Hegemonic Leadership Is What States Make Of It:

Reading Kindleberger in Washington and Berlin

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Abstract

What explains the nature of a hegemonic state's response to a crisis? In the wake of the global financial crisis of 2008, the U.S. acted as the hegemon for the world economy, showing 'benign' leadership by serving as a consumer, investor, and lender of last resort. During the euro crisis two years later, Germany played a rather different role, practicing a more 'coercive' form of rules-based leadership within Europe's regional context. In this paper, I explain how ideas and crisis narratives, informed by national economic traditions, shape how the leading states define their leadership roles. By rescuing Charles Kindleberger's original version of hegemonic stability theory from both its realist and liberal institutionalist interpreters, the paper clarifies *why* elites in the U.S. followed a pragmatic path of soft Keynesian ideas resulting in global public goods provision and their counterparts in Germany opted for a road of rule enforcing ordo-liberal ideas explicitly avoiding public goods provision. The crucial role of ideas – though constrained by structural factors and domestic institutions – in defining the national interest during periods of crisis can help us understand "why hegemonic leadership is what states make of it," or why elites in Washington and Berlin read Kindleberger so differently.

Key words: hegemonic stability, leadership, crisis, ideas, public goods, Germany, United States.

Word Count: 11,800 words

The global financial crisis (GFC), with its origins in the United States' housing market, and the Eurozone debt crisis, with its roots in the euro's flawed institutional design and missing financial union, largely took the world by surprise and led to the worst post-war real contractions of advanced economies. While comparable in magnitude and potential for international conflagration, the crises had rather different outcomes: the GFC shored up relatively quickly in 2009, while the Eurozone crisis sputtered on for much longer and would come to a questionable halt without clear resolution in 2013. What explains the different policy responses and outcomes? Why was the more complex and less institutionally equipped global system capable of coming to terms with its crisis so fast, while the more highly institutionalized and integrated Eurozone was not?

The Puzzle: A Tale of Two Systemic Crises, Public Goods, and Leadership

The global financial crisis of 2007-8 resulted in the world's 'Second Great Contraction,' and has been widely recognized as the most serious economic and financial crisis since the 1930s.[1] The international policy response was however remarkably swift and decisive: the acute phase of the 'Great Recession' – from a global point of view – did not last long, if compared to the Great Depression (Eichengreen and O'Rourke 2012).

The U.S. quickly responded with a wide-ranging financial bailout worth $700 billion in October 2008, aggressive monetary easing by the Federal Reserve (Fed), and a fiscal stimulus bill worth $787 billion in early 2009.[2] The U.S. also kept its markets open to world trade, arranged emergency currency swaps with foreign central banks, and took it upon itself to coordinate the crisis response by launching the G-20 as the main body dealing with international economic issues. The U.S. economy bottomed out in the second quarter of 2009 and resumed growing in the third quarter. The world economy as a whole bounced back in 2010 and 2011 with annual growth rates of 5.2 percent and 3.9 percent respectively (IMF 2014, 180). Even though the recovery of the global economy was uneven, and certain fault lines in the international economy remaining unresolved, another Great Depression had been avoided.[3]

In Europe, the real crisis would only begin in 2010, one year after ECB President Jean-Claude Trichet praised the euro as 'a large, solid, and steady ship' at the ten-year anniversary of its introduction (Trichet 2009). International relations scholars saw the euro crisis as the most significant aftershock of the global financial crisis (Kahler and Lake eds. 2013). Others have analyzed it as the first 'real' crisis of European integration (Parsons and Matthijs 2015). Either way, what soon became known as the European 'sovereign debt' crisis would shake the foundations of the postwar European project.[4] Over twenty crisis summits were convened over three years, often in haste, in search for a comprehensive solution. A myriad of ad hoc institutional innovations were adopted along the way, including a European Stability Mechanism (ESM), a macroeconomic imbalances procedure, a Fiscal Compact, and a banking union with single supervisory and resolution mechanisms.[5]

Though it had staged a timid recovery in 2010, growth slowed in 2011, and the Eurozone slid back into recession in 2012 and 2013.[6] There were however stark differences between the Eurozone's core and periphery. While Germany recorded strong growth rates in 2010 and 2011, before slowing down in 2012 and 2013, Greece saw its GDP collapse by a cumulative 25 percent over 2008-2013 while its unemployment rate soared to close to 30 percent.[7] Most of peripheral Europe experienced negative growth for years, high and sustained unemployment, and a steep rise in public debt; the kind of financial havoc and social devastation redolent of the Great Depression.[8]

This discrepancy – between the post-crisis performance of the global economy on the one hand and the Eurozone economy on the other – informs the central puzzle of this paper. Why was the global financial crisis dealt with so differently and resolved so quickly, while the euro crisis remained well short of a comprehensive solution?[9]

The puzzle is important from a theoretical point of view, since it seems at odds with the rational choice deductions of Mancur Olson's 'logic of collective action' (Olson 1965). Olson theorized that rational actors pursuing their own material self-interests would be incapable of providing public goods due to constant incentives to free ride. While larger groups 'would fail to provide themselves with any collective good at all,' smaller groups would struggle to deliver the collective good anywhere near the optimal level.[10] In other words, the larger the group, the less likely it would be to promote its common interests. During the past two systemic crises, the larger group – comprised of all the world's national economies – actually proved capable of providing the global public goods of financial stability and economic recovery much quicker than the smaller, and more cohesive, European group.

The puzzle is also salient from an institutionalist or international regime point of view.[11] Despite the work of the World Trade Organization, the International Monetary Fund and the G-20, the world economy as a whole lacks the dense networks as well as the supranational infrastructure and level of financial integration that the European Union (EU) enjoys. Institutionalists would thus expect a crisis in the EU to be easier to resolve than a global crisis.

In this paper, I will explain the contrasting outcomes in terms of: (i) a U.S. willingness to act as a 'responsible hegemon' for the world economy by providing 'benign' leadership; and (ii) Germany's refusal to play an equivalent leadership role within Europe's regional context, instead acting inadvertently as a 'coercive' hegemon. By adapting 'hegemonic stability theory' and Kindleberger's critique of U.S. actions during the Great Depression to include the role of ideas, I am able to explain the divergent outcomes and renew consideration of what it takes to solve a systemic crisis, including the 'right' kind of leadership and the provision of Kindleberger's public goods.[12] This paper will causally infer why the U.S. *did* and Germany *did not* define its interest as providing the system with a market for distress goods, long-term countercyclical lending, lender of last resort facilities, and macroeconomic policy coordination.[13] My argument thereby qualifies Keohane's (1984) claim that 'although hegemony can facilitate cooperation, it is neither a necessary nor a sufficient condition for it.'[14]

For Kindleberger the main lesson of the 1930s was that to be in balance, the world economy needed 'one stabilizer.'[15] Keohane argued that though the existence of a hegemon could be useful in establishing international regimes, a subsequent waning of hegemonic leadership would not necessarily threaten international cooperation.[16] According to Keohane, the conditions for maintaining existing regimes were less burdensome than those required for setting up new regimes.[17] However, Keohane did not explicitly consider the essential role of a stabilizer in times of international economic crisis. The goal of this paper is to show that while leadership by the system's most powerful state is a necessary but not sufficient condition for the system to work, the *kind* of leadership that the leading state exercises matters for the outcome of systemic crises.

While Kindleberger was right about the need for a hegemon during crisis periods, he did not have a convincing explanation for why a hegemon would actually play this role. It is difficult to argue that the U.S. was more threatened by the GFC than Germany was by the euro crisis: Germany's integration with, and dependence on, the rest of Europe is far greater than between the U.S. and the rest of the world. So, to understand why dominant states fulfill the functional need assigned to them by hegemonic stability theory (HST), we must look beyond their structural positions and functional challenges, and consider their governments' ideas. To place this argument within the theoretical literature of hegemonic stability theory and regimes, I will first briefly review that literature, before setting up my theoretical framework. After that, I will examine the empirical record and draw some key conclusions.

Explaining International Cooperation (and the Lack Thereof) through Hegemonic Stability or Regime Theory: Brief Review of the Literature

According to Benjamin Cohen, HST was the 'first genuine theory' in the field of international political economy (IPE).[18] While Keohane invented the term 'HST,' Kindleberger put forward the original thesis.[19] In an effort to go beyond the debate between John Maynard Keynes and Milton Friedman, Kindleberger posited that the Great Depression had been caused by a void of international leadership: 'the 1929 depression was so wide, so deep, and so long because the international economic system was rendered unstable by British inability and U.S. unwillingness to assume responsibility for stabilizing it' (Kindleberger 1973, [2013]). Hegemony for Kindleberger meant 'leadership,' provided by one country in the system that could fulfill certain functions during periods of stress.[20]

Robert Gilpin developed Kindleberger's theory in the field of international relations by adding the power and security dimension, claiming that America's global public goods provision would last only as long as benefits for the U.S. outweighed costs.[21] Both Gilpin and Stephen Krasner argued that a hegemon was necessary to guarantee an open and stable world economy, to discipline other countries, and make sure they did not resort to 'beggar-thy-neighbor' policies. Gilpin and Krasner associated hegemonic decline with systemic instability and the potential reassertion of rival regional blocs.[22] Despite declining U.S. hegemonic power by the mid-1980s, the global 'embedded liberal' system it had created proved robust and enduring (Ruggie, 1982). It was thus not obvious that hegemony was a necessary or even sufficient condition for global stability. Hence, HST began its own decline, challenged head on by Robert Keohane, Duncan Snidal and Barry Eichengreen.[23] For Keohane, HST ignored the central role that international institutions play in providing information about states' behavior, reducing the cost of negotiating agreements, and exposing violations.[24] Once international regimes are in place, they take on a life of their own. Cooperation continues without hegemony through a coalition of important states. For Keohane, 'there [was] little reason to believe that hegemony [was] either a necessary or sufficient condition for the emergence of cooperative relationships.'[25]

Snidal extended Keohane's critique and asserted that collective action could substitute for hegemony in the quest for international cooperation. Snidal identified two strands of HST: the 'benevolent strand' where all participants are better off by the benign actions of the dominant power, and the 'coercive strand' where the benefits of stability accumulate disproportionately or exclusively to the hegemon.[26] David Lake also divided HST into 'leadership theory' and 'hegemony theory.'[27] He thought that HST, despite its prominence during the 1970s and 1980s, had yet to 'put its best possible 'model' into the competition.'[28] But by 1998, Helen Milner called for IPE to 'move beyond' HST.[29] She stressed the power of values and the social construction of state identity in constraining choices and propelling towards certain behaviors[30], while emphasizing the impact of domestic politics and political processes in defining states' purpose, and the renewed interest in the process of globalization and its impact on state power.[31] In his 2008 intellectual history of IPE, Cohen somberly observed that Lake's 1993 ISQ article had de facto ended the debate over HST.[32] But the advent of the GFC and great recession in 2008-9, as well as the precipitous rise of China, would briefly revive the HST literature.

Michael Mastanduno (2009) emphasized that the ability of the U.S. to be both 'system maker' and 'privilege taker' had required active collaboration of other major powers, who absorbed and held U.S. dollars, allowing the U.S. to maintain its preferred policy mix. After the Cold War, the U.S. quickly became the victim of its own success: the EU felt confident to challenge the role of the dollar, China and other Asian states rose by taking advantage of the liberal international order. Mastanduno doubted whether the current situation was stable. Also for Harold James (2011) the Great Recession had caused a structural break in the international economic and political order, with a transformation of power away from the U.S. towards China. James noted that China had started to behave like a Kindleberger hegemon: it had a countercyclical strategy in response to the crash, making it an engine for world economic recovery, but also acted to stabilize financial markets by continuing to hold dollars and supporting the euro.[33]

John Ikenberry (2011) responded that the U.S.-based global liberal order would continue after the GFC. The key for America's success in maintaining that order was that the U.S. as a hegemon had accepted significant constraints through membership in international institutions. The preservation and expansion of the liberal order was in the interest of the rising states and would endure. Charles Kupchan (2012) disagreed, predicting the emergence of a 'no one's world.' For him, the GFC had caused a fundamental shift of power away from the West towards 'the Rest.' Kupchan saw 'paternal autocracy' in Russia, 'tribal autocracy' in the Persian Gulf and 'communal autocracy' in China emerge as alternative forms of governance.[34] The outcome would be a world in which no single state is powerful enough to establish global norms, and no coalition of states can reach a sufficient consensus on the rules of the game. Miles Kahler (2013), countering Kupchan, concluded that the rising powers had proven ‘conservatives’ during and after the GFC. They defended the status quo, driven by domestic stakeholders and their national economic interests. Kahler did, however, warn that another large shock in the future could make regional options more attractive.

In his analysis of the response to the Great Recession and the resilience of global governance, Daniel Drezner (2014a, 2014b) argued simply that the system had worked.[35] However, while Drezner argued that Kindleberger’s global public goods were all provided during the Great Recession, he stopped short of explicitly giving credit to the U.S. for providing them. Eric Helleiner (2014) also argued that the result of the GFC was not radical change but the continuation of the system’s ‘status quo,’ generated mainly by the structural power and policy choices of the U.S. Finally, Jonathan Kirshner (2014b) saw the GFC as a much bigger failure of the system compared to Drezner, while also observing more dramatic change than Helleiner. For Kirshner, the GFC brought an end to the ‘second postwar American order’ as it undermined the legitimacy of that order’s economic ideas.

What so far remains missing in the literature, however, is a comprehensive assessment or persuasive theoretical explanation of the differing leadership styles and policy choices of any given dominant state or hegemon during periods of systemic crisis, both at the global and regional level.

Theoretical Framework: Hegemonic Crisis Response, Leadership, and Ideas

Leadership Theory: 'Benign' Public Goods Provision vs. 'Coercive' Rule Assertion

The theoretical argument that follows modifies the 'leadership' tradition or 'public goods' version of HST to allow for the role of ideas in explaining what kind of leadership results in different outcomes. The starting point is that over the natural life of international economic systems or regimes there are two possible situations within which a regime can find itself. Either it is grappling with a systemic crisis rife with uncertainty, or (most of the time), it has to cope with day-to-day and calculable risks and challenges. In the first case (figure 1, left arrow) the regime will be vulnerable and may be teetering on the brink of collapse. In the second case (figure 1, right arrow) the regime will be resilient and can rely on standard operating procedures and existing rules to continue functioning.

In the absence of systemic crisis, leadership is still necessary for the regime to maintain its resilience. Keohane (2012) re-emphasized that 'in the absence of leadership, world politics suffers from collective action problems as each state tries to shift the burdens of adjustment to change onto others.' Of course, leadership can either be provided jointly, by a 'coalition of states', or through 'hegemonic' leadership. Leadership by a coalition of states will prove less troublesome for the regime than hegemonic leadership, since the burden of public goods provision is shared more evenly among the stakeholders, creating a relatively stable and balanced equilibrium. Hegemonic leadership will sow the seeds and gradually create the conditions for the hegemon's decline, since the hegemon will suffer from continuing to bear an uneven and disproportionate burden of public goods provision while free riding by the other states increases. Lack of burden sharing will undermine the hegemon's capacity to provide leadership, as it eventually falls into the trap of what Paul Kennedy (1987) described as 'imperial overstretch.' In the case of hegemonic leadership, the regime will be broadly resilient initially but operating under a progressively less stable equilibrium.[36]

<Insert Figure 1 here>

In times of systemic crisis, the regime will be vulnerable. For it to survive and prosper, leadership by the dominant state is a necessary *but not* sufficient condition. The pre-existence of a working international regime or supranational institution is not enough to guarantee that the system will endure: its most powerful state needs to step up and save the system from itself. My argument assumes that the regime will suffer from Olson's collective action problem due to the panic that tends to break out in the midst of systemic uncertainty, and will underprovide the public good of economic and financial stability. The leading state, which stands to gain the most from the regime's survival, will need to coordinate and deliver the public goods itself. Under this scenario, the key question is whether the dominant state provides leadership that is 'benign' (in the liberal institutionalist tradition), 'coercive' (in the realist tradition), or 'non existent' (Yarbrough and Yarbrough, 1992).

In the words of Lake: ‘When benevolent, the leader provides the international economic infrastructure unilaterally, or at least bears a disproportionate cost of providing the public good, and thereby gains relatively less than others. When coercive, the leader forces other, smaller states to contribute to the international economic infrastructure and, at an extreme, to bear the entire burden.’[37] In the third possible scenario, where there is absence of leadership, the regime will likely collapse, as the international gold standard and liberal trading regime did over the course of the 1930s.

When the dominant state chooses to practice ‘benign leadership,’ Kindleberger’s original argument holds. Benign leadership manifests itself when the state in question can provide all Kindleberger’s relevant public goods.[38] This is the only scenario that will realistically produce a stable equilibrium of the regime and it is what played out during the GFC, with the U.S. providing leadership for the international system. When the hegemon chooses to practice ‘coercive leadership,’ the dominant state will try to shift the burden of adjustment onto weaker states, and shirk its responsibilities as a stabilizer by refusing to coordinate macroeconomic policies in Kindleberger fashion, to serve as a consumer of last resort, or provide countercyclical lending and lender of last resort facilities. Rather, it will use its position of power to dictate its own rules of adjustment to the other states, which may serve its short-term interests, but will weaken the regime over the longer term. This will result in a much more vulnerable equilibrium: systemic instability will remain endemic and as a result recovery is likely to be anemic.

In sum, while regimes and institutions enhance predictability, they occasionally fail. In that case, the regime needs leadership and freedom of action.[39] The rules of the game may need to be changed. The existence of hegemonic leadership is necessary for the regime to survive a systemic crisis, but it needs to be practiced in a 'benign' rather than a 'coercive' way for the system to return to stable equilibrium. Now, what kind of leadership the hegemon will practice is where the role of ideas comes in as a key explanatory variable.

The three original public goods in Kindleberger's account [40] – serving as a *consumer* of last resort ('market for distress goods'), *investor* of last resort ('countercyclical' and 'long-term lending'), and *lender* of last resort ('providing liquidity in financial crisis') – are all unmistakably 'Keynesian:' their goal is to stabilize or stimulate the system's aggregate demand. The two public goods he added in 1986 – policing a stable system of exchange rates and managing coordination of macroeconomic policies – leave room for interpretation. A stable system of exchange rates is primarily aimed at avoiding competitive devaluations that resulted in the beggar-thy-neighbor policies of the 1930s. It is less relevant in a world of floating currencies, and will be omitted from the analysis. Coordinating macroeconomic policies can be interpreted either as joint stimulus, joint austerity, or stimulus for the 'surplus' countries and austerity for the 'deficit' countries.

The existing literature on HST has clarified the options for hegemonic stability and leadership. However, it does not provide a convincing explanation for why one of these scenarios materializes. During a crisis, how do dominant states define their interests and perceive and fulfill their leadership role? The kind of leadership provided by the most powerful state will heavily depend on the economic ideas policymakers hold about the causes of the crisis and on whether they define leadership as leading by example, or use discretion to provide public goods.

If the government of the dominant state is broadly pragmatic and Keynesian in its economic orientation, it will more likely follow Kindleberger's recommendations, and act or continue to act as a consumer, investor, and lender of last resort. Coordinating macroeconomic policies in that case will mean coordinating fiscal and monetary stimulus in the short term to stop further slide into recession and rebalancing demand between deficit and surplus countries in the medium term. If the government of the dominant state is more ordo-liberal, financially conservative and fiscally restrained in its view of economic policy, it will largely stress the need to balance budgets, cut spending, bring down overall debt burdens, maintain low inflation, and 'purge the rottenness out of the system.'[41] Coordinating macroeconomic policies in this case will mean exercising monetary and fiscal prudence, relying on market forces for prices to adjust, with the risk of deflation and stagnation in the short to medium term.

Two New Empirical Cases

In 1993, Lake complained that both 'leadership and hegemony theory remain poorly articulated.'[42] He encouraged future scholarship to offer causal propositions, add missing variables, and conduct empirical tests, but to avoid under specification and over extension.[43] The next two sections respond to Lake's call and are an effort to add more empirical flesh to the theoretical bones of the above framework. Both the GFC and the euro crisis have been analyzed extensively through various lenses.[44] But they were too severe to remain within the narrow confines of discussions focused on technical fixes and political bargaining, or the broad parameters of general observation. The GFC was a direct challenge to the decline of the leadership version of hegemonic stability in IPE. The global economy as a system has a relatively weak institutional framework, especially compared to the EU. But with 22 percent of world GDP in 2007, the U. S. was the only actor in the world system that proved able and willing to provide global public goods, with positive effects on emerging markets. Because of its decisive actions, a second Great Depression was avoided.[45] Almost as a *deus ex machina*, HST saved the day.

While HST has traditionally been tested for the global system, there is no reason why it could not apply to the European sub-system. The Eurozone is a regional economic regime with its own currency and monetary policy, but with different national fiscal policies, and no political union or supranational economic government. Because of the lack of central government, the logic of collective action applies. Secondly, the Eurozone as a whole during the crisis was a relatively closed and self-sustaining economic regime, with only about 11 percent of its GDP accounting for extra-Eurozone imports in 2009, when it was also broadly in balance with the rest of the world. Thirdly, Germany, representing roughly 28 percent of Eurozone GDP, was the only country capable of providing effective leadership.[46] The 'coercive' leadership style and ordoliberal rules Germany adopted over the course of the euro crisis, as illustrated in the next section, would prove decisive for the Eurozone's lackluster response.

Washington vs. Berlin: Different Narratives and Ideas about Leadership

To explain why a hegemon chooses to play a 'benign' or a 'coercive' leadership role – or 'no' leadership role at all – we need to incorporate an ideational approach within the context of a hegemon's domestic and structural constraints. In the cases of the U.S. during the GFC, and Germany during the euro crisis, I will show that governments perceived and defined their leadership roles differently, and held distinctive ideas that informed their crisis responses in different ways. Eric Hobsbawm summed up the U.S. government's management of the Great Depression as follows: 'Never did a ship founder with a captain and a crew more ignorant of the reasons for its misfortune or more impotent to do anything about it.'[47] Kindleberger observed that '[t]he World Economic conference of 1933 did not lack ideas […]. But the one country capable of leadership [the U.S.] was bemused by domestic concerns and stood aside.'[48] It is hard not to think of Germany's behavior during the first years of the euro crisis, when reading these quotes, while at the same time noticing that the U.S. in 2008 managed to avoid the mistakes it had made during the late 1920s and early 1930s (Delong and Eichengreen, 2013).

It can be argued that the main reason for the discrepancy in policy responses of Washington and Berlin resides in the fact that the GFC and the euro crisis were different to begin with. There was never a doubt about the fact that the GFC was rooted in the U.S. housing market, hence it should be no surprise that the U.S. ended up shouldering a disproportionate share of the financial burden. Unlike the Eurozone, the U.S. is also home to the world's international reserve currency, and the rest of the world continued to hold dollar assets during the GFC – to the point that the dollar strengthened. The U.S. also has a very different political system, with one finance minister and one central bank governor with significant discretionary powers and clear mandate to act as lender of last resort. The narrative in Germany instead portrayed the 'sovereign debt crisis' as the result of profligate spending in the Eurozone periphery, whose member states needed to atone by implementing austerity policies and structural reforms. During the euro crisis, the rest of the world refused to hold certain euro denominated assets, especially the sovereign bonds of the periphery, initially weakening the euro. The Eurozone at the time had 17 finance ministers who needed to coordinate, and a European Central Bank (ECB) with no real legal lender of last resort powers.

In other words, the U.S. and Germany were different hegemons in different systems: they simply responded to their incentives and acted within their respective national interests. While this observation is fair to some extent, it fundamentally misses the point of leadership during systemic crises. Germany did provide leadership during the euro crisis. There was no doubt that Germany was the Eurozone's indispensable member state, just as much as the U.S. held that position in the world economy in 2008. Yet, the kind of leadership Germany provided in Europe, steeped in ordoliberal thinking and based on following financially conservative rules, was qualitatively the opposite of the leadership the U.S. offered the world economy two years earlier, characterized by Keynesian discretion. Different ideas held by national elites and different levels of pragmatism and flexibility explain the variation in outcomes of otherwise similar systemic crises.[49]

It would be plausible to assume that economic policy elites in the U.S. and Germany do not have copies of Kindleberger's books lying around on their desks. But interestingly enough, some of the most powerful policymakers in Washington and Berlin *did* read Kindleberger and stated publicly that his ideas were a major influence on their thinking.[50] Larry Summers, U.S. President Obama's chief economic adviser during the crisis, stated that the most useful economics in dealing with the GFC was not to be found in the academic mainstream, but in the work of Bagehot, Minsky, and 'perhaps more still in Kindleberger.'[51] Also Wolfgang Schäuble, Germany's finance minister from late 2009 onwards and one of the main architects of Europe's crisis response, read Kindleberger's *The World in Depression*, and believed that its 'central message [was] more important in 2010 than ever before' (Kundnani, 2012). In a speech in Paris in November 2010, he proclaimed: 'A stable world economy does not materialize 'by itself.' It is a public good, that must be provided in the face of national self-interest. For the world economy to be stable, it requires a leading nation, a benign hegemon or 'stabilizer.''[52] Schäuble continued to explain that he thought France and Germany needed to take up leadership in Europe, and 'lead by example.' By that, however, he did not mean provide the public goods Kindleberger had in mind. What he meant was for Germany (and France) to live by the letter of the EU's Stability and Growth Pact and implement their self-imposed (German) role model.[53]

Summers and Schäuble both studied Kindleberger's teachings, but internalized different interpretations. In the U.S., Summers was one among many early advocates of 'spurring demand around the world' to fight the Great Recession (Summers, 2009). Ben Bernanke, chairman of the Fed, declared in August 2009 that '[u]nlike in the 1930s, when policy was largely passive and political divisions made international economic and financial cooperation difficult, during the past year monetary, fiscal and financial policies around the world have been aggressive and complementary (Bernanke, 2009b).' He went on to stress that without the Fed's 'speedy and forceful actions … the entire global financial system would have been at serious risk' (Bernanke, 2009b). This included the decision to bail out AIG without which both Fed and Treasury judged 'would have severely threatened global financial stability and the performance of the U.S. economy' (Bernanke, 2008). During his tenure at the Fed, Bernanke repeatedly emphasized the U.S. obligation towards global recovery. 'Although we naturally tend to be most aware of conditions in the United States, we should not overlook the impact that the crisis is having virtually everywhere in the world' (Bernanke, 2009a). As a sign of his understanding of his own leadership role, Bernanke stressed, 'Battling th[e] crisis and trying to mitigate its effect on the U.S. and global economies has dominated my waking hours now for some 21 months' (Bernanke, 2009c).

Christina Romer, chairman of Obama's Council of Economic Advisers in 2009 and 2010, underlined her Keynesian credentials by stating that the lessons from the Great Depression for the U.S. were to increase the domestic money supply in order to 'lower world interest rates and benefit other countries, rather than to just shift expansion from one country to another' (Romer, 2009). Romer argued in March 2009 that '[t]he more countries throughout the world can move toward monetary and fiscal expansion, the better off we all will be' (Romer, 2009). This prophecy proved correct in her eyes when in 2012 she observed, 'countries that did more stimulus in 2009 recovered more quickly from the downturn than those that did less' (Romer, 2012).

Finally, President Obama himself left no doubt as to where he saw the U.S. leadership role. 'It's going to be important for the relatively wealthy nations like ours to take leadership in assuring that we don't see a continued downward spiral that has an even more devastating impact in some of these emerging markets' (Obama, 2009a). In an almost direct reference to Germany, Obama observed, 'There have been arguments, for example, among some European countries that because they have more of a social safety net, that some of the countercyclical measures… were less necessary... But the truth is… that's just arguing at the margins. The core notion that government has to take some steps to deal with a contracting global marketplace and that we should be promoting growth, that's not in dispute' (Obama, 2009b).

The U.S. response to the GFC was to reverse a global downturn through a combination of a large fiscal stimulus, monetary easing, countercyclical lending, and the full use of the Fed's powers as a truly global lender of last resort. U.S. government officials realized that the lack of spending in the rest of the world mirrored American overspending, and excess savings abroad were balanced by excess investment in the U.S. housing market. Rather than blaming and trying to push the burden of adjustment onto the rest of the world, the U.S. kept its markets open, and agreed to bear a disproportionate share of the global adjustment cost. Through its discretionary actions, the U.S. established new norms for the world economy, based on freedom of action and flexibility, responding in a pragmatic Keynesian rather than dogmatic ordo-liberal way.

Germany's management of the euro crisis was almost the mirror image. The German response to the risk of a Greek default in 2010, and to the ensuing contagion was much more moralizing, quickly dividing the Eurozone in fiscal sinners and saints.[54] Rather than analyzing the crisis as a threat to its future exports or stressing the risk of financial contagion, the German government opted to warn against moral hazard if Northern core countries were to bail out their Southern neighbors (Newman, 2015). It is beyond ironic that periphery overspending during the boom years was made possible by German savings, and that periphery overspending in turn fueled German growth, thus contributing to the success of the German economic model which would confer to Germany the moral high ground and the position of Europe's most dominant state during the crisis.

German finance minister Schäuble summed up his government's view as follows: 'Moral hazard is not benign. Setting the wrong incentives would mean stabbing reformist governments in the back. By suggesting that uncompetitive economic structures can endure, we would buoy the populists, scapegoat-seekers and illusion-peddlers who lurk at the fringes of our political landscapes. By discouraging reform, we would not solve Europe's imbalances but make them permanent' (Schäuble, 2012). Jens Weidmann, president of the Bundesbank, rejected the idea of using the ECB as lender of last resort to governments, emphasizing the importance of following the rules: 'I cannot see how you can ensure the stability of a monetary union by violating its legal provisions' (Atkins and

Sandbu, 2011). German economists Axel Weber and Jürgen Stark both resigned from the ECB Governing Board during the crisis in protest against the unconventional policies they saw as violating Maastricht's 'no bailout clause.'

German Chancellor Angela Merkel was at pains to interpret the causes of the crisis in a way that justified her anti-stimulus stance: 'This crisis did not come about because we issued too little money but because we created economic growth with too much money, and it was not sustainable growth… If we want to learn from that, the answer is not to repeat the mistakes of the past' (Merkel, 2009). In May 2010, after the first Greek bailout, she stated in front of the Bundestag: 'The rules will be geared not to weaker states but to the strongest states. I know that this is a tough message, but economically, it is an absolute must.'[55] Merkel's position changed little as the European crisis progressed. 'Growth through structural reforms is sensible, important and necessary. Growth on credit would just push us right back to the beginning of the crisis, and that is why we should not and will not do it' (Merkel, 2012).

During the crisis, the German government emphasized the importance of rules and laws over the arbitrariness of political discretion. Institutional innovations at the EU level, like the Fiscal Pact and the European Semester, further cemented the importance of fiscal and financial rules in the Eurozone. The German response initially shifted the whole burden of adjustment onto the 'deficit' countries of Ireland and the Mediterranean, by imposing austerity measures and structural reforms in exchange for bailouts. Germany thus acted as some sort of ‘anti-Keynesian’ hegemon, furthering a pro-cyclical fiscal regime, and insisting that the crisis had ‘national’ rather than ‘systemic’ solutions.

Both the U.S. and Germany acted within their perceived interests during the systemic crises they faced as most powerful country within the regimes they had built.[56] The very different ideas held by American and German policymakers about what caused the respective crises would prove crucial for their policy responses. U.S. policy elites pushed the U.S. in the direction of acting as a ‘benign’ hegemon to the world economy. During the acute phase of the GFC, they felt bound to follow the path set out in Kindleberger’s blueprint, shouldering the brunt of the burden of adjustment. Two years later, the euro crisis narrative and the ordoliberal ideas informing German policymakers resulted in a fundamentally different interpretation of Kindleberger’s definition of leadership, and led Germany to act as a ‘coercive’ hegemon, emphasizing the importance of rules and creating a culture of stability, thereby pushing the burden of adjustment onto others.

America’s ‘Benign’ Leadership during the Global Financial Crisis (2008-09)

The actions of the U.S. government during the late 2000s stand in stark contrast to U.S. inaction in the late 1920s and early 1930s, when a stock market crash led to a global systemic collapse and the slump of the 1930s. In order to assess U.S. actions, I will analyze whether the American economic elite’s interpretation of its leadership role matched their actual record in providing four of Kindleberger’s five public goods: (1) market for distress goods, (2) countercyclical long-term lending, (3) lender of last resort, and (4) macroeconomic policy coordination.[57] The full extent of public goods provision by the United States during the Great Depression – when it was unwilling to lead – and the Great Recession – when it *was* willing to lead – are directly compared in table 1.

<Insert Table 1 here>

While the U. S. responded to the Great Crash of 1929 by unilaterally imposing the 1930 Smoot-Hawley tariff act – increasing the price of imported goods by an average of 40 percent – it managed to resist protectionist temptations after 2008. Many analysts agree that the lack of protectionist measures was one of the more extraordinary aspects of the Great Recession. They assign the WTO and the multilateral trading system much of the credit for it.[58] While this is correct, few have pointed out explicitly that the U.S. played a major role therein. It was the U.S. under President Bush that convened the inaugural G-20 summit in Washington, DC in November 2008. In the final communiqué a joint commitment to free trade was stated clearly: 'We underscore the critical importance of rejecting protectionism and not turning inward in times of financial uncertainty. In this regard, within the next 12 months, we will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing … (WTO) inconsistent measures to stimulate exports.'[59] These pledges were repeated during the G-20 summits of London in April and Pittsburgh in November 2009.[60]

<Insert Figure 2 here>

While the share of U.S. imports to GDP fell from 16 percent in 2007 to 14 percent in 2009, it surged back to 15.3 percent in 2010 and close to 16 percent in 2011. U.S. consumption increased from 82.5 percent in 2007 to an absolute peak of 84.8 percent of GDP in 2009, before gradually returning to around 82 percent by 2013 (figure 2). This underscores the U.S.' role as consumer of last resort: it delivered on public good #1 and, despite the deep domestic recession, it continued to serve as the world's market for distress goods. President Obama himself stressed the point in September 2009: 'In Pittsburgh, we will work with the world's largest economies to chart a course for growth […] That means taking steps to rekindle demand so that global recovery can be sustained' (Obama, 2009c).

Public good #2 ('countercyclical long-term lending') and #3 ('lender of last resort') are closely related. The U.S. central bank played a major role in providing liquidity, but so did U.S. private investors, who took their money abroad in massive amounts searching for higher yields. The U.S. government used its voting power at the IMF and leadership role in the G-20 to advocate for a tripling of IMF lending capacity to $750 billion. Figure 3 shows the evolution of U.S. financial flows during the crisis years. While U.S. private financial outflows (in *blue*) virtually come to an end in the third and fourth quarters of 2008, when one observes massive private inflows into the U.S. from abroad as part of the 'flight to safety' into dollar-denominated assets, these flows reversed during the first two quarters of 2009. When private financial outflows suddenly stopped in the second half of 2008, they were replaced by U.S. government flows (in *purple*), particularly the Fed dollar liquidity swaps. By early 2009, the U.S. government flows already started going into reverse as foreign central banks started paying back those loans.

<Insert Figure 3 here>

Figure 4 shows the activities of the Fed in more detail. The Fed aggressively cut interest rates in response to the market panic, but also expanded its balance sheet through multiple rounds of quantitative easing (QE). The Fed's total liabilities were around $800 billion in early September 2008, but had grown to more than $2 trillion by the end of 2009. By buying agency debt and mortgage backed securities (MBS) from distressed financial institutions, many of which with substantial business and investments overseas, the Fed restored confidence in the global financial system and enabled its banks to start the deleveraging process. The Fed was the only institution in the world capable of functioning as a global lender of last resort. Between December 2007 and February 2010, it made liquidity swap lines available to the ECB, Bank of Canada, Bank of England, Bank of Japan, and the central banks of Australia, Brazil, Denmark, Korea, Mexico, New Zealand, Norway, Singapore, Sweden, and Switzerland.[61] By the end of November 2008, the total amount of outstanding Fed credit lines to the world amounted to a whopping $600 billion, almost as large as the Fed's entire balance sheet prior to the crisis (figure 4b).[62] On top of the swaps, Helleiner (2014, 41) remarks that 'the Fed provided liquidity directly to troubled foreign financial institutions by allowing their US branches and subsidiaries access to its discount window and enormous emergency facilities during the crisis.' Bernanke (2010) commented that the Fed 'played a key role […] by providing backstop liquidity to a range of financial institutions as needed to stem the panic.'

<Insert Figure 4 here>

Finally, public good #4, the coordination of macroeconomic policies globally, was most successful in 2008 and 2009 under the auspices of the G-20. As Drezner (2014b, 45) has pointed out, '[t]he combined G20 stimulus in 2008 and 2009 amounted to approximately $2 trillion – or 1.4 percent of global economic output,' which gave a substantial boost to global growth, estimated around 2 percent. Again, the important point is that the system could not have worked without the U.S. Of the total of $2 trillion in extra global fiscal spending, close to $800 billion was directly committed by the U.S. federal government, adding up to 40 percent of the world's total stimulus. The U.S. share of the stimulus was indispensable to the global regime's success. Also, as Helleiner (2014, 30) has argued, most national stimulus plans were enacted because of domestic political reasons rather than any desire to abide by the international regime of the G-20, making the large U.S. share all the more important for the speed of the recovery. On the monetary side, the Fed had already done most of the coordinating of interest rate cuts before the G-20 had even met.

Germany's 'Coercive' Leadership during the Eurozone Crisis (2010-13)

The parallels between the United States' role during the GFC and Germany's role during the euro crisis are mostly striking in their absence. If we assess the role played by Germany in providing the equivalent 'regional' public goods for the Eurozone during 2010-2013, we can only conclude that there was under-provision or non-provision (table 2).[63]

<Insert Table 2 here>

First, rather than providing the Eurozone's peripheral countries with a market for their distress goods, Germany was used to selling them its world-class manufacturing goods. According to Eurostat, while Germany's trade surplus with the rest of the EU was €46.4 billion in 2000, it had grown to €126.5 billion in 2007.[64] Between 2000 and 2007 Greece's annual deficit vis-à-vis Germany grew from €3 billion to €5.5 billion, Spain's almost tripled from €11 billion to €27.2 billion, Italy's doubled from €9.6 billion to €19.6 billion, and Portugal's quadrupled from €1 billion to €4.2 billion. All those surpluses started falling after the crisis, but mainly due to a collapse in German exports to, rather than a pick-up in German imports from, the Mediterranean. All four countries remained in deficit with Germany in 2012. France's bilateral deficit with Germany steadily rose from €12 billion in 1999 to €37 billion in 2012 (figure 5a). Germany saw its final consumption increase from 73.7 percent of GDP in 2007 to 78.4 percent in 2009. Consumption however fell back to just above 75 percent in 2011, and barely budged since then, remaining between 75 and 76 percent in 2012 and 2013 (figure 5b). Germany's gross savings rate increased from just above 20 percent of GDP in 2001 to almost 26.8 percent in 2007, then falling to a low of 22.5 percent during the fiscal stimulus year of 2009. But again, German savings started going up during the euro crisis, hovering around 24 percent between 2010 and 2012. Germany's current account surplus also persistently stayed close to or above 6 percent between 2007 and 2013. The German economy remained Europe's export champion or producer of last resort, the opposite of serving as a consumer of last resort.

<Insert Figure 5 here>

Second, instead of being countercyclical and long-term, German lending was largely pro-cyclical after the introduction of the euro. During the boom years of 2003-2008, German banks massively extended credit to the European periphery, a trend abruptly reversed after the euro hit. A 2010 IMF working paper revealed Germany to be one of the two biggest net creditors within the Eurozone in 2008 (after France) with intra-Euro Zone net investment positions of +€735, which was mirrored by that of Portugal (–€136 billion), Greece (–€199 billion), Italy (–€334 billion) and Spain (–€794 billion).[65] Since early 2010, when the periphery needed long-term loans and cheap credit more than ever, Germany's enthusiasm for credit extension quickly faded as German investors lost their appetite and started alternating between caution and active hostility. The credit that was extended through the ESM and the bailout programs for Greece, Ireland, and Portugal – limited Germany's share to its percentage of EU GDP – were aimed at helping governments finance their deficits, and were subject to strict conditionality.

Third, the public good where Germany and the Eurozone did eventually deliver was the lender of last resort function, though with a serious caveat. The ECB, which had been dominated by Germany and German ideas since its inception, was initially not allowed to act as a real lender of last resort by discounting or providing liquidity during financial crisis. Germany insisted on IMF conditionality for the bailout countries and severe austerity measures in 2010 and 2011. German policymakers initially opposed letting the ECB play the same role as the Fed. Jens Weidmann, the president of the Bundesbank, rejected the idea of using the ECB as 'lender of last resort' for governments, warning that such steps 'would add to instability by violating European law.'[66] Weidmann would never give up, but over the summer of 2012, the German Chancellor would be forced to change her mind (Spiegel, 2014a). The change of heart started with the replacement of the monetary orthodox Frenchman Jean-Claude Trichet by MIT trained Italian economist Mario Draghi at the helm of the ECB. While Draghi managed to temporarily tame markets in late 2011 and early 2012 by instituting Long-Term Refinancing Operations (LTROs) to put liquidity back into the currency union's ailing banks, the real turnaround for the Eurozone would come when he announced in the summer of 2012 that the ECB would do 'whatever it takes' – within its mandate – to save the euro. The follow up announcement of Outright Monetary Transactions (OMTs) in September 2012, opposed by Weidmann but quietly supported by Merkel, calmed the markets. Even though the program was never put to the test, it was not clear whether OMT would actually work as it still had a strong element of conditionality to it. Draghi's gamble paid off as it seemed to be reassuring enough investors and financial market participants. The tail risk of a euro break up all but disappeared in 2013.

Fourth, in the domain of coordinating macroeconomic policy, Germany advocated austerity in the periphery without trying to offset the negative economic effects with either fiscal stimulus or inflationary policies at home (Farrell and Quiggin, 2017). The result was an increase in the debt-to-GDP ratios in the affected countries, exacerbating the problem the deflationary medicine was trying to solve.[67] It was always going to be impossible for the rest of Europe to become more like Germany, as Berlin's elites prescribed. Germany extolled the virtues of austerity, while in effect benefiting prior to the crisis from the fact that others did *not* follow austerity. By the iron logic of the balance of payments, one country's exports are another country's imports, and one country's capital inflows are another's capital outflows. The Eurozone could never as a whole become more like Germany, since Germany could only be Germany because the others were not. Overall, when one looks at the German record in public goods provision during the euro crisis, it is clear that rather than a 'benign' hegemon – in the Kindleberger fashion – Germany used its power in a 'coercive' way by transferring the main burden of adjustment onto the smaller countries.[68]

In the short term, Germany gained in importance within the Eurozone. Its superior growth performance over the course of both crises, allowed it to increase its share of nominal GDP within the Eurozone from 26.7 percent in 2007 to 28.5 percent in 2013, while debt-to-GDP ratio grew only modestly from 67.6 percent to 79.3 percent. The United States' share in the world economy, on the other hand, fell from 22 percent of the world's nominal GDP in 2007 to 19.3 percent in 2013, while its debt-to-GDP ratio ballooned from 63.9 percent to 100.8 percent over the same period.[69] Germany gained more than the rest of the Eurozone due to its own actions in the short term, but it left the regime in the Eurozone vulnerable and instable in the longer term.

Conclusion: Deduced and Abandoned? Why the Global Financial Crisis and Euro Crisis Show HST Should Not be Left on the Shelf

Hegemonic stability theory is alive and well in the 21st century. This paper presented a new model of hegemonic stability crisis response, putting longstanding and opposing theories to the test with new empirics made available by two recent cases, the Great Recession of the world economy in 2008-9 and the European debt crisis of 2010-13. The paper's theoretical framework makes a crucial distinction in times of systemic crisis between different types of leadership. The dominant state can either act as a 'benign' or a 'coercive' hegemon, determined by whether the system's leader bore a disproportionate amount of the costs of stabilization by providing the public goods necessary for economic recovery.

This paper has shown empirically how the U.S., acting as a benign hegemon, was able to resolve the GFC quickly, while Germany, acting as a coercive hegemon, delayed the resolution of the euro crisis and exacerbated its consequences for the European periphery. Moreover, we added a critical variable to explain why a dominant state will provide benign or coercive leadership: the power of ideas, and in particular the role economic ideas play in defining states' interests. The U.S. acted the way it did because of the Keynesian economic ideas it held, no doubt influenced by its catastrophic performance during the Great Depression. It took Kindleberger's lesson to heart. Germany also acted based on its ideas, advocating an ordoliberal approach of national fiscal rules and domestic structural reform in a crisis that instead demanded largely 'systemic' solutions.

The election of U.S. President Donald Trump in November 2016 provides an important counter-factual that the ideas held by elites do indeed matter. When it comes to providing global leadership by delivering the world with public goods, the Trump Administration has shown radically different instincts, summed up by his own slogan "America First." When it comes to acting as a consumer of last resort, President Trump has made it clear that he is more interested in protecting U.S. industry and not afraid to start a trade war. Some of his administration officials has questioned the leading role the Federal Reserve has played in standard setting in international regulatory bodies, as well as the need to serve as a global lender of last resort. It is also doubtful whether the Trump Administration would be willing to shoulder a disproportionate burden of adjustment when the next crisis comes along.

Kindleberger once remarked that many have 'come to believe that the system should be run at all times by rules, including regimes, not people. Rules are desirable on trend. In crisis the need is for decision.'[70] It is the ultimate irony that Germany's finance minister during the crisis expressed a belief in the importance of leadership and hegemonic stability, yet fundamentally misinterpreted Kindleberger's vision, and acted almost in opposite fashion to what the MIT economist had in mind. Rather than providing the public goods necessary, Germany emphasized the importance of rules and induced the hard-hit Eurozone countries to adopt German-style austerity policies. The different ideas held by national policymakers in the U.S. and Germany would lead to very different perceptions of their national interests and fundamentally opposing definitions of leadership during crises. This divergence of views explains why, in the beginning of the 21st century, Kindleberger's leadership version of hegemonic stability theory and crisis response was fully embraced in Washington, but largely ignored or mostly misread in Berlin.

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<u>Figure 1:</u>
<u>International Economic Regimes: Systemic Crisis, Leadership, Outcomes</u>

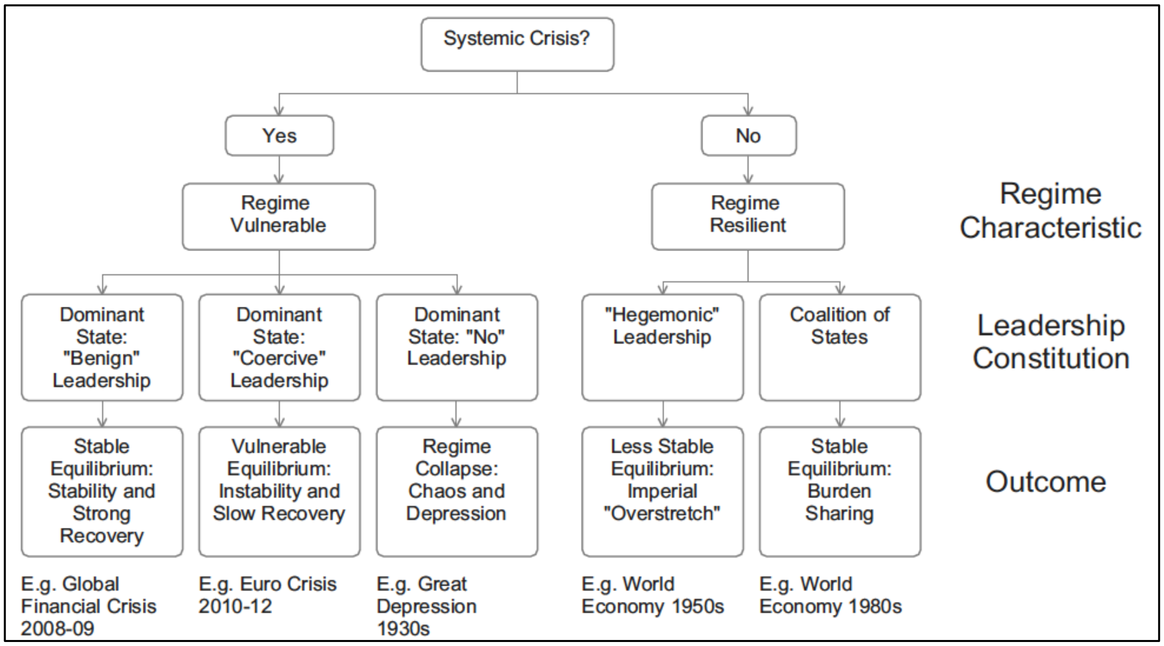
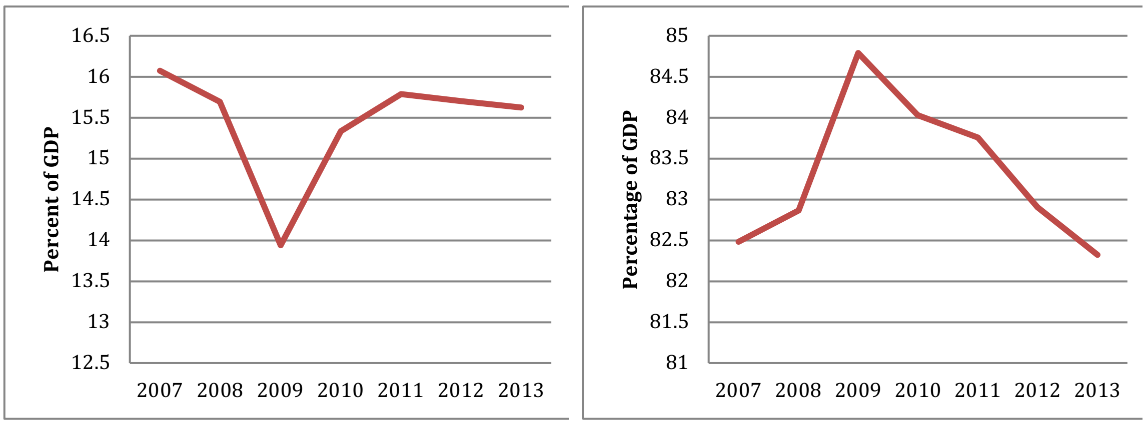


Table 1:
United States Leadership: Great Depression (1930s) vs. Great Recession (2008-09)

Kindleberger's Public Goods	Great Depression, 1930s	Great Recession, 2008-09
U.S. Consumer of Last Resort (Distress Goods)?	✗ *(Smoot Hawley Tariff, 1930)*	✓ *(Resisted Protectionist Temptation)*
U.S. Countercyclical, Long-Term Lending?	✗ *(K Flow Reversal, Lower Lending)*	✓ *(K Flow Reversal + Fast Recovery)*
U.S. Lender of Last Resort (LoLR)?	✗ *(Fed only LoLR for U.S. economy)*	✓ *(Fed Swaps w/other Central Banks)*
U.S. Coordination of Macroeconomic Policies?	✗ *(London Economic Conference)*	✓ *(G-20 Summits in 2008 and 2009)*

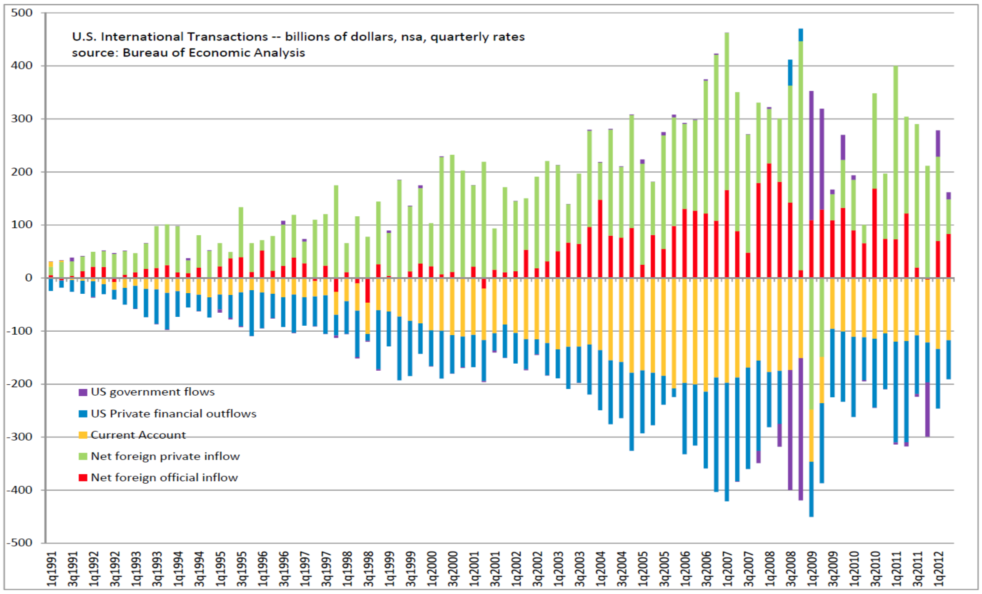
Figure 2: U.S. Imports and Total Consumption, 2007-2013

(a) U.S. Imports (% of GDP) (b) Total Consumption (% of GDP)



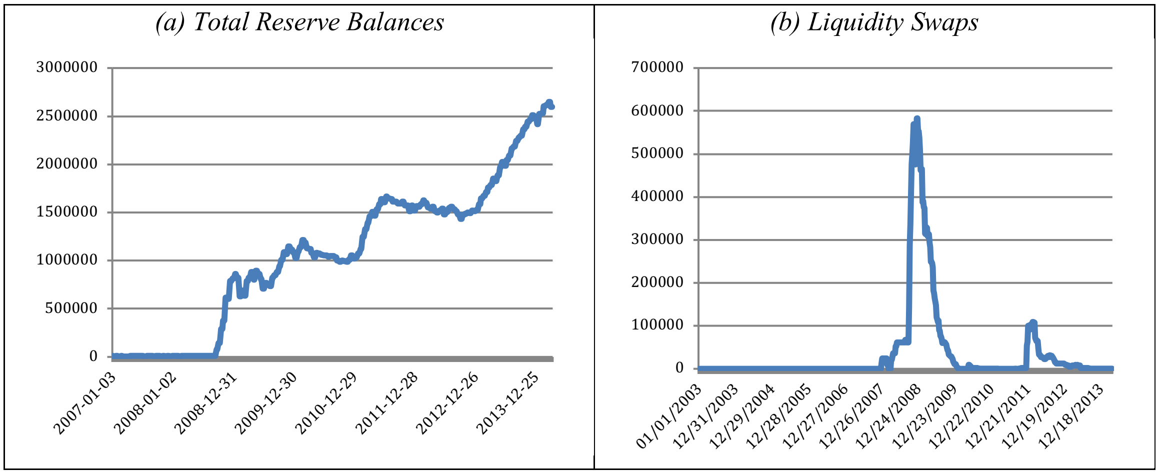
Source: European Commission (2014*), Ameco Database*

<u>Figure 3:</u>
<u>U.S. Net Financial Flows (1991-2012)</u>



<u>Source</u>: Marquez (2014), data from *Bureau of Economic Analysis* (BEA), design from Charles Thomas.

Figure 4:
Federal Reserve: Lender of Last Resort (2007-2009)

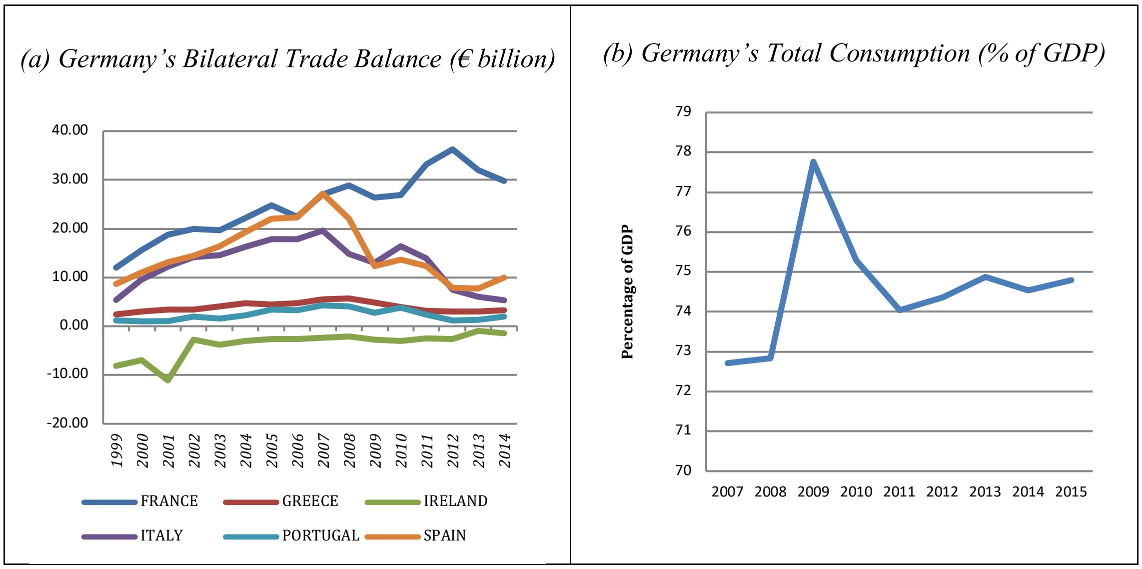


Source: Board of Governors of the Federal Reserve System (2014), "Total Reserve Balances Maintained" (a), and "Central Bank Liquidity Swaps held by the Federal Reserve: All Maturities" (b). Millions of dollars.

Table 2:
German Public Goods Provision during the Euro Crisis (2010-15)

Kindleberger's Public Goods	**Euro Crisis (2010-2015)**
Germany: Consumer of Last Resort (Market for Distress Goods)?	✗ *(Persistent Current Account Surplus, High Savings)*
German Counter-Cyclical, Long-Term Lending?	✗ *(K Flow Reversal post Crisis, Pro-Cyclical Lending)*
Germany/ECB Lender of Last Resort, liquidity provision?	✗ then ✓ *(Conditionality – then OMT in 2012, and QE in 2015)*
German Coordination of Macroeconomic Policies?	✗ *(No Stimulus, but Austerity for All)*

Figure 5:
Germany's Trade Balance and Total Consumption



(a) Germany's Bilateral Trade Balance (€ billion)

(b) Germany's Total Consumption (% of GDP)

Source: (a) Eurostat (2015); (b) AMECO; and author's calculations

Endnotes

[1] Reinhart and Rogoff 2009, 208. For a review of the vast literature on the GFC, see Lo 2012. For an analysis of the consequences of the crisis, see Helleiner 2014.
[2] For more detail, see Chinn and Frieden 2011, chapters 4 and 5
[3] Drezner 2014b, 15-19. See also Kirshner 2014a for a critique of Drezner's book, as well as Kirshner 2014b for a more critical analysis of the US role during and after the GFC.
[4] The popular term 'European sovereign debt crisis' is a misnomer, however. The euro crisis was mainly a banking crisis, which only morphed into a sovereign debt crisis after large public sector bailouts converted private into public debt. Blyth 2013, chapter 3.
[5] For an overview of the euro crisis, as well as its major causes, see Matthijs 2014a
[6] IMF 2014, 180
[7] Ibid., 181
[8] Matthijs (2014b), pp. 101-115
[9] After the 'Greek summer' of 2015, the acute phase of the euro crisis was over, but the Eurozone economy was far from fixed and the institutional infrastructure remained incomplete. See, for example, Spiegel (2014b) and Matthijs and Blyth (2015)
[10] Olson (1965), p. 28
[11] See Krasner (1983), Keohane (1984, [2005]), and Milner (1997)
[12] Kindleberger's original list included three public goods: a market for distress goods, lender of last resort facilities, and long-term countercyclical lending (see Kindleberger (1973, [2013])). In Kindleberger (1981), he would add two more: managing "in some degree, the structure of foreign-exchange rates" and "provide a degree of coordination of domestic monetary policies." In Kindleberger (1986a), he further expanded the latter good to become "coordination of macroeconomic policies," presumably also including fiscal policy.
[13] Kindleberger (1986a), chapter 14, pp. 288-303. I will omit 'stable exchange rates' from this list, since it makes less sense to include in a comparison of the world economy with flexible exchange rates (post-Bretton Woods), and the Eurozone (by definition a fixed exchange rate regime, with one single currency).
[14] Robert O. Keohane (1984, [2005]), p. 12
[15] Kindleberger (1986a), p. 304
[16] Keohane (1984, [2005]), p. 50-51
[17] Ibid., p. 50
[18] Cohen (2008), p. 67
[19] Ibid., p. 68.; for a complete review of the evolution of HST as a theory, see pages 67-79
[20] Kindleberger would later add two more: 'stable exchange rates' and 'coordination of macroeconomic policies.' See Kindleberger (1986a), p. 289. See also footnote 21.
[21] Gilpin (1981), p. 9
[22] Gilpin (1975), Gilpin (1981), Krasner (1976), and Milner (1998)
[23] Snidal (1985), Eichengreen (1989)
[24] Keohane (1984, [2005]), chapter 6, pp. 85-109. For a response, see Kindleberger (1986b).

[25] Ibid., p. 31. One dissenting voice during the 1980s was that of Susan Strange, who argued that it was nothing more than a myth that the U.S. had lost its hegemonic power over the system. See Strange (1987)
[26] Snidal (1985), pp. 585-590
[27] Lake (1993), pp. 459-460
[28] Ibid., p. 462
[29] Milner (1998), pp. 112
[30] See Goldstein and Keohane (eds.) (1993)
[31] Simmons (1994), Milner (1997)
[32] Cohen (2008), p. 78
[33] Ibid., p. 536-37
[34] Ibid., chapter 5
[35] Ibid.
[36] See Kindleberger (1996), pp. 223-228 on whether one power's decline is followed by the rise of another.
[37] Lake (1993), p. 467
[38] Kindleberger (1986a), p. 289. I will exclude 'stable exchange rates' from my analysis as it has less importance in a world dominated by floating exchange rates, while it is irrelevant within the Eurozone, which abolished exchange rates between member states by introducing one single currency, the euro.
[39] Jones (2009), pp. 243-252
[40] Kindleberger would have flinched at being called a 'Keynesian' however. He thought the labels counterproductive and missing the overall agreements in economics. Nevertheless, his solutions to a systemic crisis today would fall under the broader Keynesian umbrella.
[41] As quoted in Eichengreen (1992), p. 251
[42] Lake (1993), p. 485
[43] Ibid.
[44] For the U.S. role during the GFC, see Drezner (2014b), Helleiner (2014) and Kirshner (2014b); for Germany's role during the euro crisis, see Bulmer and Paterson (2013), Matthijs (2014a) and Newman (2015)
[45] IMF (2014) and own calculations
[46] Ibid.; European Commission (2014), *Ameco Database*.
[47] Eric Hobsbawm (1968, [1999]), p. 190
[48] Kindleberger (1986a), p. 298
[49] See, for example, Berman (1998), Blyth (2002), and Matthijs (2011)
[50] See especially Kindleberger (1978, [2012])
[51] As quoted in Delong and Eichengreen (2013), p. 6. The interview at INET's Bretton Woods conference in 2011 can be viewed online at https://www.youtube.com/watch?v=Vgg5DoPkgYc
[52] Schäuble (2010), translated from German.
[53] Ibid.
[54] Fourcade (2013) and Matthijs and McNamara (2015)
[55] Thompson (2013), p. 15
[56] There is, of course, a qualitative difference. While the U.S. built the new liberal economic order at Bretton Woods in 1944 primarily out of its own initiative and largely

by its own design, the Germans only reluctantly agreed to Economic and Monetary Union (EMU) at Maastricht in 1991. While EMU largely tailored to German preferences, Germany never fully accepted its 'leadership' role in EMU: fiscal and inflation rules would replace the need for leadership, was the logic in Germany at the time.

[57] See footnotes 21 and 49.

[58] For an overview of those accounts, see Drezner (2014b), pp. 39-42

[59] New York Times (2008)

[60] IMF (2009) and G-20 (2009)

[61] For a more detailed analysis, see Helleiner (2014), pp. 38-45

[62] Federal Reserve Bank of New York (2014)

[63] See also Matthijs and Blyth (2011)

[64] Eurostat (2010), p. 145

[65] Waysand, Ross, and de Guzman (2010)

[66] As quoted in Matthijs and Blyth (2011)

[67] See Blyth (2013), chapter 3

[68] See also Fubini (2013)

[69] IMF (2014), World Economic Outlook Database.

[70] Kindleberger (1986c)