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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 dominant state's systemic crisis response? 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 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, shaped how the leading states behaved. 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 hardheaded path of soft Keynesian ideas resulting in global public goods provision while their counterparts in Germany, be it more constrained, opted for a more principled road of rule enforcing ordo-liberal ideas avoiding public goods provision. The crucial role of ideas – in addition to structural and institutional factors – in defining the national interest during periods of crisis helps us better understand "why hegemonic leadership is what states make of it." This led American and German elites to interpret Kindleberger in very different ways.

KEYWORDS

hegemonic stability; leadership; crisis; ideas; public goods; Germany; United States

The global financial crisis (GFC), with its origins in the American 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 postwar real contractions of advanced economies at the time. While the twin crises of the early twenty first century were comparable in magnitude and potential for international conflagration, the dominant states that took charge of the collective response – the United States during the GFC and Germany during the euro crisis – pushed for rather different solutions to their respective crises. Policy elites in Washington and Berlin ended up interpreting and playing their respective leadership roles in very different ways, both in content and in style.

On the one hand, in response to the GFC, the U.S. acted as a liberal hegemon for the world economy, offering relatively 'benign' Kindleberger-style leadership.

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The U.S. absorbed a disproportionate share of the shock and provided global public goods by serving as the world's consumer, investor, and lender of last resort. On the other hand, in response to the euro crisis, Germany explicitly avoided providing comparable public goods. Berlin ended up practicing a more 'coercive' form of rules-based leadership within its regional context, pushing the burden of adjustment onto the crisis-ridden countries of the European periphery. While the GFC shored up relatively quickly in the spring of 2009, the Eurozone crisis would sputter on for much longer and only come to a questionable halt without clear resolution in early 2013. What explains the different policy responses by the dominant states to those twin crises? And, as a result of those leadership styles, was the more complex and institutionally less developed global system capable of overcoming its structural deficiencies much faster than the more institutionalized and integrated Eurozone?

The puzzle: a tale of two systemic crises, public goods, and leadership

The GFC of 2007-8 resulted in the world's 'Second Great Contraction' and was widely recognized at the time as the most serious economic and financial crisis since the 1930s.[1] The international policy response was swift and decisive. The acute phase of the 'Great Recession' – from a global point of view – did not last all that long, especially if compared to the Great Depression (Eichengreen & O'Rourke 2012). The U.S. quickly responded with a wide-ranging financial bailout worth $700 billion to stabilize securities markets in October 2008,[2] aggressive monetary easing by the Federal Reserve (Fed), and a fiscal stimulus bill worth $787 billion in early 2009.[3] The U.S. also actively resisted protectionism by working to keep 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 transforming the G-20 into the main global body dealing with international economic issues. The U.S. economy bottomed out in the second quarter of 2009 and resumed growth 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).[4] The 'system had worked' in that another Great Depression had been avoided.[5]

In Europe, the real crisis would only begin in early 2010, barely one year after ECB President Jean-Claude Trichet had hailed the euro as 'a large, solid, and steady ship' on the occasion of its ten-year anniversary celebration (Trichet 2009). International relations scholars saw the euro crisis as the most significant aftershock of the global financial crisis (Kahler & Lake 2013). EU studies scholars have analyzed it as the first 'real' crisis of European integration (Parsons & Matthijs 2015). Either way, what soon became known as the European 'sovereign debt' crisis would shake the foundations of the postwar European project.[6] Germany only reluctantly agreed to bailouts under strict conditionality, refused renewed domestic fiscal stimulus, insisted on austerity for all, and initially resisted letting the ECB act as lender of last resort. More than 20 crisis summits were convened over three years in search of a 'comprehensive solution.' A myriad of ad hoc institutional innovations were adopted along the way, including a Fiscal Compact, a European Stability Mechanism (ESM), and an incomplete banking union.[7] Though the Eurozone staged a timid recovery in 2010, growth slowed in 2011, with the currency bloc sliding back into recession in 2012 and 2013.[8] There were stark differences between the Eurozone's core and periphery, however. While Germany recorded robust growth 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.[9] Most of peripheral Europe experienced persistent rates of negative growth, high levels of unemployment, and a steep rise in public debt – the kind of financial havoc and social devastation redolent of the Great Depression (Matthijs, 2016).

This discrepancy – between the post-crisis performance of the global economy and the Eurozone economy – forms the background to the central puzzle of this article. Why did the United States respond to the GFC by following a broadly Keynesian blueprint and providing the global system with the public goods of consumer, investor, and lender of last resort, while Germany explicitly resisted such a US-style response to the euro crisis, instead opting for a more principled 'ordo-liberal' approach of fiscal austerity and structural reform, declining to stimulate demand at home, deciding against further direct bail-outs of its own banks,[10] and leading Eurozone member opposition to more aggressive monetary easing by the European Central Bank?[11]

The puzzle 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.[12] In other words, the larger the group, the less likely it would be to promote its common interests. During the two systemic crises addressed in this article, the larger group – composed 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, more cohesive, EU group.[13]

The puzzle is also salient from an institutional point of view.[14] Notwithstanding the work of the World Trade Organization, the International Monetary Fund and the G-20, the world economy lacks the dense networks as well as the supranational infrastructure and level of financial integration that the EU enjoys. Institutionalists would therefore expect a crisis in the EU to be easier to resolve than a global crisis. While we know now that the Eurozone did not have an adequate toolkit to respond to a systemic financial crisis, it did have a powerful central bank with the necessary monetary firepower as well as a leading creditor nation – Germany – that possessed plenty of fiscal and financial space to spearhead a US-style collective response, but instead chose to hide behind various institutional constraints and domestic political limits.

In this article, I will explain the contrasting crisis responses of the dominant states by dusting off the original 'leadership' version of 'hegemonic stability theory' (HST) – based on Charles Kindleberger's critique of U.S. actions during the Great Depression – by explicitly including the role of a national elite's economic ideas and crisis communication discourse.[15] This paper will causally infer why the U.S. *did* and Germany *did not* define its interest as providing the system with public goods – a market for distress goods, long-term countercyclical lending, lender of last resort facilities, and macroeconomic policy coordination – during their respective crises.[16]

For Kindleberger the main lesson of the 1930s was that to be in balance, the world economy needed 'one stabilizer.'[17] While he saw a clear need for a hegemon during crisis periods, Kindleberger did not have a convincing explanation for why a hegemon or leading state would actually take on the role he wanted it to play in the first place. 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 HST, we must look beyond their structural positions and practical challenges, and consider their national policymakers' ideas about leadership and desired crisis response.

But before proceeding, I need to convince skeptical readers of a few important objections they may raise. First of all, can one even compare the global financial crisis with the euro crisis, as they were both different in origin and in nature, with the former in many ways serving as the trigger for the latter? Second, while very few people doubt the hegemonic capabilities of the United States, the same cannot be said about Germany. The structural power of the United States stems from the fact that it holds the world's reserve currency while its central bank, the Fed, can in theory print unlimited amounts of money. This is not true in Germany's case, a *constrained* power that gave up its monetary policy during the 1990s to an independent and supranational central bank, the ECB, which faces tight institutional limits on what it can legally do. Third, what do we gain from reviving Hegemonic Stability Theory (HST), a theory that leading IR scholars declared largely obsolete by the early 1990s (Lake, 1993)? Can it be applied in a regional context as well as a global one, and does explicitly including elite ideas and crisis discourse add to our understanding of HST? At the end of this article, after having presented my own theoretical framework and empirical evidence, I will discuss what other plausible alternative theories have to say about the leadership behavior and policy choices of American and German elites in responding to their respective systemic crises. These include geopolitical, historical, and institutionalist accounts. Before concluding, I will also provide some counterfactuals to cement the validity of my own claims.

Comparing U.S. and German leadership

An astute observer might argue that the main reason for the discrepancy in policy response between Washington and Berlin lies in the fact that the GFC and the euro crisis were different crises to begin with. There was no doubt about the fact that the GFC was rooted in the American housing bonanza, hence it should be no surprise that the U.S. ended up shouldering a disproportionate share of the burden. Unlike Germany, 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 value of the dollar strengthened rather than weakened in late 2008. The U.S. also has a relatively straightforward political system and chain of command. The President, the Treasury Secretary and Chairman of the Fed are the key decision makers who need to coordinate a single response, and the latter holds significant discretionary powers as well as a clear mandate to act as lender of last resort. Even though the approval of the U.S. Congress is needed for financial bailouts and fiscal policy changes, in general there are not too many veto players.

The basic understanding of the euro crisis in Berlin in early 2010 was definitely not one in which Germany was seen as the main culprit. The dominant crisis narrative in Northern Europe instead portrayed the brewing 'sovereign debt crisis' as the result of profligate spending and a lack of competitiveness in the Eurozone periphery (the "Southern Sinners"), whose member states needed to atone by implementing austerity policies and structural reforms (Matthijs & McNamara, 2015). Also, during the euro crisis the rest of the world refused to hold certain euro-denominated assets, especially the sovereign bonds of the periphery, putting the euro under constant pressure. The Eurozone at the time had 17 finance ministers who needed to coordinate their actions, and a legally constrained European Central Bank lacking real lender of last resort powers. And, as already pointed out in the previous section, the *Bundesbank* can no longer print its own money and has only one vote within the European System of Central Banks (ESCB). In other words, the U.S. and Germany were different "hegemons" – one much less constrained than the other – and they were dealing with fundamentally different crises.

Of course, no two cases are perfectly comparable in IR, as David Lake (2002) for example pointed out the radically different contexts of British hegemony in the nineteenth century and American hegemony post-WWII. So, while this observation is fair to some extent, it fundamentally underplays the potential role of discretionary leadership and improvisation during systemic crises, which are genuine moments of "Knightian" uncertainty (Blyth, 2002). First of all, both the U.S. and Germany possess "structural power" in their respective systems, in that they have "the power to choose and to shape the structures […] within which other states, their political institutions, […], and not least their professional people have to operate" (Strange, 1987, p. 565). For Susan Strange (1987), structural power lay not just with those "able to determine the structure of finance and credit," but also "with those who have the most influence over knowledge, whether it is technical knowledge, […], or leadership in ideas, and who control or influence the acquisition, communication, and storage of knowledge and information." Secondly, when it comes to relative economic size in their respective systems, the U.S. was about 22 percent of world GDP in 2007,[18] while Germany represented roughly 28 percent of Eurozone GDP.[19] They were the only two countries capable of moving market outcomes on their own. Third, as Mario Draghi would underscore in the summer of 2012 (when he promised to do "whatever it takes" to preserve the euro) and again in January 2015, when he embarked on a full-fledged program of quantitative easing, the ECB is fully capable of acting as the lender of last resort. The constraints are political. The softening of German Chancellor Angela Merkel's position proved to be crucial for Draghi to feel comfortable in reinterpreting the ECB mandate (Tooze, 2018, p. 438).

Finally, any German chancellor or finance minister could have chosen a different narrative to the euro crisis as it unfolded, which could have created the domestic political conditions to respond in a much more Keynesian or systemic fashion. One clear example of this was Merkel's apparent change of heart when supporting jointly issued EU bonds to deal with the economic and financial fallout of the COVID-19 pandemic in the spring and summer of 2020. The coronavirus-induced recession in Italy and Spain could not easily be framed through a 'moral hazard' prism, as the shock was not due to previous bad behavior, even though EU Northern member state governments like the one in the Netherlands and Austria tried their very best initially to spin the corona crisis that way. Also a new social democratic finance minister (Olaf Scholz) with different ideas from his Christian democratic predecessor (Wolfgang Schäuble), along with a generational shift in economic policymakers in Berlin, who were more open to new ideas, made a very different crisis resolution possible. This is obviously true for the United States in reverse as well, and not just in the realm of economic policy, as the haphazard public health response to COVID-19 of the Trump administration in 2020 underlines. I will come back to this at the end of the article when I discuss alternative explanations and possible counterfactuals.

Theoretical framework: hegemonic crisis response, leadership, and ideas

The theoretical argument that follows modifies the 'leadership' tradition or 'public goods' version of HST to allow for the role of ideas and discourse in explaining what kind of leadership is embraced by the dominant state in the system. 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 Knightian uncertainty, or – most of the time – it has to cope with day-to-day calculable risks and challenges. In the first case (Figure 1, left arrow) the regime will be vulnerable and may be facing imminent collapse. In the second case (Figure 1, right arrow) the regime will be more resilient and can rely on existing rules of the game to continue functioning.

In the absence of a systemic crisis, 'leadership' is still necessary for the regime's resilience. Robert Keohane (2012), one of HST early critics, 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.' But leadership can either be provided jointly, by a 'coalition of states' (Keohane's preference) or by just one 'hegemonic' state. 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. Hegemonic leadership risks sowing the seeds for the hegemon's relative decline, since the hegemon will suffer from continuing to bear an uneven and disproportionate burden of public goods provision while freeriding by the other states continues or increases. Lack of burden sharing might eventually undermine the hegemon's capacity to provide leadership, as it could result in 'imperial overstretch' (Kennedy, 1987). In the case of pure hegemonic leadership, the regime can be relatively resilient for a while but will operate under progressively more vulnerable conditions.[20]

In times of systemic crisis, which is the main focus and contribution of this article, the regime will be vulnerable to collapse. For the regime to survive and prosper, leadership by the dominant state is a necessary *but not* a 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 will need 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

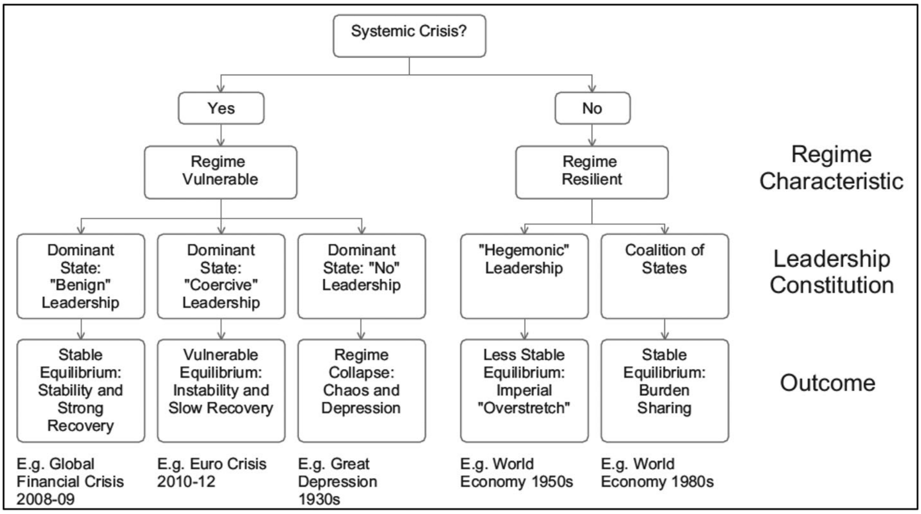

Figure 1. International Economic Regimes: Systemic Crisis, Leadership, Outcomes.

that tends to break out in the midst of systemic uncertainty and will generally underprovide the public good of economic and financial stability. The leading state, which stands to gain 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' (like during the interwar period) (Yarbrough & Yarbrough, 1992).

When the dominant state chooses to practice 'benign' leadership, Kindleberger's original argument holds. Benign leadership manifests itself when the state in question chooses to provide or enables the provision of all Kindleberger's relevant public goods.[21] This is the only scenario that will realistically produce a rapid re-stabilization of the regime and, as we will see, is what played out during the GFC, with the U.S. providing that kind of leadership for the international system. When the hegemon chooses to practice a more 'coercive' form of leadership, it will try to shift the burden of adjustment onto the crisis-ridden states, and shirk its responsibilities as a 'stabilizer' by refusing to coordinate macroeconomic policies in Kindlebergerian fashion. In this case, the leading state will not serve as a market for distress goods, or provide countercyclical lending and lender of last resort facilities. Rather, it will use its position of power to dictate the rules of adjustment to the other states, which may serve the dominant state's short-term interests, but could weaken the regime over the longer term. This will result in a much more vulnerable equilibrium in which uncertainty remains and recovery is slow and anemic.

The key point is that while regimes and institutions enhance predictability, they occasionally fail. In that case, the regime needs leadership and freedom of action by the dominant state, which is capable of acting unilaterally and in the interest of the overall system.[22] The rules of the game may need to be changed, and for that, policy discretion is necessary. Now, *what kind of leadership* the hegemon will choose to practice is where the role of ideas and elite discourse comes in as a key explanatory variable. Two of the three original public goods in Kindleberger's account of the Great

Depression[23] – serving as a *consumer* of last resort ('market for distress goods') and as *investor* of last resort ('countercyclical' and 'long-term' lending) – are unmistakably 'Keynesian' Their goal is to stabilize or stimulate the system's level of aggregate demand.[24] The two public goods he added in 1986 – policing a stable system of exchange rates and managing coordination of macroeconomic policies – leave more 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. Coordinating macroeconomic policies can be interpreted either as joint stimulus, joint austerity, or stimulus for the 'surplus' countries and austerity for the 'deficit' countries.

While the existing literature on HST has clarified the options for hegemonic stability and leadership (Snidal, 1985), it does not provide a compelling rationale for why one of these scenarios actually materializes. During a crisis, how do dominant states define their interests and perceive and fulfill their leadership role? I argue that the kind of leadership provided by the most powerful state will heavily depend on the economic ideas policymakers and elites hold about the causes of the crisis and how they explain and narrate the crisis in their broader discourse and communication to the public.

If the government of the dominant state is broadly 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 any further slide into deeper recession while rebalancing demand between deficit and surplus countries in the medium term. If the government of the dominant state is more orthodox, financially conservative and fiscally restrained in its view of economic policy, it will emphasize the need to balance budgets, cut spending, bring down overall debt burdens, and 'purge the rottenness out of the system.'[25] 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. There is a convincing rationale for both approaches, but the policy preferences of national elites will largely be defined by the ideas they hold on how best to run an economy and how best to respond to a crisis.

Back in 1993, David Lake lamented that both "leadership and hegemony theory remain poorly articulated."[26] He encouraged future scholarship to offer causal propositions, add missing variables, and conduct empirical tests, but to avoid under specification and over extension.[27] The next three 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 and through various lenses.[28] But both crises were also too severe and too deep to remain within the narrow confines of discussions focused on technical fixes and political bargaining, or the broad parameters of general observation.

Washington vs. Berlin: different ideas and discourse about leadership during crisis

It would be plausible to assume that economic policy elites in the U.S. and Germany do not have copies of Kindleberger's books on their bedside table. 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.[29] Larry Summers, U.S. President Obama's chief economic adviser and engineer of the crisis response, said 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.'[30] Also Wolfgang Schäuble, Germany's finance minister from late 2009 until 2017 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, Schäuble invoked Kindleberger's original insights: '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.''[31] Schäuble continued to explain that he thought France and Germany needed to take up Europe's leadership mantle once again, and 'lead by example.' By that, however, he did not mean providing 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 faithfully implement their own strict fiscal rules.[32]

Summers and Schäuble both read the same Kindleberger but interpreted his writings very differently. In the U.S., Summers was an early advocate 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, summed up her own thinking 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). Timothy Geithner, Obama's Treasury Secretary, liked to use military analogies to his crisis fighting methods, including talk of 'big bazookas' and 'shock and awe.' Geithner believed that the "Powell Doctrine" could be applied to international finance, signifying the 'overwhelming use of force, with a clear strategy for resolution.' Geithner insisted that there was 'more risk and greater cost in gradualism than in aggressive action' (Tooze 2018, p. 169).

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 a 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 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 a 'global savings glut' caused by surplus nations like China, Germany, and Japan, and trying to push the burden of adjustment onto the rest of the world, the U.S. kept its markets open, and bore 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 policy flexibility.

Germany's management of the euro crisis was almost the mirror image. The German response to the risk of a Greek default in the spring of 2010, and to the ensuing financial contagion was to frame the euro crisis as a morality tale, dividing the Eurozone into spendthrift sinners in the South and frugal saints in the North.[33] While it could have framed the crisis as a threat to its future exports or stressed 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 ironic that periphery overspending during the boom years was made possible by German savings, and that higher periphery demand 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 creditor 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 & 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 declared in front of the German 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.'[34] Merkel's position changed little as the European crisis progressed. 'Growth through structural reforms is sensible, important and necessary. Growth through 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 Compact 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 tough austerity measures and structural reforms in exchange for bailouts. Germany thus acted to further a pro-cyclical fiscal regime and insisted that the euro ills had 'national' rather than 'systemic' solutions. Though Germany was constrained by not being able to print its own money, there is no indication whatsoever from German policymakers that they would have allowed the ECB to function as a lender of last resort for the rest of Europe, even though that was technically possible at the time. Instead, they pointed to the institutional constraints of the ECB, including (a) the prohibition of monetary financing (art. 123), (b) the prohibition of privileged access to financial institutions (art. 124), and the 'no bailout' clause (art. 125).[35] It would only be much later, in 2012, under a new ECB president, the Italian Mario Draghi, that those institutional constraints would be de facto relaxed.

Both the U.S. and Germany acted in their perceived national interests during the systemic crises they faced as most powerful country within the regimes they had built.[36] 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 followed the path set out in Kindleberger's blueprint, shouldering the brunt of the burden of economic and financial adjustment. Two years later, the euro crisis narrative and the economically more orthodox ideas informing German policymakers resulted in a very different interpretation of Kindleberger's idea of leadership and led Germany to act as a 'coercive' hegemon, emphasizing the importance of rules and stability culture, thereby pushing the burden of adjustment onto the periphery.

American public goods provision 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

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)*

global systemic collapse and the slump of the 1930s. In this section, I will show how 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.[37] The full extent of public goods provision by the U.S. during the Great Depression compared to the Great Recession are summarized in Table 1.

While the U. S. authorities 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 similar 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.[38] 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 leaders 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.'[39] Adam Tooze (2018, p. 264) also noted that the most remarkable thing to come out of that first G-20 meeting was the unusually 'strong language to maintain open global trade.' These pledges were repeated during the G-20 summits in London in April 2009 and Pittsburgh in November 2009.[40] President Obama made it very clear that he did not 'want provisions that are going to be a violation of World Trade Organization agreements or in other ways signal protectionism,' saying 'that would be a mistake right now.'[41]

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 emphasized 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).

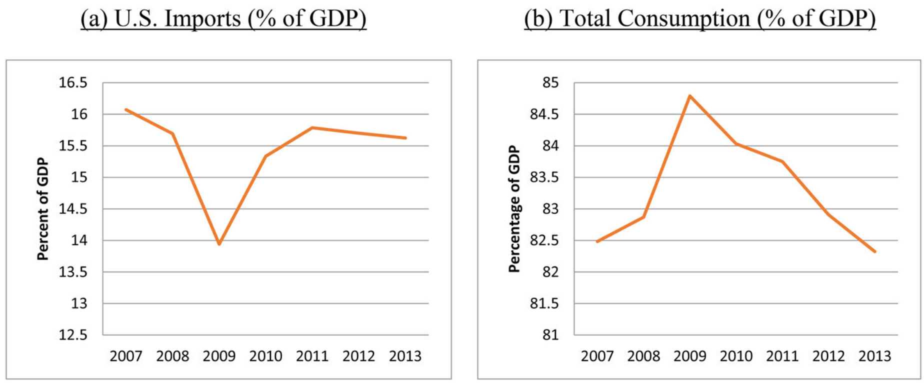

Figure 2. U.S. Imports and Total Consumption, 2007–2013.
Source: European Commission (2014*), Ameco Database*

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 (Tooze, 2018, p. 270). Again, Obama (2009d) emphasized the point in remarks at Georgetown University in April 2009, in which he said that the lending capacity of the IMF would 'provide direct assistance to developing nations and vulnerable populations – because America's success depends on whether other nations have the ability to buy what we sell.'[42] Figure 3 shows the evolution of U.S. financial flows during the crisis years. While U.S. private financial outflows (in *blue*) virtually came to a halt 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 began paying back those loans.

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. Larry Summers put forward his policy views on that already in September 2007: "… moral hazard is not always a negative with respect to policy responses to financial stress. In particular, the idea put forward by some that a central bank should act only once it is clear that financial problems have become serious enough to threaten a breakdown of the financial system or a sharp downturn in economic activity cannot be right."[43]

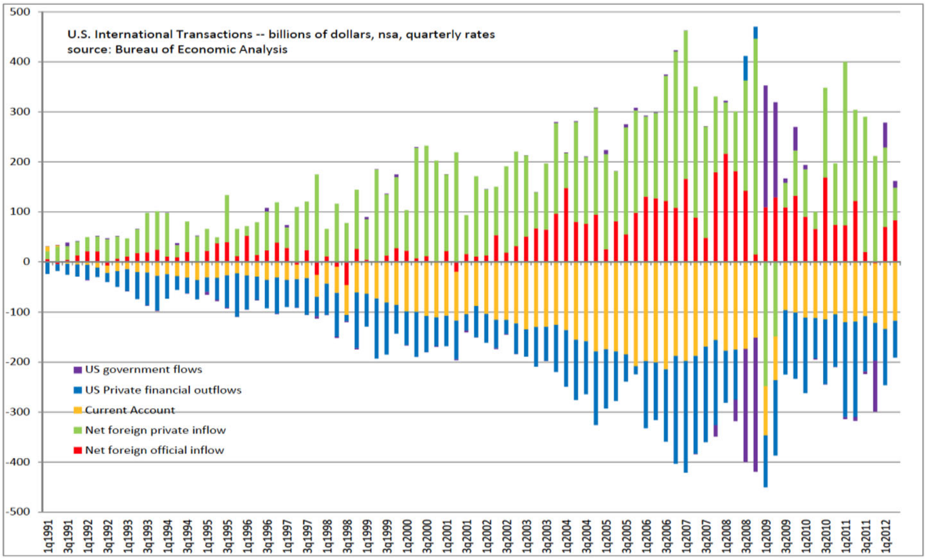

Figure 3. U.S. Net Financial Flows (1991–2012).
Source: Marquez (2014), data from *Bureau of Economic Analysis* (BEA), design from Charles Thomas.

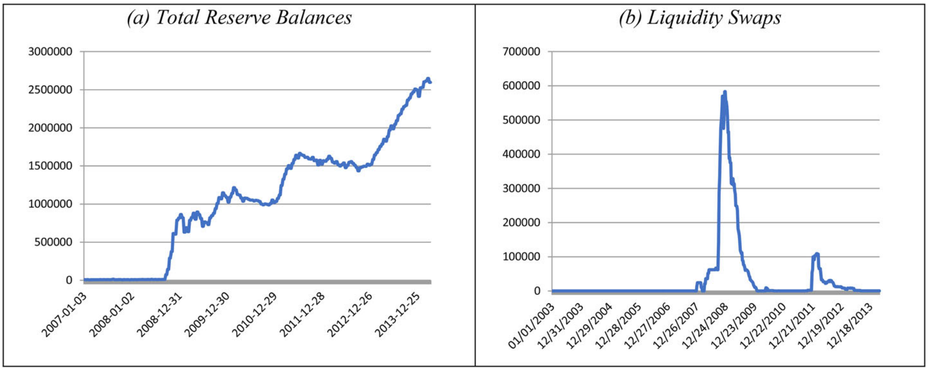

Figure 4. Federal Reserve: Lender of Last Resort (2007–2009).
Source: Board of Governors of the Federal Reserve System (2014), "Total Reserve Balances Maintained" (a), and "Central Bank Liquidity Swaps held by the Federal Reserve: All Maturities" (b). Millions of dollars.

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.[44] By the end of November 2008, the total amount of outstanding Fed credit lines to the world amounted to a whopping $620 billion, almost as large as the Fed's entire balance sheet prior to the crisis (Figure 4b).[45] On top of the swaps, Eric Helleiner (2014, p. 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.' The importance of the Fed's swap lines cannot be overestimated. As Tooze later observed, "every major bank in the entire world was taking liquidity assistance on a grand scale from its local central bank, and either directly or indirectly by way of the swap lines from the Fed" (Tooze 2018, p. 218).

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 Daniel Drezner (2014b, p. 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, p. 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. Larry Summers was explicit on the need for the U.S. government to coordinate global macro policy through the G20. As he remarked in the summer of 2009, "the [G-20] communiqué […] was really central to the resolution of that crisis, with its emphasis on collaborative efforts at stimulus, to get the global economy moving upwards rather than downwards, at strong fortification of trade finance, and the international financial institutions, so that emerging markets were not starved for capital."[46]

German lack of public goods provision during the eurozone crisis (2010-13)

From a public goods point of view, the parallels between the United States' role during the GFC and Germany's role during the euro crisis are mostly striking in their absence. In this section, I show the role played by German policymakers in resisting to provide the equivalent 'regional' public goods for the Eurozone during the period 2010–2013. We can observe the clear rationale they had for under- or non-provision of those public goods (Table 2).[47]

First, rather than providing the Eurozone's peripheral countries with a market for their distress goods, Germany was used to selling its world-class manufacturing goods in their markets. 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

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)*

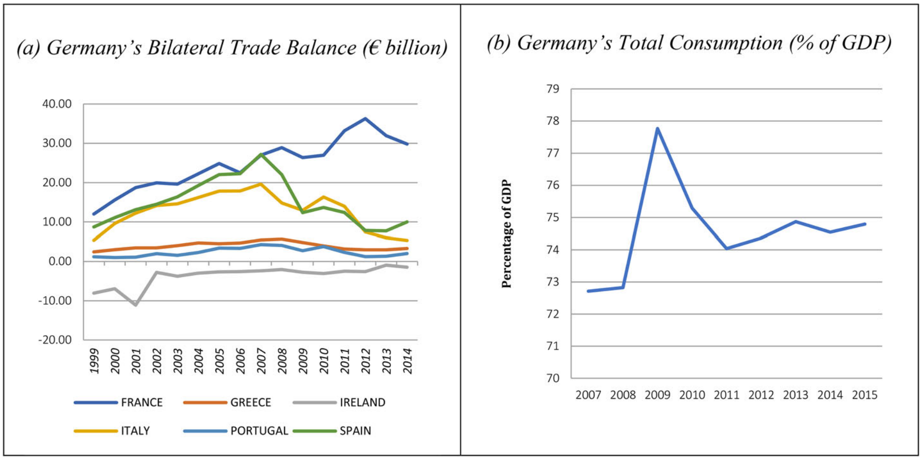

Figure 5. Germany's Trade Balance and Total Consumption.
Source: (a) Eurostat (2015); (b) AMECO; and author's calculations

2007.[48] 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 exact opposite of serving as a consumer of last resort. Merkel defended German export surpluses. In 2011, she declared that "there must not be any complaints about the high level of German exports, as they result from high competitiveness." In that speech, she explicitly linked export surpluses to fiscal restraint, warning that limiting export surpluses would make it harder to implement the rules of the Stability and Growth Pact (Merkel, 2011).

Second, instead of being countercyclical and long-term, German lending was largely pro-cyclical and short-to-medium term, after the introduction of the euro. During the boom years of 2003-2008, German banks extended vast credits to the European periphery, a trend that abruptly reversed after the euro crisis led to a 'sudden stop.' A 2010 IMF working paper showed Germany to be one of the two biggest net creditors within the Eurozone in 2008 (after France) with intra-

Eurozone net investment positions of +€735, which was mirrored by that of Portugal (–€136 billion), Greece (–€199 billion), Italy (–€334 billion) and Spain (–€794 billion).[49] 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 to vacillate between severe caution and active hostility. The credit that was extended through the ESM and the bailout programs for Greece, Ireland, and Portugal – limiting 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 in 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. As mentioned earlier, 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.'[50] 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 French former treasury official 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 tacitly 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 & Quiggin, 2017). Schäuble was very clear on this point: "We will not spend our way out of the current predicament, nor will it work to lower the debt burden by inflating the problem away."[51] As a result, the affected countries saw an increase in their debt-to-GDP ratios, which exacerbated the disease the deflationary medicine was trying to cure.[52]

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 – Kindleberger style – Germany used its power in a more 'coercive' fashion by transferring the brunt of the burden of adjustment onto the crisis-ridden countries.[53] Furthermore, just like the United States enjoyed the 'exorbitant privilege' of holding the world's reserve currency, the dollar, Germany benefited from holding the safety asset of choice within the Eurozone, i.e. the *bund*, allowing them to borrow at record low interest rates, significantly easing their own fiscal burden (Tooze, 2018, p. 381). Berlin did not use this extra fiscal space to stimulate domestic demand, however. Instead, the German government used the windfall opportunity to draw down its own sovereign debt.

Alternative explanations

What are some possible alternative accounts for why the U.S. and Germany both acted in the way they did during their respective crises? Let me put forward three different theoretical lenses that are different from the HST lens that I have taken in this article. One possible alternative account would stress geopolitical factors and apply the theory of hierarchy associated with David Lake (2009a, 2009b). For international hierarchies to form, Lake pointed out that the joint gains from cooperation must be sufficient to cover the dominant state's costs and for the subordinate states "to yield some measure of its sovereignty to the dominant state" (Lake, 2009b, p. 275). In contrast to the realist concept of 'anarchy,' which requires self-help, encourages balancing against powerful states, and limits trade between states, Lake (2009a, p. 11) showed how 'hierarchy' promotes mutual aid, induces bandwagoning with the dominant state, promotes inter-state trade, and occasionally requires disciplining of subordinates. Applied to the cases of the US during the GFC or Germany during the euro crisis, Lake's approach allows us to understand how both states were able to shape the respective collective responses, and why the other states in their respective systems (global and European) felt compelled to follow their lead. What such an account could not explain, however, is why U.S. and German elites had such opposing viewpoints on what that response should look like.

A second theoretical approach one could adopt to make sense of U.S. versus German hegemony in the twenty-first century is to consider the historical institutional and domestic political constraints facing German power in the Eurozone, which were qualitatively very different from American power in the world economic system. Following arguments made by Simon Bulmer and William Paterson (2013, p. 1396), unlike U.S. hegemony, German hegemony is both "uneven and contested." They believe that German material resources do not point to an overwhelming concentration of power, and see Berlin lacking in international legitimacy historically, as well as facing severe domestic constraints, both legal and political. This has given rise to what Bulmer and Paterson have termed a 'leadership avoidance reflex.' However, this observation does not sit well along the fact that no one really denies that Berlin 'led' the response to the crisis. What it does tell us is that German elites were more comfortable hiding behind the EU rules – no bailouts, fiscal stability, etc. – than they were veering away from them. This corresponds to Douglas Webber's (2019, p. 13) observation of Germany as "a 'hobbled hegemon' […] with various structural and normative constraints." Such an account is largely complementary to the approach I took here, as both leading states worked within certain political constraints, but even within those limits, there were multiple possible responses.

A third perspective would be to look more carefully at the role of economic ideas in explaining policy outcomes. Using sociological arguments about professions, Henry Farrell and John Quiggin (2017) documented how Keynesian ideas about fiscal stimulus only briefly seemed to form the basis of a new economic policy consensus in response to the GFC, but after the acute phase of the crisis was over, those ideas quickly went out of fashion again. This observation coincides with the mostly 'Keynesian' approach to the GFC (2008–09) and can potentially explain the more 'orthodox' ordoliberal approach to the euro crisis (from 2010 onward). Michael Flickenschild and Alexandre Afonso (2019) showed how network structure of economic expertise influenced the diffusion of ideas in economic policymaking very differently in the United States and Germany. They argue that the more fragmented structure of academic expertise in Germany hindered the diffusion of new ideas while the more connected structure in the U.S. served to enable and foster it. And finally, Vivien Schmidt (2014), uses a 'discursive institutionalist' frame to show how German elites made use of philosophical, programmatic and policy ideas in both the coordinative and communicative sphere of the euro crisis. That same lens could have been applied to understand the U.S. context in 2008 and 2009. This approach is also complementary to my own HST account that stresses crisis narratives and ideas around leadership and crisis response.

While all three approaches help us clarify the structural dynamics of both dominant states, the (relative) lack or existence of historical and institutional constraints, as well as the battle of economic ideas, it does not fully tell us why U.S. elites were eager to avoid the mistakes they had made in the 1930s (in the way Kindleberger had pointed out) and why German elites, even though fully aware of their leadership role in the euro crisis, went with a crisis narrative that pointed to a very different solution, which avoided any provision of regional public goods.

I have tried to argue that a revival of Kindleberger's original economic insights – rather than their realist or liberal institutionalist translations by IR theorists – enhanced by the inclusion of elite ideas, crisis narratives, and communicative discourse (Blyth, 2002; Matthijs, 2012; Schmidt, 2008) – gives us a fuller picture of what happened. The best way to illustrate the role of ideas in the leading states' crisis response, however, is to examine possible counterfactuals (Morrison, 2016, p. 199), which I turn to next.

What if? Counterfactual

According to Sheri Berman (1998), ideas should be held to the same standards as other potential independent variables if ideational explanations are to be able to compete with alternative explanations of political behavior. One key proposition Berman (1998, p. 33) put forward was, for ideational explanations to hold, "*actors with different ideas will make different decisions, even when placed in similar environments*" (italics in original). Applied to our argument, can we imagine a different U.S. President, Treasury Secretary, or Fed chair to have made radically different decisions even though they were put in the exact same situation? And could Germany's policy response have been any different under another Chancellor, finance minister, or combination of the two? Some observers will be skeptical and point to the fact that the overall U.S. response under Republican George W. Bush and Democrat Barack Obama did not differ all that much. In the case of Germany, one could say that other people in charge would have faced the same domestic political and EU institutional constraints and that Merkel's various governments – either in coalition with free market liberal FDP or social democratic SPD – have seen broad continuity in their approach towards the Eurozone. Yet, it is fairly easy to come up with an alternative scenario that is well within the realm of the politically possible.

In the case of the United States, imagine the president in 2008 and 2009 to have been Donald Trump, his main economic policy adviser Peter Navarro, and the chair of the Federal Reserve Judy Shelton. Elected on a policy platform of "America First" it is hard to imagine someone like Trump to have followed the same playbook as Barack Obama in 2009. In multiple speeches, Trump stated that he is not and does not want to be "President of the world." He is skeptical of the Fed's actions and its independence, does not believe the U.S. should be seen as a mere market for other countries to dump their goods on at unfair prices, and is unconvinced of the merits of U.S. investments abroad.[54] Peter Navarro believes that the U.S. over the past 30 years "has sacrificed [its] economy, often on the altar of foreign policy and geopolitics" and thinks protectionism would bring back jobs to America.[55] Finally, Judy Shelton, one of Trump's economic advisers who at the time of writing is being considered for a Fed board position, has criticized the Fed as "very close to central planning" and has "rigged" the economy in favor of Wall Street. She has even questioned the existence of the Fed.[56] With an economic policy team like that in place, one could easily make the case that the U.S. would not have provided Kindleberger-style leadership to the world economy, but would have blamed other countries and pushed the burden of adjustment onto the rest of the world, not least China.

In the case of Germany, imagine the Chancellor having been social democrat Peer Steinbrück rather than Angela Merkel, the finance minister the Greens' Joschka Fischer instead of Wolfgang Schäuble, and the ECB President in 2009 and 2010 Mario Draghi in the place of Jean-Claude Trichet. In fact, in early 2009, when Steinbrück was German finance minister, he already gave us a sense of how he thought about a potential fiscal crisis in Greece. Financial markets were aware of the dismal state of the Greek budget about a year before the euro crisis erupted. Back in February 2009, during a press conference, Steinbrück was asked about how the EU would respond to further upward revisions in Greek deficit figures, and he responded that 'the [other member states of the Eurozone] would have to rescue those running into difficulty' (as quoted in Jones, 2009a, p. 26). The markets immediately calmed down. Fischer as finance minister may have pushed for 'eurobonds' or common Eurozone debt instruments as a more 'systemic' solution to the euro crisis, while agreeing to stimulate demand in Germany in return for austerity in the periphery. And if Draghi had been ECB president two years earlier, he may have started a quantitative easing program in the fall of 2009, following in the footsteps of the Fed and the ECB. One could even argue that under such a scenario, the euro crisis may have never occurred at all.

In the spring of 2020, the COVID-19 pandemic hit the European continent in both unexpected and uneven ways. While the human and economic toll in the EU's Southern member states, especially in Italy and Spain, was particularly heavy, Northern member states like Germany, Austria and the Netherlands suffered comparatively less and also had more national fiscal space to respond in a more aggressive fashion. Given the sheer magnitude of the problem, French president Emmanuel Macron joined in Italian and Spanish efforts for the EU to issue joint 'coronabonds' in a dramatic gesture of European solidarity. Merkel initially resisted those calls, siding with the 'frugal four' member states of the Netherlands, Austria, Denmark and Sweden, but was convinced by Macron in May 2020 to put Germany's weight behind a Franco-German proposal for an EU economic recovery fund of 500 billion euros that would consist of grants and be financed through bonds issued by the European Commission. This basically meant an explicit transfer of fiscal resources from North to South. Merkel sold this apparent U-turn in Germany as a 'one-off' initiative – a one-time exception in extraordinary times – in order to safeguard the integrity of the EU and avoid catastrophe. She defended the move as only being possible because of a decade of austerity and fiscal prudence. But behind the move was a shift in thinking brought about by a new finance minister – the Social Democrat Olaf Scholz – who had surrounded himself with a younger generation of economists, including Jörg Kukies (a former Goldman Sachs banker) and Jacob von Weizsäcker (a former Member of the European Parliament and economist at the Brussels-based Bruegel think tank, who was one of the early advocates of a Eurobond). Scholz, Kukies, and von Weizsäcker proved instrumental in reshaping the ideological mindset at the German finance ministry (Chazan, 2020). Furthermore, Scholz his close personal relationship with Macron – going back to the latter's stint as French economy minister during socialist François Hollande's presidency in France – enabled him to coordinate directly with the French president (against protocol) and fellow social democrats in Spain and Italy in order to convince Merkel to take the plunge.[57] If Scholz, Kukies and von Weizsäcker had been in charge of Germany's finance ministry during 2010–2012 rather than Schäuble, it is plausible that Berlin would have defined its leadership role along very different lines.

Conclusion: why HST should not be left on the shelf

After the global financial crisis and the euro crisis ended the period of the 'Great Moderation,' it is too early to completely write off the central insights of hegemonic stability theory, especially if we focus on Kindleberger's original insights concerning hegemonic crisis response. This article presented a model of hegemonic 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 article 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, or choose not to act at all, determined by whether the system's leader chooses to bear a disproportionate amount of the costs of stabilization by providing the system with global or regional public goods.

This article has shown empirically why the U.S. ended up acting as a relatively 'benign' hegemon, and was able to resolve the GFC quickly, while Germany chose to act as a more 'coercive' hegemon, delaying the resolution of the euro crisis and exacerbating its consequences for the European periphery. In order to do so, I have added a critical variable to Kindleberger's leadership version of HST in order to explain why a dominant state will provide benign or coercive leadership, i.e. the ideas held by policy elites and the crisis discourse they systematically communicated to markets and the wider public. Those ideas proved centrally important in the provision or under-provision of systemic public goods. The U.S. acted the way it did because of the Keynesian economic ideas its elites held at the time, and without a doubt were influenced by their predecessors' dismal performance during the Great Depression. U.S. policy elites – including Geithner, Summers, Romer and Bernanke – took Kindleberger's lesson to heart. German elites – especially Merkel, Schäuble and Weidmann – also acted based on their ideas, advocating a much more orthodox and ordoliberal approach of national fiscal rules and domestic structural reform in a crisis that was largely framed by them as needing 'national' rather than 'systemic' solutions.

Kindleberger once observed that many have 'come to believe that the system should be run at all times by rules, including regimes, not people.' But he went on to note the following: 'Rules are desirable on trend. In crisis the need is for decision.'[58] Germany's finance minister in 2010 expressed a belief in the importance of leadership and hegemonic stability yet had a fundamentally different reading of Kindleberger's vision than his American counterparts. The different ideas held by national policymakers in the U.S. and Germany, as well as the radically different crisis narratives they adopted and communicated, would lead to very different perceptions of their national interests and fundamentally opposing definitions of leadership during crises. This divergence of views and ideas explains why, in the beginning of the twenty first century, Kindleberger's leadership version of hegemonic stability theory and crisis response was fully embraced in Washington, but largely ignored or misread in Berlin. In the end, one can only conclude that hegemonic leadership in a time of crisis is what the state in question makes of it.

Notes

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. The Emergency Economic Stabilization Act (EESA) was signed into law on October 3, 2008.
3. For more detail, see Chinn and Frieden 2011, chapters 4 and 5
4. Note that the other main growth engine to the world economy was China (see Tooze 201886, chapter 10), which also had a major fiscal stimulus. Also, one could argue that the US stimulus was too small relative to its size (see Farrell and Quiggin 2017)
5. Drezner 2014a, and 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.
6. 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.
7. For an overview of the euro crisis, as well as its major causes, see Matthijs and Blyth (2015)
8. IMF (2014), p. 86, p. 180
9. Ibid., p. 181
10. In 2008, the German government in Berlin did bail out its #2 bank, *Commerzbank*, and the second-largest commercial property lender, *Hypo Real Estate*. However, by the end of 2009, it decided further direct bailouts would lead to a public outcry, and hence chose the indirect route, via the troika's bailout of Greece (see Thompson 2013).
11. 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)

12. Olson (1965), p. 28
13. As one of the reviewers pointed out, there is only a collective action problem if you think of the global order as 'multipolar.' If you conceive of it as the United States 'long' on dollars and every other state as 'short' on dollars, then there is no collective action to solve. From that point of view, the US is its own K group. Of course, the GFC required more than dollar liquidity.
14. See Krasner (1983), Keohane (1984, [2005]), and Milner (1997). For a response to the main critique to Hegemonic Stability Theory as put forward by Keohane (1984, [2005]), see Kindleberger (1986b).
15. 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.
16. 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).
17. Kindleberger (1986a), p. 304
18. IMF (2014) and own calculations
19. Ibid.; European Commission (2014), *Ameco Database.*
20. See Kindleberger (1997), pp. 223-228 on whether one power's decline is followed by the rise of another.
21. 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.
22. Jones (2009b), pp. 243-252
23. 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.
24. Serving as the lender of last resort can be seen as standard central bank practice. Here, the European Central Bank from 1999 until 2012 was a clear outlier, and more the exception to the rule.
25. As quoted in Eichengreen (1992), p. 251
26. Lake (1993), p. 485
27. Ibid.
28. 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) and Newman (2015)
29. See especially Kindleberger and Aliber (1978, [2011])
30. 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
31. Schäuble (2010), translated from German.
32. Ibid.
33. Fourcade (2013) and Matthijs and McNamara (2015)
34. Thompson (2013), p. 15
35. ECB (2019) https://www.ecb.europa.eu/mopo/eaec/fiscal/html/index.en.html
36. 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.

37. See footnote 36.
38. For an overview of those accounts, see Drezner (2014b), pp. 39-42
39. New York Times (2008)
40. IMF (2009) and G-20 (2009)
41. Watch Post G20 summit remarks here: https://www.americanrhetoric.com/speeches/barackobama/barackobamag20summitpressconference.htm
42. Obama (2009d) remarks on the economy at Georgetown University (April 14, 2009) can be accessed here: https://www.nytimes.com/2009/04/14/us/politics/14obama-text.html
43. Column in *Financial Times* (September 23, 2007), accessible at: http://larrysummers.com/commentary/financial-times-columns/beware-moral-hazard-fundamentalists-september-23-2007/
44. For a more detailed analysis, see Helleiner (2014), pp. 38-45
45. Federal Reserve Bank of New York (2014), Tooze (2018), p. 212
46. See *Project Syndicate* podcast, available here: http://larrysummers.com/2019/07/05/the-g20-on-shaky-ground-a-project-syndicate-podcast/
47. See also Matthijs and Blyth (2011)
48. Eurostat (2010), p. 145
49. Waysand, Ross, and de Guzman (2010)
50. As quoted in Matthijs and Blyth (2011)
51. Wolfgang Schäuble speech at Chatham House (October 2011). Available online at: https://www.chathamhouse.org/sites/default/files/public/Meetings/Meeting%20Transcripts/171011schauble.pdf
52. See Blyth (2013), chapter 3
53. See also Fubini (2013)
54. Indeed, during remarks at a bipartisan meeting at the White House, Trump promised to "bring back trillions of dollars – we have trillions of dollars overseas and we'll bring back, and we'll bring them back quickly." Online available at: https://www.youtube.com/watch?time_continue=156&v=nx2RaxQZJ1k
55. Peter Navarro (2017), *NPR interview* on May 2, 2017. http://www.npr.org/2017/05/03/526621048/peter-navarro-a-bricklayer-of-trumps-protectionist-wall
56. Washington Post (July 23, 2019). Online available at https://www.washingtonpost.com/business/economy/the-federal-reserve-is-not-your-friend-trump-quest-to-remake-the-fed-hinges-on-judy-shelton/2019/07/22/d6440a3e-a35e-11e9-b8c8-75dae2607e60_story.html?utm_term=.497381684d3c
57. As carefully documented in *The Wall Street Journal* by Bojan Pancevski and Laurence Norman: "How Angela Merkel's Change of Heart Drove Historic EU Rescue Plan" (June 21, 2020). Available online at: https://www.wsj.com/articles/angela-merkel-macron-covid-coronavirus-eu-rescue-11595364124
58. Kindleberger (1986c)

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