exception: it would be totally invalidated. Prices, wages, rents, and taxes in the new currency would remain as they were in the old. Freeing them would be future business. (2) In order to reduce disparities owing to the first step, 50% of the value beyond 1,000 DM of each person's real estate, plant, equipment, and inventories would be mortgaged, with title to the mortgage being vested in the government. The mortgages would finance the government's issuance of certificates promising partial compensation for bombing or other war losses. (3) In order to reduce disparities further and finance more compensation for war losses, the government would levy a progressive capital tax ranging from 10 to 90 percent on each person's net worth after accounting for the first and second steps.

So went the recommendations. The reality of monetary reform would differ in several ways, large and small. Allied objections would have to be either overridden or accommodated. German objections, too, would have to be heard for reasons both principled and practical. The principle guiding OMGUS's work under General Clay was "chaperonage," which was to say, governing Germany so as to give Germans increasing responsibility of self-government (Ostrander 1998, 4-5). The practical consideration was that if, as the German price officials said, "the public and economic order" was at stake, then prudence counseled crafting a reform in which Germans would acquiesce.

By the middle of 1947, a year after the Colm-Dodge-Goldsmith report was finished, progress in crafting the reform had stopped. A pair of logistical questions began to rival the revolutionary ones in importance. Who would print the new currency, and where? The Americans proposed to do the work at Germany's national printing plant, which happened to be in the American sector of Berlin, but to assuage the other Allies by putting the plant under four-power control. The Soviets first demanded control of their own set of plates, which would allow them to print the currency independently without real constraint; then, agreeing in principle to four-power control over printing, they proposed German control over issuance and management. But no German institution of control existed, nor could it exist until the Allies resolved their broader disagreement about forms and powers of German institutions. The Americans smelled Soviet delay tactics (Bennett 1950, 43-46). Anyway the result was deadlock.

By the fall of 1947, OMGUS authorities saw greater danger in continued delay than in a split from the Soviets and a divided Germany. The lag between ordering the currency to be printed and "C-Day," when it would be distributed, would be about 9 months. It was a long time to wait: long enough, perhaps, for the spreading economic rot to incubate communist reaction. Longer could not be allowed. Orders for the new currency were placed with U.S. printers while OMGUS set to work with renewed effort to settle the details of monetary reform with British, French, and German authorities. OMGUS attempts to win Soviet agreement continued, but with diminishing hope and determination to go ahead in any event (Tenenbaum ca. 1958, 13: 13-15; Buchheim 1993, 101).

Spearheading the efforts with the British, French, and Germans were Jack Bennett, director of the OMGUS Finance Division, and his deputy, Edward A. Tenenbaum. The latter was a young man of 25, already accomplished beyond his years. His undergraduate senior thesis on the Nazi economy was published by Yale University Press; his wartime service as an Air Force intelligence officer earned him a bronze star.[10] As much as Kindleberger and Ostrander, the rest of the story turns on him.

Besides intellect, determination, and knowledge of the subject at hand, Tenenbaum had other useful qualities. He was fluent in French and German. Above all, despite his youth, he was prepared temperamentally to plough through Allied and German obstacles to American designs. His father, Joseph L. Tenenbaum, had been a notable surgeon and author, vice president of the World Jewish Congress and the American Zionist Organization, founder and chairman of the Joint Boycott Council, and, particularly in the latter capacity, an early and vocal enemy of the Hitler government.[11] Edward Tenenbaum knew his father's work on the Joint Boycott Council. He had used the Council's records in writing his thesis (Tenenbaum 1942, 39, fn 79). He understood "the principle of contagion inherent in totalitarian control" (ibid., 21) and could uproot the institutions of control without remorse. For Germans especially he had scant remorse. "Not averse as a nation to self-pity," he would later write, Germany comprised multitudes treating the misery of repressed inflation as an excuse to maintain the monetary institutions causing the repressed inflation (Tenenbaum ca. 1958, 12: 13).

Bennett delegated to Tenenbaum the responsibility for coordinating American and German designs for currency reform. The instrument for promoting German designs was the Special Bureau of Money and Credit (Sonderstelle Geld und Kredit), a body of liberal-minded economists and politicians that was established for that purpose and chaired by Ludwig Erhard, erstwhile Economics Minister of Bavaria (Van Hook 2004, 157). The stenographic report of Tenenbaum's first meeting with the Special Bureau, on

[10] Tenenbaum's senior thesis is given in the bibliography as Tenenbaum (1942). His wartime accomplishment is cited in his obituary: "E.A. Tenenbaum, Overseas Economist, Dies," *The Washington Post*, Friday, 31 October, 1975, p. A24.
[11] Biographical details for the elder Tenenbaum taken from his obituary: "Joseph L. Tenenbaum Dies; Urologist, Zionist, Author, 74," *The New York Times*, Monday, 11 December, 1961.

November 20, 1947, gives evidence of his authority and his compass.

Tenenbaum dominated the meeting, emphasizing the need for cooperation, hearing the Germans' ideas, and pointing the way helpfully toward their better alignment with his own. Bureau members wanted a higher ratio of new currency exchangeable for old. Tenenbaum, seeing the Colm-Dodge-Goldsmith proposal of 10:100 as too lenient, said that 5:100 would suffice, and any more than that should be "blocked" (meaning held in account but not available for the individual's withdrawal) (Kindleberger 1997, 2-3). Erhard hoped that, absent a higher ratio, the Marshall Plan aid announced the previous summer might be siphoned off for consumption. Tenenbaum retorted that "the Marshall Plan does not mean help for consumer goods" (ibid., 6). Erhard worried that cancelling up to 80% of private debt such as mortgages, leaving "only" 20% valid, would amount to "unlawful enrichment" of homeowners. Tenenbaum was "perhaps ready to reduce all mortgages to 12 percent, and then finish with it" (ibid., 4). One member was anxious about the adequacy of time for exchanging currency beginning C-Day. Tenenbaum said that 24 hours were enough (ibid., 5). Tenenbaum's purport was parsimony, decisiveness, and indifference about the fine details of currency reform's distributive effects.[12]

Notwithstanding their differences, on at least one point Tenenbaum did not see fit to correct the Special Bureau. Although Germans should attend to details, said Erhard, "the Allies must impose currency reform." Concurred another, "I have always felt that democracy is more tolerant than dictatorship, but with currency matters, I call for the occupation authority" (ibid., 2). The Americans sought the semblance of German participation, the Germans the assurance of Allied leadership.

The assurance was fulfilled the following spring. Aiding its fulfillment was the Soviet break from Allies at their main body of deliberation, the Allied Control Council, on March 20, 1948. The Soviet walkout happened a week after the U.S. Senate passed legislation implementing the Marshall Plan, a month after the communist coup in Czechoslovakia, and a month, too, after the United States, Great Britain, France, and the Benelux countries began talks in London to determine jointly the form of a West German government. The events were closely related. Fear of Soviet expansion and communist

[12] On other occasions, if not at the meeting of November 20, 1947, the members of the Special Bureau may have been of the same mind. Buchheim (1993, 95) gives evidence suggesting they had been so earlier in 1947.

takeover in Europe helped turn American public opinion toward approving the Marshall Plan; the plan itself stipulated European cooperation as a condition of aid, and thereby fostered European resolve in uniting and fixing Western Germany; and the prospect of a united West Germany, and moreover a united non-communist Europe, hardened Soviet resolve to prevent its realization (Behrman 2007, chs. 7, 9; Smith 1990, 462-481). That story is now lore. What matters here are its implications for monetary reform. With the Soviets excluded from Allied deliberations and the die cast for a divided Germany, the deadlock over monetary reform was broken and the way cleared for assertion of Allied, and specifically American, leadership.

At the end of April, the Western Allies held a secret conclave at a military installation in Rothwesten, near Kassel in Hessen, to work out the final details of monetary reform. The 49-day conclave included Germans experts appointed by Erhard's Special Bureau plus liaisons for the three Military Governments. The OMGUS liaison was Tenenbaum (Kindleberger and Ostrander 2003, 180). The Western Allies had already converged toward, if not yet arrived at, a solution nearer to Colm-Dodge-Goldsmith than to German designs. After vacillation in Washington and debate at Rothwesten, the solution remained in the same neighborhood. On these matters the Germans would have the opportunity to speak but not the responsibility to decide. "The monetary reform, however much it may have met the yearnings and needs of the German public," recalled Tenenbaum (ca. 1958, 13: 19), "was in fact dictated by a Military Government that professed to be trying to introduce democracy. It would be ridiculous to deny this."

The monetary reform that came out of Rothwesten was imposed in Western Germany beginning June 20, 1948. It substituted Deutsche Marks for Reichsmarks at 10:100, with 5 of the 10 blocked and a decision to be made about unblocking them in 90 days. The final ratio was 6.5:100. Everyone was allowed to exchange 60 marks at 1:1, paid in two installments over a month's time, but those 60 were charged against the total bought at 10:100 (Tenenbaum ca. 1958, 13: 34).[13] Most private debts were written down 10:100. The U.S. War Department vetoed steps (2) and (3) of Colm-Dodge-Goldsmith:

[13] There is a discrepancy between Tenenbaum's (ca. 1958, 13: 34) and Buchheim's (1993, 109) treatment of the 60-mark quota.

collectivizing war losses and capital taxation, especially at progressive rates ranging up to practical confiscation, were measures the United States would *not* dictate. They would be left for Germany to decide. Reich debt would be annulled completely (Buchheim 1993, 109-111; Kindleberger and Ostrander 2003, 180-190). Taken as a whole the reform was a good deal more parsimonious, more likely to reduce the quantity of money to a level commensurate with official prices and the growth of money to a rate commensurate with Germany's capacity to produce, than either German designs or certain French and British proposals at Rothwesten (Buchheim 1993, 107; Tenenbaum ca. 1958, 13: 33-34;). It was not nearly parsimonious enough for Tenenbaum. But he reckoned "it might easily have been much worse" (ibid., 33).

To Kindleberger the results were of "the nature of a miracle." In June 1948 German industrial production was 50% of the 1936 average; by February 1949 it was at 80%. In 1946 exports had been valued at $160 million; by the end of 1948 they were at $850 million annually (Kindleberger [1949] 1987, 34). Kindleberger did not credit monetary reform alone for the miracle: other changes in German economic administration, especially the simultaneous scrapping of price controls by Ludwig Erhard, who was by then Bizonal Economic Director, also helped (ibid., 35; Van Hook 2004, 139). Nevertheless he saw monetary reform as the main cause.

From August 1948, Kindleberger watched the miracle unfold from his new position as Associate Professor of Economics at M.I.T. From that perspective he might have seen a deeper cause in the circumstances that made reform possible. The dominant leadership of a nation, say, like the United States absent effective Soviet opposition; or that of an individual, like Tenenbaum absent a rival with comparable authority and will. The reader will perceive that the story as told here invites one to see it that way. But the telling is informed by Kindleberger's work during a prolific career, and also during a productive retirement, in which he revisited the German monetary reform with a different purpose than he had early in his tenure at M.I.T. For him to adopt that purpose took a while.

Leadership

Indeed Kindleberger wrote little about the monetary reform he watched unfold in 1948-1949 until the 1980s. He mentioned it now and then. Like the Marshall Plan, it was an episode in the "clash between the United States and the Soviet Union over economic recovery in Europe" ([1968] 1987, 101). European recovery after the World War II was not a major subject of his writing between the 1950s, when it was effected, and the early 1970s, when he published *The World in Depression, 1929-1939*. Nevertheless it was in this period that he developed his ideas about leadership in the international economy that came to be seen as the core of "hegemonic stability" theory. In the ideas' later stages of development they spurred his reconsideration of immediate post-war events. The question to be taken up now is, what about their early stages of development? What were the ideas' nature and application before, and then during, his writing *The World in Depression*?

During all of the period from the mid-1950s to the early 1970s, and even before, Kindleberger wrote of the importance of building international economic institutions and coordinating economic policy. He even pondered the prospects for U.S. "dominance" of the international economy. Yet few of his ponderings resembled a theory, and what did was markedly different from his later writings. In *The Dollar Shortage* (1950, 254) he determined that "a cooperative effort ... unique in world experience" was required to address the balance-of-payments problem of countries in urgent need of U.S. goods and capital. But the determination only concluded his analysis of the problem. The analysis was economic not political. A few years later, in an essay on "The Role of the United States in the European Economy, 1919-1950," he seized on François Perroux's theory of economic domination. But as far as he was concerned its relevance lay only in the implication that "whether it wills it or not, the United States by all its actions affects what goes on in Europe" (Kindleberger [1954] 1966, 230). This was how he understood U.S. domination of Europe. International economics, not international political economy, was his province.

In the late 1950s and 1960s he moved haltingly toward the other province, with a twist. In an essay for Perroux's own journal, *Cahiers de l'Institut de Science Économique Apliqueé* (1961), Kindleberger saw before him "La fin du rôle dominant des États-Unis" (as he began the essay's title). In contrast to his later view in *The World in Depression*, he seemed unperturbed by the prospect of the United States' diminished role. The responsibility of maintaining equilibrium in the balance of international payments should lie first with each particular country, said Kindleberger, then with the IMF, and then some institution of broader international cooperation. Only then should the U.S. be responsible, and even then not uniquely (Kindleberger 1961, 97). Likewise for the responsibility of aiding economic development (ibid., 104). The U.S. should exercise "*leadership*," but only on the basis of equality and economic symmetry: it should take the character of "le *do as I do*" not "le *do as I say*" (ibid., 105, italics in original). This notion of leadership did not match his later one.

It would appear that Kindleberger entered the realm of international political economy awkwardly, speaking pidgin, because he was unsure he belonged there. Another of his few and uncertain forays was titled "International Political Theory *From Outside*" (1959, italics added) – an article, like the one he wrote for *Cahiers*, that suggested a U.S. role more aptly described as collaboratorship than leadership.[14] Adding to the appearance is a remark he wrote in a memorandum for a consultative committee of thirty top economists, himself included, serving the administrations of Presidents Kennedy and Johnson. Concerned about the state of "Franco-American rivalry for political leadership ... and their relative prestige" in the summer of 1965, Kindleberger confessed that "as a technical economist, I am perhaps not competent" to speak to the issue.[15] And then he proceeded to try. Consistent with his other efforts during these years, he suggested the U.S. should muffle rather than amplify its pretentions to leadership.[16]

Kindleberger's famous thesis of the indispensability of leadership in *The World in Depression* (1973) was therefore a significant turn from where he had stood less than a decade before. He signaled it early in *Power and Money: The Economics of International Politics and the Politics of International Economics* (1970), the source of

[14] "The United States cannot shift to the long-run basis of maximization by itself. But if the Soviet Union were to extend its horizon, and the United States to follow ..." (Kindleberger 1959, 82).

[15] "Issues and Positions in International Monetary Arrangements," 26 July 1965. In Kindleberger (1934-1995), Box 4, folder "Treasury Dept."

[16] In Kindleberger's words, "the most productive stance we can take is to ignore considerations of prestige entirely. Prestige can best be served in these matters [of international monetary arrangements] by contributions to common goals ... I believe it would be a mistake to try to preserve the dollar as a reserve currency, except on grounds of efficiency, if this be the efficient path" (Ibid.)

the epigraph at the beginning of this essay. He signaled it more tellingly in correspondence with Gunnar Myrdal in the same year. Piqued by Myrdal's *The Challenge of World Poverty* (1970), Kindleberger told him "I am particularly interested in what you say about leadership." He was working on the 1929 World Depression, he continued, "and take as a basic explanation the inability of the British to furnish economic leadership to the system, and the unwillingness of the United States." He thought Myrdal correct to say that U.S. leadership in international economic affairs was currently crumbling, but wrong to rejoice in it, as "there will be chaos when it is gone unless it is replaced by some other." Replacement by any party was hardly likely; replacement by any party more enlightened than the U.S. was even less so. Myrdal was rooting for such replacement but did not say how it would happen. Kindleberger ended pointedly, "Does a social scientist like you think it likely to be forthcoming as a result of preaching?" (CPK to Myrdal, 24 July 1970).[17]

The leadership thesis appeared in *The World in Depression*'s culminating fourteenth chapter. For present purposes the summary in the foregoing letter will do. The rest of this essay is about what happed to the thesis afterward, through Kindleberger's elaborations, other authors' responses, and his rejoinder.

Hegemonic stability

Kindleberger's first major elaboration was in *Manias, Panics, and Crashes* (1978). By extending his canvas temporally to the start of the 18th century and geographically to Western Europe he could discuss more and varied financial crises. To Kindleberger, what the history of the Great Depression showed vividly, a larger sampling of financial crises confirmed unmistakably. Responsibility for stability was a public good. The greater were the benefits conferred by a public good, the smaller was the incentive to provide it privately. Enter the "international lender of last resort." For somebody or some nation to step forward in that role even when private incentives counseled otherwise was the function of leadership (Kindleberger 1978, 3-4, 220-226).

But the canvas of *Manias, Panics, and Crashes* did not go as far as the Second

[17] Myrdal answered "Yes" (Myrdal to CPK, 4 August 1970). Both letters are in Kindleberger (1934-1995), Box 2, folder "M, correspondence, 1946-87."

World War. From postwar Western Europe Kindleberger drew no lessons. By his own account, it was invitations to help commemorate the 1947 Harvard speech of Secretary George C. Marshall, first in 1977 and then again in 1982, that got him started in that direction (Kindleberger [1978] 1987, 120). His reflections informed his next major monograph, *A Financial History of Western Europe* (1984).

Part V of *Financial History* concentrated on the postwar period. The Marshall Plan got major billing: it allowed Kindleberger to show distinctly the difference between, on one hand, the "key-currency and key-region philosophy" that he advocated for relief, rehabilitation, reconstruction, and payments stability; and, on the other, the "worldwide approach" proposed by champions of the UN, World Bank, and IMF (Kindleberger 1984, 403). The German monetary reform had its place in the book, too, although it did less work. Whereas the Marshall Plan was unambiguously a case of U.S. leadership, monetary reform was apparently a case of shared responsibility between the U.S., Great Britain, and France. Whereas the Marshall Plan had direct repercussions to international economic stability, monetary reform's repercussions were felt directly in Western Germany. Still, in a minor way the story of monetary reform supported the leadership thesis. It illustrated the "political vacuum in which policy in the general interest was possible" (Kindleberger 1984, 419). Which was to say, the general interest was served by economic policy leadership, and, as the German monetary reform showed, leadership was more likely to emerge from a political vacuum than from a bunch of contending equals.

By this time Kindleberger's leadership thesis had garnered popularity for kindred ideas in the field of international relations (e.g. Gilpin 1975; Krasner 1976). Other authors developed the thesis and rebranded it.[18] Robert Keohane (1980, 132) dubbed it "the theory of hegemonic stability," and although Kindleberger (1986b, 289, note 1; 1986c, 841) did not care for it, the name stuck. McKeown (1983), Lawson (1983), Stein (1984), and Gowa (1984), among others, wrote articles in direct reference to the theory so dubbed, all of them citing Kindleberger as well as Keohane. Keohane himself surveyed the growing literature and plotted its course in his book, *After Hegemony: Cooperation*

[18] Eichengreen (1990) offers a survey and evaluation. For the survey, see footnotes 2 and 3 (271-272).

and Discord in the World Political Economy (1984). But the course Keohane proposed spelled trouble for the theory as Kindleberger understood it.

Kindleberger's "main lesson" in *The World in Depression* was that "for the world economy to be stabilized, there has to be a stabilizer – one stabilizer" (1973, 105). The one stabilizer, he admitted, need not necessarily be a nation (the U.S.) or even a tightly integrated bloc of nations (Europe). It could be a nexus of international regimes: "a world central bank, a world capital market, and an effective General Agreement on Tariffs and Trade" (1973, 308). He conceded that the latter was "the most attractive" – but, he added, "because difficult, the least likely" (ibid.). The implication was that the world would do best with the U.S. or Europe in the lead, and if the reader wondered whether it was realistic to expect Europe to take the role, then he was left with one viable option. Kindleberger did not hazard to spell it out.

The concession that leadership by international regimes was "the most attractive" option was an affirming nod to those, like Myrdal, who blanched at the thought of U.S. hegemony. It probably made Kindleberger's thesis more palatable outside the U.S. and in circles friendly to international regimes, not least in academia. The trouble was that it encouraged inquiry along different lines than Kindleberger had in mind: not "How can a revival of U.S. leadership be fostered?" but instead "How can the option that is 'most attractive' but 'least likely' be made *more* likely? In what forms is it *most* likely?" Such were Keohane's lines of inquiry. His conclusion was that hegemony was useful for the establishment of regimes, but, when that work was done, could very well be supplanted by them. In his words, "cooperation does not necessarily require the existence of a hegemonic leader after international regimes have been established. Post-hegemonic cooperation is also possible" (Keohane 1984, 32).

Kindleberger's presidential address to the American Economic Association two years later offered a prominent stage for a rejoinder. "I am a realist when it comes to regimes," he said: "it seems to me that the momentum set in motion by hegemonic power ... runs down pretty quickly unless it is sustained by powerful commitment" (Kindleberger 1986a, 10). The most fruitful course lay in persuading the nation with the power to provide international public goods to wield it, not devolve it. Anyway, hegemony was hardly as *un*attractive as the boosters of "post-hegemonic cooperation" supposed.

This was the point that Kindleberger, now in his seventy-sixth year, wished to contribute to the literature that he had inspired but had gotten away from him. To support it he would need new evidence, or maybe a new take on old evidence.

Octogenarian collaboration

The spark that led to Kindleberger's reconnection with F. Taylor Ostrander in their octogenary decade, followed by their collaboration on a new study of the German monetary reform, was not anybody's conviction that such a study would support Kindleberger's interpretation of hegemonic stability. That came later. It was Ostrander's reading *A Financial History of Western Europe*, finding two small discrepancies between his own memory of the reform and Kindleberger's, and pointing them out to his erstwhile assistant in OMGUS Price Control, Samuel I. Katz (FTO to Katz, 24 May 1990).[19]

The discrepancies concerned the original inspiration of the Colm-Dodge-Goldsmith commission. In *Financial History* Kindleberger credited one Manuel Gottlieb of OMGUS Finance Division for suggesting the currency reform; Ostrander denied that Gottlieb mattered much. Kindleberger credited his own State Department for having appointed the commission (not for having "proposed" it, as Ostrander construed him incorrectly to mean); Ostrander insisted that he and Goldsmith together cooked up the idea (Kindleberger 1984, 412; FTO to Katz, 24 May 1990, 4). These were insignificant details in the big picture. Ostrander himself considered them personally fascinating but worth maybe "a footnote" in history books (ibid.). Nevertheless, after he settled into retirement in 1990 with a spacious basement library and a lifetime's collection of papers, he had time and means to write for whatever purpose pleased him, even footnotes. In 1992 he wrote up a friendly memo to Kindleberger to set the record straight.[20]

Kindleberger accepted the correction thankfully. It impelled him to change no

[19] Katz had become a professor of economics at Georgetown University. The letter is in Ostrander (1945-2003), Box "Dept. of Defense Conference," Folder "FTO Papers prepared for Dept. of Defense Conference."

[20] "F. Taylor Ostrander – Experience in Post-War Germany," typescript, 10 March 1992. Receipt acknowledged by Kindleberger in CPK to FTO, 14 March 1992 (in Ostrander [1945-2003], Box "Dept. of Defense Conference," Folder "FTO Papers prepared for Dept. of Defense Conference").

more than 10 words in the second edition of *Financial History*.[21] More significantly he probed Ostrander's memories. He asked about Ludwig Erhard's role, which he thought was overhyped by the likes of Milton Friedman, Gottfried Haberler, and even Paul Samuelson. He asked for information about Tenenbaum, and also about the U.S. War Department's veto of steps (2) and (3) of Colm-Dodge-Goldsmith. And he suggested that Ostrander keep to the subject and add to his account (CPK to FTO, 14 March 1992).[22]

Ostrander answered the queries. Erhard's role was the lifting of most price controls, but he "had *nothing at all* to do with M[onetary] R[eform]" per se. Tenenbaum was a "strange, unlikable type," although "brilliant" and capable of working out the fine details of the reform; "but he does not deserve a larger place in history than this." About the U.S. veto of the collectivization of war losses and capital taxation, Ostrander knew nothing firsthand. The answers earned Kindleberger's thanks and another nudge to pursue the subject at length (FTO to CPK, 4 April 1992; CPK to FTO, 10 April 1992).[23]

But the larger purpose of Ostrander's specific answers, let alone the purpose of a lengthier account of the German monetary reform, was as yet unclear. Kindleberger's nudging did nothing to clarify it; his own notion seems to have been muddled. Was it merely an exercise of fact checking for erudite retirees with (post) war stories to tell?

Ostrander anticipated the critique. In correspondence with Katz in the spring of 1990, his inclination had been to seek lessons of the German monetary reform for similar reforms in Eastern bloc nations freed from the Soviet yoke (FTO to Katz, 24 May 1990, op cit.). But he did not follow the inclination very far, as he was unsure of the lessons' relevance in utterly changed circumstances (ibid., 3). In the spring of 1992 he followed it farther, this time in regard to the former Soviet Socialist Republics cast loose by the U.S.S.R.'s demise. He was encouraged by Andrew Marshall, Director of Net Assessment for the U.S. Department of Defense, who invited him to present his thoughts at a small two-hour conference at Harvard that March.

The Harvard conference's question was, "What does our experience in aiding German economic reconstruction after World War II teach us about how to aid Russian

[21] Cf. Kindleberger (1984, 412) and Kindleberger (1993, 401).
[22] In Ostrander (1945-2003), Box "Dept. of Defense Conference," Folder "FTO Papers prepared for Dept. of Defense Conference."
[23] Ibid.

reconstruction today?" (Marshall to FTO, 27 February 1992).[24] Weighing answers were a dozen economic and foreign policy experts from journalism, academia, and government. Besides Marshall and Ostrander, the slated participants were Robert Bartley of the *Wall Street Journal* editorial page; Kindleberger, Rudiger Dornbusch, and J. Bradford DeLong; Defense Department representatives Zalmay Khalilzad (then Assistant Undersecretary of Defense for Policy Planning) and Abram Shulsky (then a consultant for the Office of Net Assessment); and a handful of others.[25] The answers Ostrander drew up were these: if the former Soviet lands did not join in a single new currency replacing the Ruble, they would disintegrate economically. Timing of currency reform was important, as a competent administration would be needed to pull it off, and any administration would have to be assembled from the wreckage of the old. And fashioning a Soviet currency reform that was at once democratic and effective would require "super-human efforts" (Ostrander 1992a, 2).[26] The problem with the answers was just what Ostrander had sensed two years before. Maybe they were right, but they did not give much practical advice for monetary reforms in new times and different lands (1992a, 1; 1992b, 1, 3, 5).

Perhaps a more detailed study of the German monetary reform would substantiate the answers better. Then again one could ask: So what?

Curiously, while Kindleberger and Ostrander groped for a compelling purpose for reconsidering the German monetary reform, one possibility sat right beside them at the Harvard conference. Khalilzad and Shulsky were authors at various stages of a draft document for "Defense Planning Guidance" circulating in the Pentagon that spring (Burr 2008). The document, written under the supervision of Under Secretary Paul Wolfowitz, undertook to revise defense policy strategy for a new international order with no Soviet Union and no threat of conventional war on a global scale. It held most notably that the new order entailed new responsibility, which the United States should bear for the

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[24] In Ostrander (1945-2003), Box "Dept. of Defense Conference," Folder "Official Papers on D.O.D. Conf. Cambridge 3/17/92."

[25] Completing the invitation list as printed in Marshall's letter to Ostrander were Robert Bowie, Isaiah Frank, William Harris, and David Epstein.

[26] See also Ostrander (1992b), which is consistent with but expands upon the quoted document. I do not know which represents more faithfully the remarks that Ostrander presented at the conference. He appears to have typed both from notes and memory a short while after his return (FTO to Katz, 1992 n.d. [ca. late March], in Ostrander [1945-2003], op. cit.).

world's benefit as well as its own. Also that, in order to exercise responsibility effectively, "our strategy must now refocus on precluding the emergence of any potential future global competitor."[27] The document was positively Kindlebergerian. Its final version used historical analogy to support its conclusions (U.S. Secretary of Defense 1993, 8-9). It was leaked to the *New York Times* and referenced in a front-page story shortly before the conference (Tyler 1992). But this author has seen no record of its making any impression on Kindleberger and Ostrander.

The nascent reconsideration of the German monetary reform lay dormant for five more years. Then Kindleberger revived it in vexation. In 1997, Amity Shlaes published a story in *The New Yorker* celebrating the success of the Deutschemark and asking, "Can the Euro take its place?" It depends, was her answer. What miffed Kindleberger was not her answer but the historical sketch behind it. Shlaes said that the "priest" of the German economic miracle, which was initiated by the monetary reform, was Ludwig Erhard (Shlaes 1997, 188).

Shlaes's article was the "straw that broke the camel's back." It prompted Kindleberger to suggest again that Ostrander should undertake a study of the monetary reform, now imagined as a collaborative effort led by Kindleberger. "Only some part of the story would be to knife Erhard further," he wrote; "I did that in Fin[ancial] Hist[ory] of Western Europe" (CPK to FTO, 3 May 1997).[28] The rest of the aim he did not explain – indeed did not appear to know, as shortly thereafter he wrote an aide-mémoire for the collaboration that stated its "particular focus" to be "on the fable that [the monetary reform] was the work of Ludwig Erhard" (CPK, 8 May 1997).[29] Anyway, Ostrander accepted the proposition and the two men got to work swapping ideas and references as preliminaries for the first draft.

Kindleberger finished the draft on July 24. Its stated purposes were multiple. "The initial purpose in writing this paper was to disabuse many scholars in the United States who call the monetary reform of June 1948 the work of Ludwig Erhard," it began. Some "limited personal interest in how the so-called Colm-Dodge-Goldsmith report ... got its

[27] "Excerpts From Pentagon's Plan: 'Prevent the Re-Emergence of a New Rival'," *The New York Times*, 8 March 1992, p. A14.
[28] In Ostrander (1945-2003), Binder 1.
[29] Ibid.

start" was acknowledged. But "of far greater importance" were several other questions that it promised to address. What was the effect of monetary reform compared to the effects of other policies and events on the German recovery? How important was government action compared to the autonomous action of financial markets in effecting reform? "[W]as a military occupation necessary to effect a drastic monetary reform that the Germans would not have been able to accomplish by themselves?" Was the years-long delay in implementing reform helpful or harmful? Was the plan for the equalization of war losses that the U.S. War Department vetoed truly important for reform? And besides those big questions some smaller "technical" ones: whether for purposes of monetary reform it is appropriate to treat private and public debts differently; whether blocking part of the converted currency is a good idea; what sort of banking, tax, and government-expenditure policies should go along with the reform.[30] It was not Kindleberger's finest introduction, and it would remain a mess even in the final product. But there would be some signal changes along the way.

A few days after finishing the first draft Kindleberger received a much-awaited delivery. Earlier in July he had read an article by Eckhard Wandel (1979) that resulted in his "raising [his] valuation of the shares of Tenenbaum" (CPK to FTO, ca. 5 July 1997). He had seen Wandel's mention of Tenenbaum's unfinished history of the German Mark (Tenenbaum ca. 1958), cited earlier in this essay but not then widely known, and, following Wandel's trail, had sent away for it from the Truman Presidential Library. The photocopied manuscript arrived on July 29 (CPK to FTO, 29 July 1997). Kindleberger dove into it. On July 31 he reported to Ostrander, "I have finished reading Tenenbaum and I must say I think it remarkable ... As far as I'm concerned, it's back to the drawing board" (CPK to FTO, 31 July 1997).

Parts of Tenenbaum's account of the negotiations for monetary reform in late 1947 and the first half of 1948 have already been quoted. "The monetary reform ... was in fact dictated by a Military Government that professed to be trying to introduce democracy," he observed (ca. 1958, 13: 19). What bears noting is the shade of difference between Tenenbaum's observation and Kindleberger's original inkling that "a military occupation

[30] "The 1948 Monetary Reform in Western Germany," first draft of 7/24/97, FTO copy, pp. 1-3. In Ostrander (1945-2003), Box "G.M.R.-1948, CPK Early Drafts 1, 2, 3, 4," Folder "CPK 1st Draft 7/24/97."

[was] necessary to effect a dramatic monetary reform." The difference lay in Tenenbaum's word, "dictated." In several parts of the unfinished manuscript Tenenbaum elaborated with vivid detail. One plan to substitute repressed inflation with open inflation followed by a decrease in the growth of the money stock (and thus a dramatic but one-time rise in prices), rather with an absolute decrease in the money stock, was beaten back by Tenenbaum with unspecified assistance from Ostrander and one other (ibid., 12: 21, 45). Other plans he beat back by his own devices. At the Rothwesten conclave, Tenenbaum reported, with the German, French, and British representatives all favoring one element or another of the relatively mild German proposal, only the American representative spoke all three languages. "There are allegations that I took advantage of my position as interpreter to force American views on my colleagues, as well as on the Germans," he deadpanned. "At this late date it may be safe to confess that these allegations are correct" (ibid., 13: 22-23).

Tenenbaum felt no compunction about using "force" to see American views prevail, for monetary reforms were "by their very nature citatorial and conspiratorial." In order to avoid a wave of speculation the public had to be kept in the dark. Parliamentary deliberation was out of the question. But, what was more, why give Germans much of a say even in secretive deliberations out of the public eye? "We seriously doubted the wisdom of saddling the weak German government with the enormous responsibility and onus of currency reform." Deliberating with the other Western allies was more necessary, but even so, the United States was the preeminent power among them and had the responsibility to use that power for "reestablishing law and order in the economic field," for "liquidating economic dictatorship." Any democratic state could rightfully use "emergency police powers" to those ends. It went without saying that the U.S. Military Government could, too (ibid., 13: 17-19).

With these revelations from Tenenbaum's manuscript in mind, Kindleberger began rewriting. On August 14 he sent Ostrander the second draft (CPK to FTO, 14 Aug. 1997). With 31 pages of text, it was about three times longer than the first, contained a substantially modified introduction, and had an utterly different conclusion. Whereas the first draft had merely asked (among other questions) whether military government was necessary for dramatic reform, the second inquired whether "an autocratic benevolent *despot* from outside" was necessary.[31] Whereas the first draft had concluded with some bland technical remarks about the Colm-Dodge-Goldsmith report, the second was replete with observations about Tenenbaum and the implications of what he did. "Tenenbaum writes that currency reforms are inherently conspiratorial," wrote Kindleberger, adding that "perhaps it is less inflammatory to suggest that in complex financial matters which may roil economic and financial behavior there is something to be said for benevolent *despotism*."[32] In this case, "the *despot* ... was Edward Tenenbaum."[33] Finally, Kindleberger challenged the view that a monetary reform like the one Tenenbaum delivered "must be 'unpopular, unfair, arbitrary, and ineffective'":

> Unpopular, perhaps and requiring *despotic* powers to cut through. Arbitrary, perhaps, and mistakes would inevitably be made. Unfair? Not necessarily ... . Ineffective seems clearly wrong in the German case. It is sad for the social sciences that democratic institutions sometimes fail at drastic financial surgery. It is consoling, however, that a successful operation, even on that fell a bit short of fairness in the German case, can strengthen democratic habits and institutions.[34]

Despot, despotism, despotic. For initiates to hegemonic stability theory there could have been little doubt about what Kindleberger had seen in Tenenbaum's manuscript and how it had changed the project. To Kindleberger, it was "sad for the social sciences" that democracy was not always fit for the economic tasks at hand, but so it went, and the social scientists had to face the fact. Leadership was necessary, as he had observed all along. Doyens of the academic field of international relations could not skirt around the fact by fostering deliberative "regimes" to provide leadership without hegemony. Deliberation was unreliable. The fact remained. It had to acknowledged forthrightly – even when the alternative to deliberation was "despotism."

Ostrander, however, was not among the initiates. He was puzzled by the sudden appearance and insistent repetition of "despot" and its variants. The word was absent in

[31] CPK/FTO, Draft 2, p. 4, emphasis added.
[32] ibid., p. 27, emphasis added.
[33] ibid., p. 28, emphasis added.
[34] ibid., p. 31, emphasis added.

the first draft. Something was amiss. He lay awake at night trying to work it out – then rose in the wee hours to register his qualms (FTO to CPK, 10 Sept. 1997). "What is the intended *audience*," Ostrander asked Kindleberger, and "what is the *purpose* of the piece?" As to purpose, was it to show that despotism could be benevolent if it had positive effects? "If one intends to praise American Military Government action," Ostrander averred, "'despot' seems an inappropriate word in this context" (ibid., emphasis in the original).

To this Kindleberger responded with his own softish despotism. Ostrander had asked about purpose, Kindleberger acknowledged a few days later. "Here is where we may have different ideas that must be resolved for the collaboration to work," he replied. The second draft, he said pointedly, stated the purposes clearly: to disabuse scholars about Erhard's role, to say something about the origins of the Colm-Dodge-Goldsmith report, and, above all, to ask and answer a series of questions about currency reform. Then going from pointed to cutting: "These are scholarly interests. I pretend to be a scholar. ... Your interest Taylor, it seems to me is to educate a wider public, those who read for example, the NYTimes M[a]gazine Section, The Atlantic, or Harpers" (CPK to FTO, 15 Sept. 1997).

Kindleberger opportunely avoided the "despotism" question and thereby missed the point. He did not answer the question, did not even admit it. Nor did he need to, as scholarship was ostensibly his province not Ostrander's. "Despot" would stay, whether Ostrander liked it not.

The word stayed because it served the deeper purpose that the collaboration had taken on. The purpose did not relate particularly to Erhard or Colm-Dodge-Goldsmith or even monetary reform – although it did relate, as Kindleberger said, to "scholarly interests." It was to turn the scholarly conversation away from post-hegemonic cooperation and toward the restoration of leadership, as Kindleberger understood it.

Conclusion

After beginning their work but before wrapping it up, Kindleberger and Ostrander found its outlet (CPK to FTO, 7 October 1997).[35] They presented it at a conference on "The

[35] In Ostrander (1945-2003), Binder 1.

International Financial System, Past and Present," organized by the German Historical Institute and held at Princeton University, in April 1998. The conference yielded a volume edited by Marc Flandreau, Carl-Ludwig Holtfrerich, and Harold James and published in 2003. Kindleberger and Ostrander's contribution appears therein, titled "The 1948 Monetary Reform in Western Germany" and modified but little from the second draft. The inset quotation from the section above appears in its entirety, with only trivial changes, as the chapter's concluding sentences (Kindleberger and Ostrander 2003, 192).

The published volume reached Kindleberger the month before he died at age 92 (CPK to FTO, 13 June 2003).[36] In the decade since, Kindleberger and Ostrander's contribution has not registered in the literature of international relations and political economy.[37] But it may yet. In their new preface for the fortieth-anniversary reprint of *The World in Depression*, J. Bradford DeLong and Barry Eichengreen (2013) remark on the continuing relevance of "Kindleberger's 'theory of hegemonic stability'" during a time of world financial distress and U.S. political dysfunction. Inquiry into Kindleberger's version of the theory may arouse curiosity about how he conceived it, stated it, changed it, and treated other scholars' variations of it over the course of his career. It was a course that led from Berlin to M.I.T and back.

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[36] In Ostrander (1945-2003), Binder 3.
[37] As of July 3, 2013, the essay has two recorded citations in the Social Science Citation Index, both in the field of policy history and both by the same author: Madsen (2012a, 2012b).

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