# The London Monetary and Economic Conference of 1933:

## *A Public Goods Analysis*

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ABSTRACT. Hegemony theorists attribute the duration and severity of the *Great Depression* to the fact that, in 1933, the United States refused to take the place of *Great Britain* as world economic leader. This argument is based on the proposition that a major power must coordinate the international monetary and *trading systems* if stability is to obtain in those sectors. This thesis is reappraised by applying the theories of *public goods,* clubs, and *public choice* to the *London Monetary and Economic Conference* of 1933, an occasion when the *United States* declined the role of world economic *hegemon.*

*Dig deep tunnels, store grain everywhere, and never seek hegemony.*

Chairman Mao

I

### The Hegemon Contention

THE SEARCH FOR STABILITY in the world economy has given rise to a host of institutional arrangements aimed at international cooperation. Yet, as recurring policy disagreements and trade disputes demonstrate, global economic relations are still marked by something less than perfect harmony. A theory of international political economy, the hegemonic stability thesis, has been offered to explain these divergent tendencies. Perhaps the clearest statement of this theory can be found in Charles Kindleberger's *The World in Depression, 1929–1939,* where the author contends that a major economic power must serve as the world's equilibrating mechanism, providing a liberal trading system and a monetary regime if stability is to obtain in the international economy.[1] This claim is based on the premise that open world trading systems and monetary regimes are public goods because they are nonrival in consumption and economic agents cannot be excluded from using them once they are in place.[2] Thus, hegemony theorists

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conclude, if these international public goods are going to be supplied, the responsibility for providing them rests with the world's major economic power.

Hegemony theory has its critics. Nonetheless, its advocates generally agree Great Britain stabilized the international economy before World War I and the United States did so after World War II. During the interwar period, however, because no country served as hegemon, supplying the public goods needed for international stability, the world economy collapsed. Indeed, according to Kindleberger, the severity and duration of the Great Depression of the 1930s were, in large measure, due to Great Britain's economic decline and the United States' "unwillingness to assume responsibility for stabilizing" the international economy. "From 1919 to 1929," Kindleberger asserts, "Britain could not, and the United States would not, act in the capacity of world leader." [3] In 1933, at the London Monetary and Economic Conference, a Great Depression version of current-day economic summits, the United States had a chance to break with the position it had taken earlier and replace Great Britain as world hegemon. Its decision not to do so is the subject of this paper.

## II

## The United States and World Leadership

THE IMPORTANCE OF THE UNITED STATES to the world economy during the interwar period was evident in the repeated attempts European powers made to involve it in efforts to fight the Great Depression. European leaders raised the question of international cooperation with President Hoover in 1930, and again in 1932 when they invited him to send U.S. representatives to a Lausanne, Switzerland, conference on war reparations and intergovernmental debts.[4] These efforts culminated in a League of Nations' decision to ask six major nations, foremost among them the United States, to organize a world economic summit. All six complied and in 1932 they sent representatives to Geneva, Switzerland, to draft an agenda for what came to be known as the London Monetary and Economic Conference of 1933.

The consensus view among the experts who met in Geneva was that if the impending conference were to be successful in ending the world's economic crisis, it would have to accomplish several things: restore the gold standard; stabilize commodity prices; and return world trade, down in volume by approximately a quarter since 1929, to its pre-Depression levels. But there were other issues on which these experts disagreed. Europeans considered intergovernmental debts a major cause of the Great Depression and a serious obstacle to recovery, convictions they expressed in the *Draft Agenda* they wrote for the Conference. They asserted that the debt question "should be settled and that the settlement should relieve the world of the further anxiety concerning the disturbing effects of such payments on financial, economic, and currency stability. Until there is such a settlement, these debts will remain an insuperable barrier to economic and financial reconstruction." [5]

The American experts Hoover had sent to Geneva in 1932 to serve on the Conference's agenda committee agreed with their European colleagues on the points concerning gold, commodity prices, and trade. They differed sharply, however, on the matter of intergovernmental debts, insisting those obligations were not a matter for conference debate.[6] This opposition was based in economics and politics. In fiscal 1931, interest payments on intergovernmental debts owed the United States accounted for almost six percent of all U.S. Treasury's receipts that year, not an insignificant amount at a time when budgetary stringencies were an ever-growing problem.[7] Furthermore, it was assumed that the American public believed these debts were contractual liabilities the borrowers were obliged to meet. Thus, if the debts were reduced or canceled, the United States, which had not demanded reparations at the Versailles Conference, would, ironically, end up paying them, albeit indirectly.[8]

US participation in the World Economic Conference and the war debts were contentious matters during the presidential succession of 1932–33. The Roosevelt administration wanted to avoid any foreign policy agreements that might jeopardize the New Deal, then in its formative stages. It was thought that American involvement in the Conference would bind the country to the gold standard, thereby constraining New Deal monetary policy, and that Conference participants would demand concessions on debts and tariffs.[9]

By Inauguration Day, March 4, 1933, the international economy was in a chaotic state. More than thirty countries had abandoned gold; exchange restrictions were widespread; tariff and non-tariff barriers were commonplace; and world trade was in serious disarray. Continued adherence to the gold standard by the United States was one of the few islands of stability left in this economic maelstrom. This changed in a day. Immediately upon assuming office, President Roosevelt declared a bank holiday and banned gold exports, except when sanctioned by federal license. Then, in April, he severed the link between the dollar and gold by announcing that the United States would no longer issue gold export licenses. At the same time, Roosevelt revealed his support for the Thomas Amendment, legislation giving him authority to issue up to $3 billion in greenbacks, remonetize silver, and, most significantly, reduce by as much as fifty percent the gold content of the dollar.

III

## The London Monetary and Economic Conference

IN THE UNITED STATES what the London Conference might achieve was a matter of some discussion. Those who favored international cooperation were hopeful because of Roosevelt's efforts, in the spring of 1933, to consult with the governments of almost every country that would attend the Conference. But those who thought the President would resist foreign designs were equally sanguine because of something he had declared in his inaugural address: "Our international trade relations," he noted, "though vastly important, are in point of time and necessity secondary to the establishment of a sound national economy. I favor as a practical policy the putting of first things first. I shall spare no effort to restore world trade by international economic readjustment, but the emergency at home cannot wait on that accomplishment." [10]

Roosevelt's policy of putting first things first was not the dominant view in Europe. There it was thought that the United States would have to take a position of leadership if the Conference were to succeed, because "America is probably in a better position to give a lead towards sanity in commercial policy. . . ." There were calls for the U.S. to cut its tariffs, stabilize the dollar, and reduce or cancel its claims on its debtors.[11] For Europeans, the major problem was how to make the United States, "which has been made the world's greatest creditor . . . shoulder a creditor's responsibilities." [12]

Roosevelt's Secretary of State, Cordell Hull, led the U.S. delegation to the Conference. The President conveyed his wishes to Hull in a series of resolutions aimed at six major topics: tariffs; price levels; measures to lay the groundwork for an "adequate and enduring international monetary standard"; non-tariff barriers to trade; foreign exchange restrictions; and commodity controls. The President ordered Hull's group not to enter into any Conference discussions regarding debts, disarmament, or, most significantly, currency stabilization.[13] Instead, Roosevelt directed Oliver Sprague of the Treasury Department to conduct, outside the Conference, tripartite currency talks with British and French officials. The agreement to hold such discussions had been reached by these countries in Washington in May 1933.

The Conference opened on June 12, 1933. Representatives from sixty-six nations met at the Geological Museum in Kensington, in London, and began working through two committees, a Monetary and Financial Commission, which dealt with credit, prices, monetary problems, and exchange controls, and an Economics Commission, which focused on protection, production, and marketing. All attention, however, was directed towards the tripartite currency negotiations then underway outside the Conference, for it was clear that progress on almost every item on the agenda depended on a resolution of the currency question. The monetary talks, conducted by experts from the United States, Great Britain, and France, had started on June 10 and by June 15, it appeared, a settlement had been reached.[14]

The first part of this tentative pact was a general statement in which France pledged to remain on gold, but only within the "framework of its national monetary law," an allusion to the fact the Banque de France was prohibited from conducting open market operations. The core of the agreement lay in two subsequent clauses in which the United States, Great Britain, and France agreed that, from the beginning of the Conference and while the delegates at the meeting were trying to achieve "lasting stability" of exchange rates, they would limit fluctuations in the international values of their currencies. The negotiators avoided fixing, for the moment, any ultimate rate of stabilization of the "currencies off gold," but they did pledge their governments would adopt "appropriate financial" policies and renounce "any measures which would be incompatible with the principle of maintaining or restoring monetary stability." This last phrase applied to the United States and it meant that FDR would not use the authority provided him by the Thomas Amendment. All these points were amply qualified by escape clauses that stated that no government was committed beyond the life of the London Conference and that each could withdraw "if extraordinary circumstances" arose.[15]

Despite attempts at secrecy, word of the pending agreement leaked out before an official announcement could be made. Wall Street renewed its slide; commodity prices in the United States fell; and the dollar appreciated—all movements contrary to what the Roosevelt administration had been trying to achieve. The President's reaction was a reproving message to Hull: "All kinds of wild reports here about stabilization at some fixed rate, some reports saying around four dollars and other reports at other rates. I feel sure these reports are not founded in any fact. Of course any proposal must in any event come here for approval or disapproval by the Treasury Department and me." [16]

On June 17, Roosevelt informed his London representatives he had decided to reject the agreement they had reached with their French and British counterparts. He was most adamant regarding the point that his administration must "retain full freedom of action under the Thomas Amendment to hold up price levels at home." [17] His currency negotiators tried to mollify him, noting they had made it "perfectly clear" the June 15 proposal was only a temporary measure aimed at facilitating the "work of the Conference in laying permanent groundwork." [18] They also cautioned something had to be done to limit exchange-rate variations if Conference delegates were to have any chance at success in dealing with the other items on the agenda. It was imperative, they maintained, to reach some sort of agreement if they were going to be able to put to rest the view that the United States was an "entirely unknown, uncertain, and indifferent factor" at the Conference.[19]

These claims did not move the President, who still feared the British and the French would try to manipulate their own exchange rates, thereby undoing the depreciation of the dollar he had brought about by his break with gold.[20] Remarkably, what had been merely a story of diplomatic relations among negotiators of countries meeting in international conclave now became an adventure colored by drama and suspense. The President went off on vacation, by ship, out of direct contact with his representatives and advisors, communicating when he wished, via hookups with naval vessels, over a network stretching from the Atlantic, to the State Department in Washington, to the U.S. Embassy in London.

Roosevelt's final decision on the currency negotiations came in a message relayed by the destroyer *Ellis*.

> After careful readings of the views expressed in your . . . [previous message] . . . and after full discussion here I think it best in every way for us to stand on the principles outlined in my cable of June 17. You are in position to insist on consideration of the larger and more permanent program, working towards a means of exchange among all nations. Remember that far too much importance is attached to exchange stability by banker-influenced cabinets.[21]

The President's rejection of the tripartite declaration, made public on June 21, 1933, met an overwhelmingly negative reception. British Prime Minister Ramsay Macdonald feared Roosevelt's actions would destroy the Conference, an opinion shared by the Italian delegation. The French responded in anger: Georges Bonnet, rapporteur of the Monetary Commission, is said to have "exploded." [22] The *London Times* reported that, "all discussions in the Conference became disjointed and unreal," and it questioned "whether any good purpose is being served by the American delegation's remaining in London any longer" because "America has definitely chosen the path of economic isolation." [23]

The crisis that ended the Conference began in the Gold Bloc. Holland, France, Belgium, and Switzerland announced they would be forced off gold unless something were done to stabilize the dollar. This warning came as the President of the United States was unavailable, off on vacation. Apprehension grew that the Gold Bloc really would abandon fixed rates, thereby renewing the economic warfare that had so disrupted the international economy.[24] Roosevelt was unmoved. Whatever the Gold Bloc did, he said, was debatable, especially with respect to currency stabilization.

The final round in the currency battle involved negotiators from the United States, Great Britain, and the Gold Bloc, who crafted yet another resolution to restore the gold standard through joint action by "all countries directed toward limiting speculative exchange operations." This declaration stipulated that currency stabilization should be attained "as quickly as possible," with gold reestablished at a price and time determined by the governments involved. Countries still on gold agreed to continue at then prevailing rates. Those not on gold, "without in any way prejudicing their own future ratios to gold," expressed their intention to go back to gold as an ultimate goal, "under proper conditions." Finally, all parties to the agreement, whether on or off gold, agreed to limit exchange speculation by means of central bank cooperation.[25]

Roosevelt's advisors in Washington recommended that, to save the Conference, the President should accept this compromise. They tried to mollify his concerns by noting that the usual escape clauses could be added, that all other countries and their central banks could be asked to participate in the effort to limit currency fluctuations, and that even if the United States lost a small quantity of gold as a result of these renewed attempts at stabilization, such an eventuality would not be a major problem.[26]

Roosevelt's response came in another of his ship-to-shore messages, this time via the cruiser *Indianapolis.* He complained that much of the declaration pertained to private bank operations, not government functions, and he claimed the agreement erected "probable barriers against U.S. fiscal development," a reference to restrictions on his freedom to use the Thomas Amendment. The President argued the United States could not accept such a constraint because it "must be free" to adopt its own methods of stabilizing its price level. Furthermore, any agreement to limit or fix exchange rates, he asserted, was "artificial and speculative," and that it would be "unwise" to "permit limitation of our own action to be imposed by any nation other than our own." Roosevelt ended his message by attacking Great Britain for breaking with gold in 1931 and France for taking so long to return to it after World War I. The Europeans, he believed, had attempted to make an issue of the domestic economic policy of the United States, "one nation out of the 66 present," and that was something he would not accept.[27]

Offcial word of President Roosevelt's veto of what would be the final attempt at a currency agreement was released by Secretary Hull on 1 July:

> The Secretary of State has received a reply from the President rejecting the declaration in its present form. He will issue a statement of American policy on the subject Monday.[28]

That Monday message entered history as Roosevelt's "bombshell." In his statement he attacked currency negotiators and Conference delegates alike, accusing them of artificial experiments, basic economic errors, a lack of proportion, specious fallacies, a concern for artificial stability, and fetishes of "so-called international bankers." [29] Needless to say, this communique sounded the Conference's death knell. The meeting did continue until July 27, but it was a wake rather than a working assembly.

IV

## An Economic Analysis—Two Views

FEW DOUBTED that Roosevelt and his nationalism had wrecked the Conference. *The Economist* saw it as nothing more than the United States putting its welfare ahead of world stability. The President's message, it claimed, meant "the United States refused to consider a return to the gold standard, and that exchange stability depended on the rest of the world maintaining price levels comparable to the U.S." [30]

Internationalists in the United States reacted with dismay and anger, complaining that the failure of the Conference and the wrecking of hopes for international stability were "not the results of policy, not of dissension, but a divine gift of ineptitude, little short of genius." The *New York Times* found Roosevelt's bombshell message "confusing," "ill-timed," and "ill-phrased." [31] The *Nation* moaned of a "Black fog in London," and warned that the United States "will enjoy the dubious distinction of having done more to bring about its [the Conference's] collapse than any other nation." It further charged the "fatal shot" had been fired by the President, who appeared to have been reading some article entitled, "If I Were World Dictator." [32]

Not everyone disapproved of the President's actions. Roosevelt's supporters described his rejection of the stabilization proposal as an "American Declaration of Independence that was handed to the London Conference delegates for their Fourth of July reading," and claimed that the United States had "declined the role of Santa Claus." [33] Irving Fisher agreed. Roosevelt, he maintained, could not have accepted the agreement to stabilize the dollar "relative to gold and still try to raise the price level to the 1926 level . . . and any demand by France to stabilize is to ask the President to give up the reflation to which he is committed and which is America's way out of the depression." [34]

Kindleberger's appraisal of this chapter in American foreign economic policy captures the essence of the hegemony thesis. At this most critical juncture in the world crisis, the one country capable of leadership "was bemused by domestic concerns and stood aside." Consequently, "When every country turned to protect its national private interest, the world's public interest went down the drain, and with it the private interest of all." [35] In short, the collapse of the London Monetary and Economic Conference and the prolongation of the Great Depression were due to the sorry spectacle of a rising hegemon that refused to meet its international obligations.

Most critics of Roosevelt's London Conference policies claim the United States should have assumed hegemonic responsibilities in 1933, and they attribute the President's rejection of that role to his nationalism.[36] Indeed, this is the standard interpretation of this episode in U.S. foreign policy. But simply charging the President with nationalism does not establish that the decisions he took with respect to the London Conference were economically unsound. To make that determination, Roosevelt's decisions must be subjected to economic analysis, an inquiry based on the concept of public goods.

Hegemony theorists hold that international economic stability is a public good supplied by the world's major power. If this assertion is correct and the number of nations enjoying this stability is large, each individual nation's share of the total benefits available will be small.[37] This raises the distinct possibility some will choose to be free riders. They will enjoy the benefits of an open world trading system and monetary regime, but they will not contribute to the costs of supplying these services. They are safe in this course of action because the exclusion principle cannot be applied. Thus, if stability is to be established, the costs of providing it will fall on the international community's most powerful nation, the hegemon. But free riders are not the only problem. There is also the possibility some countries will succumb to the temptation to cheat by engaging in opportunistic protection. Similarly, they may enjoy the benefits of the international monetary regime—in this case, the fixed exchange rates established by the hegemon—and try to gain additional advantages by manipulating their own exchange rates, a practice followed in the 1920s and again at the outset of the Great Depression. Such behavior is inimical to, and destructive of, joint welfare maximization in the international community. Therefore, structures must be put in place: (1) to guarantee that those who benefit, join in supplying the necessary public goods; and (2) to ensure that those involved in the enterprise, play by the rules. Unfortunately, delegates to the London Conference and negotiators at the currency talks did nothing about formulating an enforcement mechanism that would achieve these ends.[38] Absent such a device and given the circumstances extant in 1933, it was obvious the United States, everyone's choice as the new hegemon, would have to bear most of the system's costs, while free riders and slackers would enjoy its benefits.

Representatives of sixty-six countries attended the London Conference, certainly enough to justify the large numbers case just outlined. Most of these nations, however, were only peripheral to the negotiations conducted by the Conference's few powerful states. This fact provides another methodological means of analyzing the situation, the small numbers case. This variant focuses on the international economy's strongest states, the limited number of countries that will supply the international public goods available to all states, large and small alike. According to this theory, when the optimal supply of these goods is provided, the marginal private benefit received by each major player in the system will be less than its marginal private cost. It is not unreasonable, therefore, to assume that some powerful states will follow their self-interest and stop producing the goods in question at the point where their marginal private cost equals their marginal private benefit. But if they do, there will be a less than optimal supply of the necessary public goods. Here is yet another opportunity for the hegemon to come to the rescue. Now the other members of the international community will rely on the most powerful country to bear the difference between marginal private benefit and marginal private cost to ensure an optimal supply of the requisite public goods.[39] The hegemon may do this, but one is impelled to ask why? A major reason offered by proponents of this theory is that the hegemon will receive as its reward a "leadership surplus," a nonmonetary return, defined as prestige or international political power.[40]

To this point the proposition that an open world trading system is a public good has been accepted. If it is rejected, another line of inquiry is available. Assume instead that the exclusion principle can be applied, that trade is rival, and that market shares are not joint in supply.[41] Given these premises, if a country has international economic power because of its size relative to world markets, free trade may not be its best option. Rather, it would be better advised to use optimal tariffs to turn the terms of trade in its favor. The problem with this suggestion is that if several countries have significant market power and each seeks an optimal tariff regime (or engages in retaliation), all may end up at a suboptimal or Pareto-inferior position. This is, of course, the prisoners' dilemma, a game in which retaliatory acts lead to an outcome inferior to that produced by cooperation.[42] Clearly, the state of the international economy in 1933 was far from optimal, and the problem was how to get nations to renounce the defensive (and destructive) trading policies they had followed since the end of World War I. But unilateral action by a power called upon to be the new hegemon was not the best way to proceed, particularly if the hegemon-to-be does not have a way to make its followers observe the rules. With the proper arrangements in place, however, it can deter cheating or opportunistic protection. But delegates to the London Conference did not propose any such arrangements when they looked to the United States to restore stability to the international economy.[43]

The theory of clubs can also be used to analyze Roosevelt's decisions. In this model, individual agents (countries) engage in team production. They do so because the aggregate output of individuals acting as a collective enterprise will exceed the aggregate output of individuals acting on their own. Thus the team (the nations comprising the international trading system and monetary regime) is a club which sovereign states join because, by acting in concert, they will achieve an optimal allocation of their collective resources and maximize their joint welfare. This theory assumes the benefits produced by the club are nonrival for the membership, unavailable to nonmembers, and that marginal social benefit exceeds marginal private benefit. The theory also requires that some member of the club act as the group's enforcer, making sure there are no free riders and that no member cheats by resorting to opportunistic protection.[44] Not surprisingly, this task falls once more to the hegemon.

If the United States had taken on that function in 1933, it would have ended up bearing most, if not all, the costs of being the club's (the world's) economic policeman.[45] Furthermore, being responsible for providing the optimal supply of the requisite public goods would also have meant operating at a point where marginal private cost exceeded marginal private benefit. If the hegemon is willing to be the club's residual claimant, it is possible for it to receive, for its efforts, a return more tangible than a leadership surplus.[46] But the method of sharing the benefits must be explicit and agreed to when the club is formed. There was no mention of such a matter in the negotiations that took place at the London Conference in 1933. Any club produced by that meeting would have been dependent upon the good faith of the European powers and Japan and the altruism of the United States.

Roosevelt's London decisions can also be analyzed by means of public choice theory. According to this model, public officials have their own utility functions and their objective is to implement policies they favor, subject to the constraint that they must satisfy a majority of the electorate to remain in power. Thus elected officials will enter into international agreements or commit their countries to international organizations if these actions promise to maximize votes gained or minimize votes lost. The latter possibility occurs when joining an international organization enables elected officials to shift responsibility for enacting some policy to an international body, a tactic known as the dirty-work hypothesis.[47]

It is also the case that international agreements are often little more than another set of constraints for policymakers. These pacts are fine if they are popular and gain a politician votes or if they fall within the category of the dirty-work hypothesis. However, if they prevent public officials from undertaking their own favored policies or if they result in a loss of voter support, they are entirely another matter. Given the world situation in 1933, accepting the suggestions put forward at the London Conference and taking up the role of hegemon was definitely not a utility-maximizing strategy for Roosevelt or the United States.

## V

## Conclusion

Critics of Franklin Roosevelt's decisions regarding the London Monetary and Economic Conference assert that, because international cooperation is a good thing, deviations from that practice are rarely based in anything but nationalism, a philosophy they universally condemn. However, as this economic analysis centered in the concept of public goods demonstrates, had the President followed his critics' advice, in 1933 he would have adopted policies not in his own best interest or in the best interests of the United States. But Roosevelt's rejection of the terms offered the United States at the London Conference did not mean he sacrificed the international economy for his domestic agenda or his own political future, nor did it mean he opposed, totally and completely, building a liberal trading system and a monetary regime.

It is a truism, but carrots are often far more effective than sticks as a means of influencing behavior. This maxim is particularly applicable to relations among sovereign powers.[48] But neither reliable sticks—enforcement mechanisms or distribution rules—nor dependable carrots—benefits that could be denied noncompliers—were on the London Conference agenda. Thus, in the short run, under the circumstances prevailing in 1933, supplying international public goods to a system in which there was no way to deny free riders benefits or make them share costs would have been a losing proposition for the United States. However, within one year of the Conference's collapse, the United States initiated a long-run policy, one that set the course for the international economy for the next forty years. In 1934, the President of the United States adopted reciprocal trade as his archimedean lever to induce, not force, other nations to end the restrictive practices then governing their international commercial relations. Stepping forward at the London Conference, accepting the hegemon's mantle, providing the requisite public goods, and then simply hoping other nations would play by the rules would not have produced the same results.

The decisions Franklin Roosevelt made in the spring and summer of 1933 may have been grounded in nationalism. Certainly, they did wreck the London Conference. But that does not mean they were economically unsound. When Congress passed Roosevelt's reciprocal trade bill, a carrot that could be taken away from states that reneged on their treaty obligations, the United States took the first step towards realizing, in the long run, the international economic structures so prized by hegemony theorists.

Hegemonic systems need leaders—but they also need followers.[49] These followers must observe the rules. They must not indulge in free rides, nor may they engage in opportunistic protection. Leaders, particularly in the international sphere, are rarely able to compel their followers to adhere to prescribed norms. Thus they must institute rewards and penalties; they must devise programs that will deter cheating; and they must employ incentives likely to maximize joint welfare. Those who criticize Roosevelt for destroying the London Conference fail to acknowledge these problems. When strictures based on an aversion to nationalism are replaced by economic analysis, the decisions Franklin Roosevelt took in 1933 appear far sounder than his critics allow.

## Notes

1. Kindleberger speaks of leaders, not hegemons; nonetheless, his exposition of the theory is the best available. See the following works, all by Charles Kindleberger: "Dominance and Leadership in the International Economy," *International Studies Quarterly* 25. 2 (1981): 243-5; *The World in Depression, 1929-1939,* rev. ed. (Berkeley: U. of California P. 1986) *passim;* "The Financial Crises of the 1930s and the 1980s: Similarities and Differences," *Kyklos* 41. 2 (1988): 181.

2. That is, if consumption of a good by one agent does not preclude any other agent from consuming that very same good, and if an agent who refuses to pay for the good cannot be denied access to it, the good in question is a public good. The standard example of this phenomenon is national security.

3. Kindleberger, "Dominance," 247; *The World in Depression,* 289.

4. Herbert Feis, *1933: Characters in Crisis* (Boston: Little, 1966) 17-20; Kindleberger, *The World in Depression,* 201-2; Maxwell Stewart, "Problems before the World Economic Conference," *Foreign Policy Reports* 9. 1 (1933): 70.

5. League of Nations, *Draft Annotated Agenda,* Official Number: C.48.M.18. (Conference M.E. 1) II (Geneva: League of Nations, 1933) 7-9; *Foreign Relations of the United States, 1933* I (Washington: Government Printing Office, 1950) 453, 462-6.

6. *Foreign Relations,* 454, 458-60.

7. *Annual Report of the Secretary of the Treasury* (Washington: Government Printing Office, 1932) 26, 358-9.

8. For an elaboration of this point, see Rodney Morrison, "Gulf War Reparations: Iraq, OPEC, and the Transfer Problem," *American Journal of Economics and Sociology* 51.4 (1992):385-99 and Stephen Schuker, *American 'Reparations' to Germany, 1919-1933: Implications for the Third World Debt Crisis* (Princeton, NJ: Princeton UP, 1988) 24-35.

9. Feis, *1933,* 40; Raymond Moley, *The First New Deal* (New York: Harcourt, 1966) 23, 399, 412-3.

10. Robert Dallek, *Franklin D. Roosevelt and American Foreign Policy, 1932-1945* (New York: Oxford UP, 1979) 23.

11. Maxwell Stewart, "Tariff Issues Confronting the New Administration," *Foreign Policy Reports* 9. 1 (1933): 14-24.

12. D. Graham Hutton, "The World Conference," *Nineteenth Century* 114. 677 (1933). 23; *London Times,* 10 Jan. 1933.

13. *Foreign Relations,* 619-27.

14. League of Nations, *Journal of the Monetary and Economic Conference* 1. 27 (1933): 166; Paul Einzig, *The Sterling-Dollar-Franc Triangle* (New York: Macmillan, 1933) 107.

15. *Foreign Relations,* 642-644; Moley, *New Deal,* 426-7.

16. *Foreign Relations,* 641.

17. *Ibid.,* 645-6.

18. *Ibid.,* 647-8.

19. *Idem.*

20. *Ibid.,* 649.

21. *Ibid.,* 650.

22. *Ibid.,* 652.

23. *London Times,* 21 June 1933.
24. *Foreign Relations,* 658.
25. *Ibid.,* 666–7.
26. *Ibid.,* 661–3.
27. *Ibid.,* 669–70.
28. *Ibid.,* 677.
29. *Ibid.,* 673–4.
30. *Economist,* 8 July, 1933.
31. *New York Times,* 7 July 1933.
32. *Nation,* 136. 3546 (1933): 686; 137. 3548 (1933): 3.
33. *Literary Digest,* 116. 1 (1933): 5–6.
34. *New York Times,* 7 July 1933.
35. Kindleberger, *World in Depression,* 290–1, 298.
36. William Leuchtenberg, *Franklin D. Roosevelt and the New Deal, 1932–1940* (New York: Harper, 1963) 202; James Moore, *A History of the World Economic Conference, London, 1933* Ph.d. diss. (Stony Brook: SUNY, 1971) 102.
37. Michelle Fratianni and John Pattison, "The Economics of International Organizations," *Kyklos* 35. 2 (1982): 256; Mancur Olson and Richard Zeckhauser, "An Economic Theory of Alliances," *Review of Economics and Statistics* 48. 3 (1966): 268.
38. Moore, *World Conference,* 247. There was a precedent for international enforcement of such agreements. See Einzig, *Triangle,* 9, on how the League of Nations was involved in Germany after World War I. The fecklessness of the London Conference in this regard is best illustrated by a proposal suggesting that calling a committee meeting be the means to "ensure" that all interests in a coal agreement be "safeguarded." See League of Nations, *Reports Approved by the Conference on 27 July 1933,* Official Number C.245.M220 II Appendix 1 (Geneva: League of Nations, 1933).
39. John Conybeare, "Public Goods, Prisoners' Dilemmas, and the International Economy," *International Studies Quarterly* 28. 1 (1984): 7; Beth Yarbrough and Robert Yarbrough, "Free Trade, Hegemony, and the Theory of Agency, *Kyklos* 38. 3 (1985): 350–3; Armen Alchian and Harold Demsetz, "Production, Information Costs, and Economic Organization," *American Economic Review* 62. 5 (1972): 777–80; Fratianni and Pattison, "International Organizations," 246, 252.
40. Leadership surplus is a very comforting term, but in 1933, at the nadir of the Great Depression, the amorphous benefits of being the world's leader, bearing the costs of providing stability for an international community rife with free riders, probably did not appear all that attractive to the president of a country suffering unemployment rates approaching twenty-five percent. For a discussion of the hegemon's reward, see Stephen Krasner, "The Tokyo Round: Particularistic Interests and Prospects for Stability in the Global Trading System," *International Studies Quarterly* 23. 4 (1979): 493 and "State Power and the Structure of International Trade," *World Politics* 28. 3 (1976): 254; Kindleberger, "Dominance," 242; Fratianni and Pattison, "International Organization," 254; and Yarbrough and Yarbrough, "Free Trade," 349.
41. While trade may be subject to the exclusion principle, the same cannot be said of a monetary regime. In this respect, Roosevelt's rejection of Conference currency proposals was a blow to potential free riders. See Yarbrough and Yarbrough, "Free Trade," 352.
42. Conybeare, "Public Goods," 7; Beth Yarbrough and Robert Yarbrough, "Reciprocity, Bilateralism, and Economic 'Hostages:' Self-enforcing Agreements in International Trade," *International Studies Quarterly* 30. 1 (1986): 8.

43. Contrast this with Bretton Woods, where cooperation (and the unrivaled power of the United States) put in place a new international monetary system and a liberal trading regime.

44. Yarbrough and Yarbrough, "Free Trade," 350–3; Alchian and Demsetz, "Production," 777–80; Fratianni and Pattison, "International Organization," 246, 252.

45. Foremost among these costs was the constraint the role of hegemon would have placed on Roosevelt's ability to conduct an independent domestic monetary policy.

46. Yarbrough and Yarbrough, "Free Trade," 350–4.

47. Roland Vaubel, "A Public Choice Approach to International Organization," *Public Choice* 51. 3 (1986): 48.

48. Conybeare, "Public Goods," 20; Arthur Stein, "The Hegemon's Dilemma: Great Britain, the United States, and the International Order," *International Organization* 38. 2 (1984): 358; Yarbrough and Yarbrough, "Reciprocity," 18–9; Alchian and Demsetz, "Production," 782.

49. The problem is how to organize a hegemonic system. See Stein, "Hegemon's Dilemma."

## *Income is Related to Wealth—Importantly So!*

"What Bill Clinton Should Do About Growing Inequality," was the final round table topic at the 19th Annual Convention of the Eastern Economic Association (March 19–21, 1993) in Washington. Chaired by Mickey Kraus of the *New Republic,* the panel included Phil Cook of Duke University, Ron Mincy of the Urban Institute, Wendell Primus of the House Ways and Means Committee, and Ron Shapiro of the Progressive Policy Institute.

Discussion centered on the impact various past changes in government taxes, and expenditures on various programs had on data concerning income distribution. The expected effects of the new administration's policies also were considered. Unfortunately, no reference was made to asset distribution and its effects on the flows of income until the matter was raised from the floor.

In response to that objection, a panel member acknowledged the seriousness of the omission and mentioned the opposition of the Clinton Administration to the favorable tax treatment of capital gains, and noted the attempt to raise taxes at the upper levels, and to encourage more accountability for top corporate officers. These are moves in the right direction but more, much more, must be done.

If income distribution is viewed "personally" as well as "functionally" the effects of asset ownership on income distribution are highlighted. The higher the income of any group, the greater the proportion of income which comes from property such as stocks, bonds, and real estate, and the less that comes from wages and salaries. The great bulk of the income of those in the top quintile is property income. The importance of this source of income diminishes rapidly for lower quintiles with the lowest quintile lacking such a positive source.

The major determinant of the well-being of individuals in the society, is the