

CHARLES POOR KINDLEBERGER

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Charles Poor Kindleberger concerned himself with the history of the world economy and was a recognized authority on international economic relations and international monetary relations. He was one of the main architects of the Marshall Plan after the Second World War.

He was born on 12th October 1910 in New York, completed his school education at Kent School in 1928, gained the degree of BA at the University of Pennsylvania in 1932, and the degrees



of MA and PhD. at Columbia University in 1934 and 1937. He died in Cambridge on 7th July 2003 aged 92. He was married for 59 years to Sarah Miles and had 4 children and 5 grandchildren. Kindleberger lived in Lexington and was emeritus professor at the MIT. He retired in 1976 after 33 years of teaching, writing and research at the MIT. In the course of his active life, he held a whole series of important posts in the academic sphere, government service and the financial field.

Apart from posts in the academic and research fields, he held a series of important functions in American and international banking institutions in the inter-war period and after the Second World War. He worked in the Federal Reserve Bank in New York in 1936-1939, the Bank for International Payments in Basel in 1939-1940 and the Committee of Governors of the Federal Reserve System in 1940 – 1942. He also worked in state service, for example, in the Joint American Canadian Economic Commission in 1941 – 1942. He also headed the department of the US State Department for the economic affairs of Germany and Austria in 1945 – 1948.

In course of the Second World War, he served in the Office for the Strategic Services in Washington and London until he became a major in the 12th Army Group in Europe. After the end of the war he became head of the commission, which prepared an estimate of the cost of repairing war damage in Europe – the so-called Marshall Plan. He was a key advisor on German war reparations. In 1973 he said in an interview: „We were aware of a great excitement over this plan. Marshall himself was a huge person – entertaining, strange, but huge – a man from Olympus from the point of view of moral qualities. We did not sleep on many nights. Computers in the Pentagon were used for such purposes for the first time in human history. I had an immense feeling of satisfaction from such hard work.“

Kindleberger moved to the MIT in 1948 as a senior lecturer and became a professor in 1951. He worked at the MIT for more than 33 years. Later he held the position of Ford International Professor of Economics. He still worked in the position of Senior Lecturer from his retirement

until 1981. He became vice-president of the American Economics Association in 1966, an honorary member of it in 1980 and its president in 1985. He gained Harms's Prize at the Kiel Institute for World Economics Germany and became the holder of honorary doctorates from several universities including Paris, Ghent and Pennsylvania. He was a member of the American Academy of Arts and Sciences, the American Philosophical Society and a correspondent member of the British Academy. He was a member of the Commission for International Monetary Agreements under President L.B. Johnson. In 1967 – 1968, a period when he was not actively working for the MIT, he assisted in five colleges in Atlanta, where he helped to create study programmes in the area of economics for the Black population, and he became a member of the United Negro College Fund.

During his active life, he wrote 30 books and a huge number of other publications, reports, evaluations, lectures and expert articles in various periodicals. He wrote one book before the Second World War and the rest after 1950. His initial research was directed towards foreign exchange, best expressed in his world famous standard textbook *World Economics*, the fourth edition of which was translated into Czech in 1978. Seven editions were published, the last two in cooperation with P.H. Lindert of the University of California. The textbook is of comparable importance to the work of another famous professor of the MIT, P.A. Samuelson. His professional range gradually widened to the field of international trade, multi-national corporations, international capital movements, the problems of economic growth, the history of the world economy and international finance.



*A further important publication is the book *The Economic Growth of France and Great Britain (1851 – 1950*, published in 1964. The book *The World in Depression 1929 – 1939* was published in two editions in 1973 and 1986. The book *The Economic Answer: A Comparative Study of Trade, Finance and Growth* appeared in 1978. *Manias, Panics and Crashes. History of Financial Crises* was published four times: in 1978, 1989, 1996 and 2000. One of the most important books on the history of the national economy is *Post-war Growth in Europe: the Role of Supply of Labour from 1967*. Other books sum-*

*marizing the problem of the history of the national economy and expressing a lifetime of findings and views are: *The Financial History of Western Europe from 1994* and *The World Economy and National Finance in a Historical Perspective from 1995*.*

His rich publication activity was also reflected in the writing of many articles, essays and lectures, which were published in the form of a selection from his works. They clearly show his stylistic maturity and ability to interest, as well as a high level of expert and theoretical erudition.

History of the National Economy

Kindleberger was an incredibly active scientist, publicist and author of a multitude of publications of varied character in the area of the history of the national economy. In the 1930s, he began to consider the problem of the international movement of capital and foreign exchange, then he moved on to international trade and the balance of trade. In the fifties he began to concern himself with the history of the world economy and financial history, which he applied to the conditions of Western Europe. He did not regard himself as a historian concerned with economics, but as an economist concerned with history. C.P. Kindleberger was also regarded as the most entertaining, but also most erudite writer on financial history, for example, in the monograph *Economic Laws and Economic History*, published in 1990, which has a basically methodological character. It is addressed to economists and economic historians, and points to the impossibility of extrapolation of one model solution or law of a certain economic phenomenon to phenomena, which show some similarity of the economic behaviour of economic entities. He illustrates this using the example of four economic laws:

- Engel's laws,
- The iron wage law of D. Ricardo,
- Gresham's law, which originally applied to money and was later applied to financial assets,
- The law of balancing of prices of production factors.

These laws point to the fact that the views of economists, who attempt to test Kindleberger's analysis on historical data should use various models and not only one. By this, he shows that the choice of instruments is a matter of specific circumstances and requires great skill.

Ch. P. Kindleberger was especially concerned with the application of simple economic theories to history. He used historic events to test the universal vali-

dity of economic theories and economic laws. As he says, if he has the good fortune that historical knowledge helps him to originate a new theory, some existing theory must not have universal validity.

From the point of view of statements on theoretical postulates, Kindleberger rejects unambiguous "faith" in either monetarism or Keynesianism. He simply does not believe that markets always function effectively and without breakdowns. Even if the actors in the market are perfectly informed and think rationally, breakdowns of the market mechanism cannot be excluded. According to Kindleberger's view, both Keynesianism and monetarism were correct in their approach to considering macro-economic policy in some times and places, and sometimes even at the same time.

Ch.P. Kindleberger is one of the representatives of economic theory and the theory of international economic relations, who essentially continue the classical and neo-classical traditions, but also integrate into their publications and works, stimuli, approaches and analytical instruments derived from Keynesianism. He was a representative of the neo-classical synthesis together with P. A. Samuelson, J. E. Mead, H. G. Johnson. The concrete expression of this is the textbook *World Economics*, which was published in seven editions and is one of the most important textbooks of world economics.

International Finance

Kindleberger's contribution was also important in the area of international finance, to which he devoted great attention and published a great number of articles and lectures. One of them is the publication *International Capital Movements*, which was based on lectures from Cambridge in the framework of a regular lecture cycle held in honour of A. Marshall. Apart from analysing the balance of payments, he analyses short-term and long-term capital movements, and not only from the historical point of view,



but also with reference to recent events. One of the significant aspects is financial deregulation and the progress in recent years towards integration in international financial markets. In this context, he expected the origin of two characteristics of international finance. The first is gradual federalization of macro-economic behaviour on the global level, and the second is a development towards autarchy.

The book *Manias, Panics and Crashes with the subtitle History of Financial Crises* was also devoted to international finance. The reasons for writing various editions, as Kindleberger said, were

- further study of primary economic sources,
- a series of financial collapses since the first publication of the book: Black Monday 19th October 1987, the indebtedness of the Third World countries and the technological bubble,
- growing interest in the problems of economic methodology and the special position of economic history.

The book considers the course of more than thirty financial bubbles from the Dutch tulip mania of the 17th century to the present. In spite of continually changing circumstances, the essence of financial collapses remains the same. Investors become excessively enthusiastic about a new development, and speculation inflates the price to a level, which makes no sense. When reality finally intervenes, the investors panic, the price collapses and there is a financial crisis. The model on which Kindleberger's whole analysis is based, rests on speculation, credit expansion, financial need at the peak and a subsequent crisis, which ends in panic and collapse. It is connected with the idea of excessive trading and subsequent lack of confidence as expressed by classical and other theorists such as A. Smith, J.S. Mill, K. Wicksell and I. Fisher. It also relies on the findings of the monetarist Hymen Minsky, who regards the financial system as unstable, fragile and inclined towards crisis.

A further question raised by the book is whether speculation can have a stabilizing as well as a destabilizing effect, that is whether markets are always rational. The answer is hidden in the word "mania", for which he finds many synonyms, for example: mania – senseless speculation in land, mania – blind confidence, mania – financial orgy, mania – an effort to get rich quick, mania – pious wishes, mania – feverish speculations, mania – excessive trading, mania – excessive confidence, which indicate irrational motivation of economic actors, finally leading to financial crisis. In spite of this, he notes that moderate deviations are possible and need not lead to crisis, since the market absorbs them.

Ch. P. Kindleberger informs the reader that the book is a work on financial history, not economic prognosis. He states that the world seems to have learnt from past experiences and may not make the same mistakes in future.

The Problems of Economic Growth

A significant feature of Kindleberger's expert orientation and perhaps also his main contribution to economic theory lies on the level of international economic policy, or in the analysis of problems and relationships with economic policy results. He not only applies findings from his own practice, from the period of the Second World War and immediately after it (the Marshall Plan), when he held a series of important functions in banking and international institutions, but also his fascination with questions of economic development and findings from empirical analysis. Apart from a multitude of articles and publications, this is documented by the book: *Economic Development from 1958*, an analytical study: *The Terms of Trade from 1956*, the work: *Foreign Trade and the National Economy from 1962*, which was translated into Czech (*Zahraniční obchod a národní hospodářství*), and the most important comparative study: *The Economic Growth of France and Great Britain, 1851 – 1950*.

The last named publication is not an analysis or a history, but a warning against the danger of simple theorizing without facts or interpretation of facts with excessively limited theories.

Charles Poor Kindleberger was an author, who successfully synthesized an expert theoretical approach with outstanding educational explanation, as a result of the fact that he was not only a theoretical researcher and experienced expert in economic practice, but also had many years of experience of educational activity. To outline his personality, we will state the working philosophy, by which he directed himself, and from which something can be learnt:

1. To be accessible for students, this is what you are paid for.
2. To be honourable when writing recommendations, reviews of books and using citations.
3. Not to be a perfectionist and not to constantly rework an article or book – two or three versions are enough.
4. To cultivate "Sitzfleisch", that is the ability to sit and work.
5. To review any book you are asked to review, if there are no sufficient reasons against, that is, if the book is not too bad and the author is not too close to you.



6. To select activities not according to financial reward, but according to the expert point of view.

An incident from Kindleberger's life, which he regarded as the greatest sin in his professional life, is interesting. At a time when photocopiers did not exist and he had not managed to prepare a lecture, he was forced for reasons of time to tear a page from a book to use in his lecture. After the lecture, he obviously returned the page and stuck it in, but he had this experience for a long time as a "nightmare" and it weighed on his conscience for a long time.

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