

**Perry Mehrling, *Money and Empire. Charles P. Kindleberger and the Dollar System*, Cambridge, Cambridge University Press, 2022.**

Charles P. Kindleberger has been one of the most eminent international and historical economists of the XX century. In our country his name is associated to some important monographs such as *Manias, Panics, and Crashes: A History of Financial Crises*, published at first in 1978 and later republished in 2000 after the dot.com bubble; *A Financial History of Western Europe*, published in 1984; and also *World Economic Primacy: 1500-1990*, published 1996.

Actually, during his life Charles P. Kindleberger wore three different hats: the one of central banker, the one of international economist and finally the one of historical economist. And this is exactly the perspective adopted by Perry Mehrling, Professor of Economics at Pardee School of Global Studies at Boston University, to outline the complex biography of this peculiar scholar, born in New York in 1910 and died in 2003 in Cambridge Massachusetts. Mehrling's book is organized in three parts – Intellectual formation (1910-1948), International economist (1948-1976), Historical economist (1976-2003) – which in turn consist of 10 dense chapters whose sources are 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 20<sup>th</sup> 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 And, of course, there is the work itself: thirty-one published books and hundreds of articles, but also the unpublished memos he wrote at the Fed and BIS speeches and Congressional testimony” (p. 5).

The link between the three different hats worn by Kindleberger is the construction and defence of the Dollar System, of which he was “one of the keenest observers.” “The present book – Professor Mehrling writes – tells the story of that construction through the life and times of a single individual”: the book is therefore both a biography of the dollar and a biography of a man. Kindleberger had been a direct witness of the unstoppable rise of the American currency – which started at the time of World War I – since the beginning of his studies as an economist, that began at the Kent School of the Pennsylvania University (1928-32), and continued at Columbia (1932-36) – at that time the centre of American institutionalism – where he wrote a PhD thesis on International Short-Term Capital Movements published in 1937, and were completed at the International Division of the U.S. Treasury, as Harry Dexter White's staff member.

The professional path of Kindleberger consolidated with his experience as a central banker at FED in New York (1936-39), where he worked on the Tripartite Agreement between the dollar, the pound sterling and the French franc, under the leadership of John H. Williams; and later on at the Bank for International Settlements at Basel, (1939-40); at the Federal Reserve Board and at the Office for Strategic Services – the predecessor of CIA – during World War II. In the years 1945-47 Kindleberger was Chief of the Division of Economic Affairs of Germany and Austria at the State Department. In the meantime, he had started working “around-the-clock”, as he declared in a later interview, on the Marshall Plan, and in 1947-48 was one of the authors of the European Recovery Program.

In 1948 – at the age of 38 – Kindleberger left his job as central banker and civil servant. After many years of very intense work at the State Department and envisaging – wrongly – a defeat of Truman, he left his work to accept the post of Professor of International Economy that at that time was a field of Political Sciences, at MIT, where he remained until 1981, shifting to half-time in 1976 after mandatory retirement at age 65. The academic tenure of Kindleberger was characterized by his favourable opinion on a ‘key-currency’ approach,” in a moment and in an academic context that conceptually emphasized the role of the market as a fully efficient allocation mechanism and supported the neutrality of money, whereas with regards to scientific research developed abstract econometric models. Exactly the opposite of Kindleberger’s thesis.

Adopting an empirical approach in proposing a reform of the international monetary system hinged on the dollar as a ‘key-currency’, Kindleberger suggested that the origin of the financial crises was to be ascribed to the monetary unbalances among countries. Kindleberger’s view emphasized the importance of the political infrastructure at the basis of the global financial markets and the ever-present possibility of a crisis. This approach led him to envisage the need for a global central bank that should play the same role that the FED played in the United States. But his fellow economists, like Robert Triffin or Harry Johnson, “were feeding the fears of the politicians,” while even his colleagues at MIT were influenced by their arguments. His famous 1966 article for *The Economist* “The Dollar and World Liquidity: A Minority View”, co-authored with Walter Salant and Emile Despres, embraced that outsider status (p. 147). Nixon’s declaration in August 1971 regarding the non-convertibility of the dollar sanctioned the victory of politics, “and the opponents of the dollar system got their way.” For Kindleberger, that episode was a personal defeat that in his eyes marked the beginning of the end of the Dollar System.

However, the intellectual battle of Kindleberger, didn't stop at that time but continued after he started wearing his "third hat", that is the one of historical economist. As for his research activities, the new course had already had its milestone with the publication, in 1973 of *The World in Depression: 1929-1939*. But, the success of his new course arrived after the publication of the pioneering book on financial crises that soon became a bestseller and reached its peak in 1984, with the publication – at the age of 74 – of *A Financial History of Western Europe*. Kindleberger described this book as his "chef d'oeuvre," his ultimate treatise on money, "a synthesis of the multiple strands of his life work" (p. 7); indeed, Mehrling writes, "Financial History is Charlie's own Money and Empire, a Bildungsroman of both the dollar and himself" (p. 8).

Kindleberger explained his approach to historical economy as an answer to the conceptual gaps of standard economy: "In the real world, everything depends on everything else, and viewing that real world through the lens of a model in which some things are taken as exogenous can seriously mislead" (p. 188). Those models lacked some essential aspects for understanding the actual way of operation of the economic system, starting from the role played by money and the banks. "The difficulty – as Kindleberger observed – lies in the narrowness of the IS-LM analysis [...]. The basic difficulty is that, except for Hyman Minsky, modern economists have thrown away the Adam Smith, John Stuart Mill, Alfred Marshall, Dennis Robertson, Ralph Hawtrey analysis of credit instability ... The monetarist approach in the short run is intuitively ridiculous" (p. 189).

The dissatisfaction with mainstream economy was the cause of his growing admiration for the work of the economic historians, in particular those who focused their attention on "what he called the "old economic history" by contrast with the self-proclaimed new economic history (so-called "cliometrics"), which was more or less just standard econometric using old data". Nevertheless, Kindleberger insisted on the difference between "economic historian" and "historical economist": in the first case, "historian" is the name and "economic" is the adjective whereas in the second it is exactly the opposite. By the way, "by revealing the limitations of particular economic models, comparative history would, so he hoped, insert a little humility into the economic profession" (p. 190).

Kindleberger lived his last twenty years of career as a scholar wearing the "hat" of historical economist, becoming a real "leader" for a part of the American economic environment which led to his unexpected election, in 1984, as President of the American Economic Association. But "Leadership" was also the key concept which, according to

Mehrling, characterized Kindleberger's interpretation of the crises, an interpretation that shared the idea of the financial instability of capitalism expressed by Hyman Minsky, and confirmed by the study of the famous financial history. But, while the latter considered instability as an ineradicable element of the economic system, Kindleberger viewed that as the result of the recurring lack of leadership. "Markets generally work, but occasionally they break down. When they do, they require government intervention to provide the public good of stability." (p. 206). In this sense, the crises mirrored a power vacuum, the lack of a stabilizer capable of "(a) maintaining a relatively open market for distress goods; (b) providing counter-cyclical long-term lending; and (c) discounting in crisis" (p. 195).

In the last years of his life, Mehrling met personally Kindleberger, they had several encounters at a time when Mehrling was unaware that he would write a book about him. "As body declined, reputation actually increased. Maybe not so much among economists" but among economic historians who considered him as "one of the founders of the modern school of financial history that studies financial systems as elaborate networks... Most of all, it was the new field of international political economy, a subfield of political science, that claimed him as a founder of the so-called hegemonic stability theory" (p. 259).

At the end of his passionate biography, Mehrling wonders whether it is still possible to find a common thread among all the different intellectual experiences of Kindleberger. His answers quote the "sense of curiosity about the world around him that fuelled repeated exhaustive investigations to find the truth of the matter, largely by digging through reports that others had written and using these pieces to construct a picture of the whole" (p. 260). Although Mehrling doesn't openly state it, this is the main quality that even today we would like to ascribe to an economist, a quality that is often overshadowed by hyper-specialization.