Still an Extraordinary Power After All These Years:

US and the Global Financial Crisis of 2008

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Susan Strange is well known for her interventions into discussions about the trajectory of US hegemony. At a time when scholars fiercely debated the consequences of declining US hegemony, she questioned the underlying assumption being made. Scholars across the theoretical spectrum, she argued, failed to recognize the enduring nature of the US power, particularly in its structural form. She argued that scholars of international political economy often neglected the significance of structural power which she defined as “the power to shape and determine the structures of the global political economy within which other states, their political institutions, their economic enterprises, and (not least) their scientists and other professional people have to operate.” Strange was particularly keen to highlight the importance of enduring US structural power in the global financial arena where she argued that outcomes continued to be influenced by the unmatched ability of the US to control and shape the environment within which others operated.

Strange’s concept of structural power has been sometimes criticized for its lack of precision. How is structural power exercised and over whom? What are its sources? What can it accomplish? These kinds of analytical questions were not always addressed in great detail in Strange’s writings. This chapter argues that the global financial crisis of 2008 presented a unique opportunity to re-visit them and to re-evaluate Strange’s core argument about the enduring structural power of the US in global finance. The US-centred crisis is often seen as an event that signalled the decline of US financial power. I argue, however, that the financial upheaval in fact provided important evidence to support Strange’s case about the enduring nature of US structural power. Herman Schwartz’s chapter in this volume makes a similar point, but with a different focus. In this chapter, I highlight how this power was particularly apparent in two international developments that took place at the height of the crisis: the US international lender-of-last-resort role and the absence of a dollar crisis at the height of the crisis. I argue that an analysis of these two developments not only demonstrates the validity of Strange’s argument about the US position in global finance but also provides a chance to clarify some analytical aspects of the Strange’s concept of structural power.

The Dollar and the US Role as International Lender of Last Resort

The significance of the US role as international-of-last-resort to the management of the international financial dimensions of the financial crisis has frequently been overlooked. In explaining why the crisis of 2008 did not descend into another Great Depression, scholars have often focused instead on the high profile activities of international institutions such as the G20 and IMF. But those activities were less important than advertised. For example, some analysts have praised the G20 for encouraging and coordinating the important national macroeconomic stimulus programs of 2008-09. The evidence now suggests, however, that those initiatives grew much more out of domestic political pressures in the context of the severe economic crisis than

1 Strange 1988a: 25.

3 For example Keohane 2000, Palan 1999: 130.
4 See for example Drezner 2012.
from the G20 summits. Their temporal congruence reflected the simultaneous and global nature of the economic shock rather than successful G20-led economic cooperation.

Also overstated is the significance of the G20’s much trumpeted $1.1 trillion program announced at its second summit in April 2009 to “restore credit, growth and jobs in the world economy.” By the time of their third summit in Pittsburgh in September 2009, the G20 leaders declared that this program had successfully stemmed the crisis and that global economic recovery was underway. But there was much less to the G20’s April announcement than initially met the eye. Some of the funds (e.g. much of the $250 billion in trade finance) had already been committed and the new $250 SDR allocation had little immediate practical value. Even the significance of the head-grabbing $500 billion devoted to tripling the IMF’s funds is easily exaggerated. While it may have boosted confidence in a general kind of way, many key countries were reluctant to borrow from the Fund because of the stigma associated with the institution, particularly in light of its activities during the East Asian crisis a decade earlier. Indeed, because of limited demand for its services, the Fund’s total crisis lending in 2008-9 never surpassed the funds it already had on hand before the London summit.

The most important cooperative initiative to manage the crisis had nothing to do with the G20 or IMF. It involved the US Federal Reserve’s provision of massive sums of dollar liquidity to foreign central banks to help their firms and markets in distress. The Fed provided these funds through a number of ad hoc bilateral swaps agreements with foreign central banks, all of which were put in place before the first G20 leaders summit. These swaps provided much-needed liquidity to troubled firms and markets in leading financial markets across the world in the one currency that everyone needed: dollars. And they dwarfed IMF crisis lending in both size and significance.

The Fed’s first two swaps were created with the European Central Bank (ECB) and Swiss National Bank (SNB) in December 2007. Although their initial limits were $20 billion and $4 billion respectively, these swaps were each increased several times until in late September 2008 they totalled $240 billion (ECB) and $60 billion (SNB). In mid-September 2008, the Fed also established swaps with Bank of England and the Bank of Japan at $40 billion and $60 billion respectively, and their size was quickly doubled at the end of the month. In mid-October, the Fed allowed all four of these swaps to be unlimited in size. In September and October, the Fed also created swaps with the central banks of Brazil, Mexico, Singapore, South Korea ($30 billion each), Australia, Canada, Sweden (each initially capped at $10 billion but increased quickly to $30 billion), Denmark, Norway (each starting at $5 billion but soon enhanced to $15 billion) and New Zealand ($15 billion).

These swaps enabled foreign central banks to sell their national currency to the Fed in exchange for dollars, with a promise to buy that currency back (along with interest) at the same exchange rate.

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7 G20 2009a: 1.
9 For trade finance, see Wade 2009: 547; Reuters 2009. For the SDR, see Helleiner forthcoming: ch.2.
10 Helleiner forthcoming: ch.2.
11 McDowell 2012.
rate at a specified future date within the next three months. Foreign authorities could then
provide dollar liquidity to firms and markets in distress within their jurisdictions. Since 2000,
many foreign private banks had accumulated large dollar-denominated assets (including
subprime mortgages and mortgage-backed securities) by borrowing dollars cheaply in short-term
markets (or by borrowing short-term funds domestically and converting them to dollar via
foreign exchange swaps). When sources of short-term dollar funding dried up as the financial
crisis intensified, these banks could not secure necessary funds unless their central banks
provided liquidity. If the monetary authority provided liquidity in domestic currency, it would
provoke a depreciation of the local currency since the funds would need to be traded for dollars
to be useful. Alternatively, the central bank could provide dollars from the country’s foreign
reserves, but those reserves might temporarily illiquid, too small, or even prohibited for use for
the purpose (and the move also risked undermining confidence in the country’s currency).¹²

In this context, borrowing dollars from a Fed swap line was crucially important in allowing
authorities to flood domestic markets with liquidity to stem the crisis.¹³ Indeed, foreign drawing
on all Fed swap lines peaked at almost $600 billion in November and December 2008 – far
higher than any IMF lending during the crisis.¹⁴ The largest drawers included the ECB (whose
top borrowing reached $310 billion), the Bank of Japan ($128 billion), the Bank of England ($95
billion), the SNB ($31 billion), the Reserve Bank of Australia ($27 billion), Sweden’s Riksbank
($25 billion), and Denmark’s central bank ($20 billion). Not until August 2009 did aggregate
drawing on the lines fall below $100 billion. Of these various countries, only Brazil, Canada,
New Zealand, and Singapore did not draw funds from their Fed swaps.¹⁵

In taking the initiative to create this network of bilateral swaps between 2007-10, the Fed was
effectively acting as an international lender-of-last-resort. The contrast with the experience of the
Great Depression was striking. Inadequate provision of international liquidity greatly
exacerbated the financial stresses of the early 1930s.¹⁶ By contrast, the Fed’s bilateral swaps of
2007-2010 helped to ensure that sufficient international liquidity was available in ways that also
allowed domestic monetary authorities in all the leading financial centres to provide adequate
domestic liquidity to stressed domestic firms and markets.

It is also worth noting 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. While the sums involved in the dollar swap lines
were more significant, foreign institutions – particularly European banks – did borrow heavily
from Fed’s discount window and they received more than half of the funds from Fed facilities
such as Term Auction Facility and Commercial Paper Funding Facility.¹⁷ The US Treasury also
helped foreign financial institutions by allowing some of the public bailout funds from the
Congressionally-approved Troubled Asset Relief Program (TARP) to be channeled to them.

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¹³ Allen and Moessner 2010: 43; Obstfeld, Shambaugh, and Taylor 2009.
¹⁴ The IMF’s crisis lending began to increase in the fall of 2008, but its total commitments between September 2008
and August 2009 did not surpass $170 billion, of which only $43 billion had been drawn by the end of that period
(IMF 2009).
¹⁵ Allen and Moessner 2011.
¹⁶ See for example Moessner and Allen 2011.
¹⁷ Broz 2012.
Considerable portions of the enormous AIG bailout, for example, ended up in the hands of European banks that had been AIG counterparties, such as Société Générale, Deutsche Bank, Barclays, and UBS.  

The Fed was not the only central bank to extend swaps in the crisis. In April 2009, the Fed itself accepted swap arrangements from the ECB, SNB, Bank of England and Bank of Japan allowing it access to the currencies they issued in case shortages in the US emerged. But these swaps were never drawn upon. In the European context, the ECB and SNB also created swap facilities for a few nearby countries – Poland (ECB, SNB), Hungary (ECB, SNB), Sweden (ECB) and Denmark (ECB) - that faced potential shortages of euros or Swiss francs, often because loans (such as domestic mortgages) had been denominated in those currencies. But the scale of these swaps was much more limited - $35 billion in aggregate for the ECB and $57 for the SNB – and actual drawings were small.

One month and half after the Fed extended its swap to South Korea, both the Bank of Japan and the People’s Bank of China also expanded existing swap lines to the same country (to a level of $20 and $26 billion respectively), but neither was used. In addition, the Bank of Japan set up small swaps in 2008-09 for India ($3 billion) and Indonesia ($12 billion). The Chinese central bank was more ambitious, signing swaps with many countries from late 2008 onwards. But since the RMB is used so little in international markets, it is not surprising that these swaps were not activated, with the single exception of Hong Kong’s brief use in 2010 in the face of a squeeze in the RMB market. In East Asia, a broader network of bilateral swaps among the central banks of China, Japan, South Korea and ASEAN countries had also already been created much earlier in 2000 under the Chiang Mai Initiative (CMI) as a response to the East Asian crisis. During the crisis, however, no country drew on these swaps.

It was thus the international leadership role of US authorities above all – rather than that of other central banks or the activities of the IMF or G20 - that was critically important to the international management of the crisis. In Moessner and Allen’s words, “it seems likely that had the Fed not acted as it did, global financial instability would have been much more serious, and the recession would consequently have been deeper”. Fed officials were also very aware of the limitations of the IMF’s ability to play a significant role because of the stigma associated with borrowing from the institution. When extending swaps to the emerging market economies of Brazil, Mexico, Singapore, and South Korea, Fed officials noted that the move was needed because their authorities “are very reluctant to return to the IMF.” As one official put it, “I

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19 Board of Governors 2012.
20 Latvia also received a small swap from the Danish and Swedish central banks in December 2008 as a bridge to its IMF loan. The central banks of Denmark, Sweden and Norway also extended a small swap to Iceland in May 2008 before that country received an IMF loan (Allen and Moessner 2010, 2011). The US Fed was keen to see emerging market economies in Europe receive help from the ECB rather than the Fed (FOMC 2008: 33).
22 Allen and Moessner 2010.
25 Quote from Nathan Sheets in FOMC 2008: 11.
doubt that Singapore would ever go to the IMF. It would be beneath Lee Kuan Yew’s dignity”.

Fed officials saw themselves as addressing the liquidity needs of these four core systemically important emerging market economies, while leaving to the IMF the task of addressing the needs of “smaller, less systemically important countries.”

The capacity of US authorities to play this global leadership role stemmed from the fact that Susan Strange emphasized over and over: the enduring centrality of the US dollar within global finance. This structural feature of the global economy meant that only US authorities had a unique ability to produce unlimited amounts of this currency that everyone needed in the crisis. In her writings in the 1980s, Strange had highlighted how the US ability to make unlimited advances in dollars during the international debt crisis of the early 1980s gave it an unparalleled structural power to shape how that crisis was resolved. This power was even more starkly on display during the 2008 crisis.

It was evident not just in the dependence of the foreign authorities noted above on the Fed swaps. US structural power was felt just as keenly by countries that found their request for Fed swaps denied. At the height of the crisis, Fed officials reported privately to the FOMC that they had turned down a number of requests for swaps. Even some important G20 members such as India, Indonesia, and South Africa were considered not worthy of swaps. FOMC minutes make clear that Fed decisions concerning which countries to support were made only after consultation with the highest levels of the State Department and Treasury. As Bernanke told the FOMC in discussing the swaps with Mexico, Brazil, Singapore and Korea in late October, “I spoke to Secretaries Paulson and Rice about this. There was an interesting confluence of agreement that, if you are going to do this, these are the right four countries and we probably shouldn’t do more, both from an economic perspective and a diplomatic perspective in the sense that these are the countries that among the emerging markets are the most important from a financial and economic point of view.” Countries that did not make the cut were encouraged to borrow from the IMF.

If US authorities had a unique structural power to shape how the crisis was resolved by choosing when and to which foreigners dollar liquidity would be offered, what explains their willingness to take on the role of international lender of last resort at all? The head of the Federal Reserve Bank of New York, Tim Geithner, made the following case at the same FOMC meeting in late

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26 Quote from Richard Fisher in FOMC 2008: 16.
27 Quote from Nathan Sheets in FOMC 2008: 11.
28 Strange 1987: 569.
29 For the FOMC’s unwillingness to lend to a wider group of countries including India and South Africa, see FOMC 2008: 11, 29-30, 35. It is unclear from the FOMC minutes whether India and South Africa actually requested swaps at the height of the crisis. The FOMC minutes blank out the names of the countries that made requests, although they note specifically that Iceland was turned down and others have noted that the Fed did reject Indonesia’s requests for a swap in early 2009. And when India requested a swap in October 2012, Fed officials were also very reluctant to discuss the idea. The Fed also initially opposed Korea’s request for a swap in mid-October 2008, but then became very supportive a few days after President Bush’s Oct 22 announcement of the upcoming G20 summit, a fact that Chey speculates may have been linked to US efforts to mobilize support for its positions at that summit. Chey 2012, Agrawal and Goyal 2012, Suominen 2012: 117. FOMC (2008: 11, 16) minutes make clear that Fed decisions concerning which countries to support were made only after consultation with the highest levels of the State Department and Treasury.
30 FOMC 2008: 16.
October: “the privilege of being the reserve currency of the world comes with some burdens. Not that we have an obligation in this sense, but we have an interest in helping these guys mitigate the problems they face in dealing with currency mismatches in their financial systems.” What was that “interest”? In the past, US authorities had often been motivated to assume a lead role in managing international crises because of concerns about the potential vulnerability of US financial institutions, US markets and/or the dollar to international instability, given their central role within the global financial system. The same kinds of concerns encouraged the US to act decisively in this crisis.

For example, in explaining the swap program, a number of analysts have argued that the Fed was particularly concerned about the impact of foreign instability on major US banks. They point to the fact that the countries chosen for swap arrangements were ones where major US banks had the highest loan exposures. McDowell highlights how the Fed was also concerned about broader systemic risks in the US financial system. If foreign banks did not receive dollar funding, Fed officials were very aware that their defaults on US borrowing would have generated wider financial instability at home at the time. In addition, US officials hoped the provision of dollars to foreign central banks might discourage foreign banks from demanding dollars in the US and thus relax dollar funding market pressures at home. Lowering offshore eurodollar interest rates could also affect domestic short-rates; indeed, many US contracts (including the majority of US adjustable rate mortgages) were indexed against the London inter-bank borrowing rate. US officials may have also seen the swaps as a means of containing upward pressure on the dollar after it began to spike in the summer of 2008.

It is clear from the minutes of the Fed’s Federal Open Market Committee (FOMC) that US officials were also concerned the market for US Treasury and especially agency bonds might be adversely affected if countries such as Korea sold their reserves as the means of addressing the dollar funding needs of their institutions. In the words of one Fed official, “I think forcing them [emerging market economies] to sell agencies in a kind of lumpy way would feed back on our mortgage markets. It would not be in our interests.” The willingness of the US Treasury to allow foreign firms to access American bailout funds reflected similar concerns about domestic financial instability. As Pauly notes, “the first draft of the US bailout plan in the fall of 2008 made US taxpayer funds available to ‘American’ banks only. That changed within 24 hours, after the US Treasury was reminded that 25% of the US banking system was now controlled by ‘foreign’ intermediaries.”

In sum, the crisis provided a dramatic reminder of enduring US structural power in global finance stemming from the dollar’s dominant global role: the dependence of foreigners (both governments and private actors) on the dollar gave US authorities enormous influence in determining how the crisis would be resolved through their decisions of when and to whom dollar liquidity would be offered. Their willingness to exercise this power in manner that

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33 McDowell 2012. See also Allen and Moessner 2011.
34 Donald Kohn in FOMC 2008: 23. See also p.11. See also Chey (2012) who also speculates about this concern in his discussion of the Korean swap
provided enormous liquidity to systemically important countries and firms was key to the international financial management of the crisis.

Not surprisingly, many foreigners were frustrated by how the crisis revealed their dependence on the US and its unilateral choices about which countries would receive financial support. When Fed officials allowed all their crisis-related swaps to expire in February 2010, these frustrations prompted some G20 members and IMF staff to propose expanding and institutionalizing in a permanent and multilateral way the swap arrangements created in the crisis. These kinds of initiatives had in fact been anticipated by some on the FOMC when they had approved bilateral swaps for Brazil, Mexico, Korea and Singapore in late October 2008. As Charles Plosser had put it when he reluctantly approved those swaps, “I think this is very slippery slope. I’m worried about other central banks ganging up on us as a group, saying that they have to have this.” Because of ongoing concerns about the burdens and responsibilities that might be placed on the Fed, US authorities rejected these proposals when they were raised in 2010. The consequence is that the crisis-management dimensions of global financial governance continue to rely heavily on ad hoc US leadership.

To be sure, many countries have been exploring ways of supporting each other through alternative swap arrangements. In the East Asian region, CMI members transformed their network of bilateral swaps into a self-managed multilateral fund that opened in March 2010 with $120 billion (doubled to $240 billion in June 2012) under the name of CMI Multilateralization (CMIM) now backed by a new regional surveillance mechanism. But questions remain about how useful this arrangement is given that loans will be decided by the members as a whole according to a weighted voting system and that many of the funds were only available if the country has an IMF program in place (the portion available without an IMF program was raised from 20 to 30% in June 2012 and then to 40% in 2014). In other words, the CMIM was missing key attractive features of the Fed swaps, such as their automaticity and lack of conditionality. The same questions are raised by the BRICS initiative in 2013 to create “a self-managed contingent reserve arrangement” with initial size of $100 billion.

Foreign dependence on the Fed during crises would also be reduced if the dollar’s centrality in global finance diminished. The strengthening of the euro’s governance and Chinese initiatives to encourage the internationalization of the RMB may contribute to this outcome over the longer term. But it is noteworthy how little the dollar’s international standing was affected by the crisis itself. For example, the dollar continued to be used on one side of 84.9% of all foreign exchange transactions in 2010, compared to 85.6% three years before. Between 2007 and 2010, there was even a slight increase in the dollar’s share of all cross-border bank claims (from 41.9 to 43.7%) and international securities issues outstanding (36 to 37.8%). The dollar’s share of all official foreign exchange reserves also declined only slightly from 64% at the start of the crisis to 62% by the end of 2012.

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36 Kim and Chey 2012; Oliver 2010; Allen and Moessner 2010: 78; Suominen 2012: 118. With the outbreak of the Greek crisis, the Fed re-established temporary swaps in May 2010 with the central banks of Canada, England, Europe, Japan and Switzerland. In October 2013, those swaps were made permanent.
37 FOMC 2008: 42.
38 Quote from BRICS 2013: 1.
40 Ross and Jones 2013.
Wider US Structural Power and the Missing Dollar Crisis

The dollar’s strength during the global financial crisis was in fact a remarkable outcome. When the crisis first began, there were widespread predictions that it would trigger a collapse of foreign confidence in the US currency.\textsuperscript{41} The global financial meltdown unfolded at a moment when the US had large external debt and growing current account deficits. Even before the outbreak of the 2008 crisis, there had been concerns that foreign creditors of the US might soon withdraw their funding, generating a “financial meltdown in the dollar” and a “hard landing” for the US as a whole.\textsuperscript{42} When the US then emerged at the epicentre of a global financial turmoil, many analysts anticipated a flight from US financial assets and the dollar. As US policymakers responded to the crisis with dramatic interest rate cuts and larger fiscal deficits, the likelihood of this outcome only seemed to grow.

Two other developments encouraged these predictions. First, the creation of the euro in 1999 seemed to present the dollar with its first serious challenger for international currency status in the postwar period. Second, analysts noted that US deficits were increasingly financed by foreign governments whose investment choices were less predictable than those of market actors, not least because they included potential geopolitical rivals of the US such as Russia and China.\textsuperscript{43} Indeed, just before the crisis, Russian officials had begun reducing their large dollar reserves as a part of a broader distancing from US foreign policy and Chinese analysts were speculating publicly whether their country’s enormous dollar reserves (the largest in the world at the time the crisis broke out) could be used as a “bargaining chip” with the US.\textsuperscript{44} When the crisis broke out, historians such as Harold James even speculated about whether Chinese officials might see it as a moment to exact some revenge for the US treatment of East Asia during that region’s financial crisis a decade earlier.\textsuperscript{45}

In the end, however, the predictions of a dollar crisis did not pan out. Indeed, as the crisis became more severe in the second half of 2008, the dollar even strengthened, appreciating as sharply as at any moment since the introduction of floating exchange rates in 1973.\textsuperscript{46} Contrary to expectations, foreign investors plowed into the dollar rather than fleeing from it. Even top US policymakers found this phenomenon fascinating. As Ben Bernanke noted privately to the FOMC in late October 2008, “[s]omewhat ironically, all of this deterioration in the global outlook has led the dollar to appreciate very sharply, which is interesting to say the least”.\textsuperscript{47}

This outcome made the US financial crisis unfold in a completely different manner from crises experienced by many emerging market countries over the previous two decades. Like many emerging market countries, the US financial bubble of the pre-crisis years had been fueled in part by foreign capital inflows. But when the bubbles in emerging market countries burst, foreign (and domestic) investors withdrew their funds, thereby generated exchange rate crises that only

\textsuperscript{41} See for example The Economist 2007: 15; Soros 2009.
\textsuperscript{42} Quotes from The Economist 2006: 28.
\textsuperscript{44} Quoted in Helleiner 2009. For Russia, see Johnson 2008.
\textsuperscript{45} James 2009: 224, 227
\textsuperscript{46} McCauley and McGuire 2009, Kohler 2010.
\textsuperscript{47} FOMC 2008: 117.
exacerbated the domestic financial troubles of these countries. In the US case, a similar collapse in the greenback’s value might have forced the US Federal Reserve to hike US interest rates, contributing further to the country’s domestic financial troubles. US authorities would also have encountered greater difficulties in financing the massive bailouts and fiscal stimulus programs. In the end, however, these unpleasant scenarios did not come to pass. In fact, the opposite phenomenon occurred: foreigners helped ease the pain of the bursting of the financial bubble.

The wider structural power of the US helps to explain this outcome. To begin with, as during other postwar international financial crises, private investors flocked to US Treasury bills as a kind of safe haven in the storm. Given that the crisis was centered in the US, it may seem odd that US government debt was perceived as a safer asset during the crisis than others. But as Strange had often noted, the US Treasury market was the largest and most liquid market in the world and was backed by the full force of the world’s dominant geopolitical and economic power. At the height of the crisis, these attributes helped ensure that it was one of the few financial markets that remained liquid and continued to operate smoothly during the crisis. As Reinhart and Rogoff put it, “world investors viewed other countries as even riskier than the United States and bought Treasury securities copiously”.

The dollar’s value was also boosted by several other developments in private markets that were linked to the global importance of the currency. Because of their large dollar borrowing to fund the accumulation of dollar assets since 2000, many foreign banks (especially in Europe) required dollars to fund their positions at the height of the crisis. When inter-bank and other wholesale short-term financial markets froze, the intense demand for dollars in this context of shortage contributed to currency’s appreciation. Also important was the fact that non-US banks and institutional investors had to purchase dollars to square their books and meet collateral needs as the value of their dollar assets suddenly deteriorated during the crisis. In addition, the dollar’s value was boosted by the unwinding of “carry trades” in which investors had borrowed dollars to invest in higher-yielding instruments in foreign currencies.

The dollar also benefitted from the fact that eurozone financial markets were not yet fully integrated and that no central European equivalent existed to the uniquely liquid and deep US Treasury bill market because of the absence of a single European fiscal authority. At the end of September 2008, the largest category of outstanding euro-denominated government securities ($1.8 trillion) had been issued by the Italian government whose fiscal policies did not inspire enormous market confidence. The second largest involved German government securities (at $1.4 trillion) but they were much less liquid than US government securities (which totalled $7.3 trillion) because of a relatively underdeveloped secondary market.

The dollar’s strength during the crisis resulted from the decisions of not just private investors but also foreign governments that refrained from dumping their large dollar holdings. Because of the scale of its reserves, China’s role was particularly important. At the very height of the crisis in mid-September 2008, US officials received assurances from the top Chinese leadership that they

49 Reinhoff and Rogoff 2009: 222.
50 McCauley and McGuire 2009.
were preventing their own officials and financial institutions from selling US investments.\textsuperscript{52} The Chinese government in fact accumulated considerably more dollar reserves during the crisis; its stash of overall reserves grew from $1.5 billion at the start of the crisis to $2.4 trillion by the end of 2009.\textsuperscript{53}

Foreign official support for the US came not just in the form of reserve holdings of US government debt (and bonds issued by the two US government-sponsored mortgage lending agencies, Fannie Mae and Freddie Mac). Sovereign wealth funds (SWFs) from countries such as China, Singapore, and the Gulf States also helped to recapitalize US financial institutions directly during the crisis, especially in its first phase. Indeed, Herman Schwartz notes that “developing country SWFs provided the US financial firms with more money - $24.8 billion – in the last quarter of 2007 than the IMF ever lent in any single quarter to bail out troubled LDCs”.\textsuperscript{54} Before the crisis, Western analysts had worried that these politically-controlled investment funds might “increase the fragility of cooperation in global finance”.\textsuperscript{55} In the end, however, these firms played an important cooperative role in boosting US financial stability.

Why did China and other foreign governments continue to support the US during the crisis? Once again, US structural power played a significant role. Like private investors, governments with large foreign exchange reserves were attracted by the unique liquidity and security of the US Treasury market. As one Chinese official, Luo Ping, put it in early 2009 when explaining why China continued to buy US Treasury bills during the crisis: “Except for US Treasuries, what can you hold?...US Treasuries are the safe haven. For everyone, including China, it is the only option….Once you start issuing $1 trillion-$2 trillion... we know the dollar is going to depreciate, so we hate you guys but there is nothing much we can do”.\textsuperscript{56}

A number of foreign governments also faced strong incentives to hold dollar reserves during the crisis because of the dependence of their country’s economy on exports to the US. Before the crisis, many developing countries pursuing export-oriented development strategies had accumulated dollar reserves to keep their country’s exchange rate low and thus bolster the competitiveness of national exporters. The recycling of reserves into dollar assets also helped keep their major export market economically buoyant. Indeed, analysts drew a parallel to the strategy of many Western European countries and Japan during the 1960s when they built up dollar holdings in the 1960s to protect export-led growth under the Bretton Woods exchange rate system.\textsuperscript{57} With the global economic downturn, this “Bretton Woods II” arrangement remained in place; these foreign governments were more concerned than ever to keep their major foreign market afloat financially and to prevent exchange rate appreciation from undermining the competitiveness of their export sectors.

\textsuperscript{52} Paulson 2009: 242.
\textsuperscript{53} Strange 2011. The share of China’s reserves held in dollars is not public information, but a leak in September 2010 revealed that 65% (or almost $1.6 trillion) of its $2.45 billion reserves at the time were in dollars (Zhou and Rabinovitch 2010). Since its total reserves were not quite that size at the time the crisis broke out, it is quite certain that China’s holdings of dollars rose during the crisis (even if the share of reserves in dollars may have declined).
\textsuperscript{54} Schwartz 2009: 211.
\textsuperscript{55} Drezner 2008: 116.
\textsuperscript{56} Quoted in Sender 2009. See also Otero-Iglesias and Steinberg 2013: 14
\textsuperscript{57} Dooley et al 2003.
China, for example, stopped the gradual appreciation of the RMB in July 2008 and kept its exchange rate pegged to the dollar until mid-2010. Indeed, Chinese leaders were often quite explicit about their concerns about social unrest stemming from unemployment in the export factories. As Premier Wen Jiabao put it in 2010, “if the yuan is not stable, it will bring disaster to China and the world. If we increase the yuan by 20 per cent or 40 per cent . . . many of our factories will shut down and society will be in turmoil”. Reserve accumulation to defend the currency peg also found support among powerful Chinese domestic interests such as export-oriented manufacturing firms in the coastal regions and the country’s powerful state-owned enterprises that benefitted from the investment-led, export-dependent growth model and its associated financial repression. In explaining China’s reserve accumulation, Schwartz points more generally to the interests of the Community Party elite who derived private profits from their control – or their children’s control - of export industries, while deflecting to the mass public the costs of US support (e.g. losses on dollar holdings, inflationary pressures from sterilizing the enormous reserves).

Some scholars initially wondered whether the crisis might provoke China’s leadership to radically reconsider the benefits of their export-oriented development model in favour of a more inward-oriented approach that was less vulnerable to the unstable global economy. The government’s massive fiscal stimulus program announced in advance of the first G20 summit in November 2008 appeared at first to be an initiative that might have this intention. It soon became clear, however, that the content of the program continued to promote the same investment-led, export-dependent model growth as well as the interests of the SOEs and export sector linked to it.

The Chinese decision to peg its currency and defend the dollar put pressure on many other exporting countries in competition with Chinese firms to do the same. As Setser puts it, “as long as China limited the RMB’s appreciation, any country that allowed its currency to appreciate against the RMB paid a price”. As in China, domestic interests with economic ties to the export sector also benefitted from the policy continuity in this area, reinforcing support for it. In his 1995 study of international monetary power, Jonathan Kirshner explains how participation in a currency bloc can strengthen domestic coalitions with close economic ties to the dominant state in ways that encourage policies that reinforce the latter’s power. This structural consequence of monetary dependence was very evident in China and other exporting countries during the crisis.

The risk of a deliberate selling of dollar reserves to achieve more strategic goals also deserves some discussion. This possibility was remote for large reserve holding countries that were close US allies such as Japan or the Gulf States. But it was even unlikely for China not just for the reasons already mentioned but also because the country had so much invested already in dollar assets. In this context, any effort to diversify its reserves out of dollars risked triggering market

58 Quoted in Otero-Iglesias and Steinberg 2012: 15..
60 Schwartz 2009. See also Helleiner and Kirshner 2014.
61 James 2009.
63 Setser 2008: 22.
64 Kirshner 1995: 118.
reactions that undercut the value of its remaining investments. With the size of Chinese claims on the US was approximately one-third of the Chinese GDP near the start of the crisis, China found itself in a rather dramatic version of what Kirshner calls “entrapment” arising from monetary dependence. Because its economic well-being was tied up with that of the US, Chinese authorities had acquired a strong interest in the stability and value of the US currency on which they were so dependent. As Premier Wen put it in March 2009, “we have lent the US a huge amount of money to the US. Of course we are concerned about the safety of our assets.”

The fact that China and other foreign official dollar holders had many reasons to continue to support the dollar meant that the US itself did not have to work too hard to cultivate this outcome. To be sure, if the US had closed off its markets to foreign exports and investments, foreigners might have reconsidered their support for the dollar. US officials also went out of their way to avoid antagonizing their country’s major creditor, China, by supporting the burying of an IMF report criticizing Chinese exchange rate policy at the height of crisis in September 2008. US officials also made efforts throughout the crisis to keep in touch with their major foreign official creditors, encouraging their investments in US troubled financial institutions and welcoming support for the dollar. In general, though, it is striking how foreign official support for the dollar emerged less as a product of US active encouragement than of unilateral decisions of creditor states. As Setser puts it, “there has been little coordination between debtors and creditors in the crisis… Nor did emerging market governments explicitly coordinate their lending to the United States”.

As we have seen, the reasons why foreigners – both official and private – choose to support the dollar were linked to what Strange would have referred to as the broader structural power of the US in global political economy. Some aspects of this power derived from the central US position within global financial system specifically, such as the unique attractiveness of US financial markets, the centrality of the dollar in private international financial markets, and foreign government’s “entrapment” in the dollar order. But other factors related to the US position in what Strange called the global “production” and “security” structures, such as the importance of the US as a destination for foreign exports and its geopolitical dominance (which both contributed to its “safe haven” status and may have encouraged specific governments to refrain from dumping dollars). Strange herself was keen to highlight how scholars should recognize that structural power in one structure of the global political economy was “supported, joined to and held up” by that in other structures.

Of course, foreigners still had agency within this context of US structural power. Strange did not intend the concept of structural power to deny such agency. Instead, she simply insisted that scholars needed to recognize how agency was shaped by the environment of structural power. In this case, the choices of foreign private investors and governments – acting in uncoordinated ways – to back the greenback even in the face of a major upheaval in US financial markets were

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67 Quoted in Bradsher 2009.
68 Otero-Iglesias and Steinberg 2012: 19.
69 Blustein 2012.
clearly shaped by the fact that they made decisions within this broader environment of US power.

In this sense, the absence of the dollar crisis provided a fascinating example of Strange’s point that structural power can be exercised “involuntarily and unintentionally”. As she put it, structural power “need not be confined to outcomes consciously or deliberately sought for. Power can be effectively exercised by ‘being there’, without intending the creation or exploitation of privilege or the transfer of costs or risks from oneself to others, for instance”. Even if the US officials had not actively sought foreign support, foreigners would have been encouraged to behave in ways that were favourable to US interests. The situation was reminiscent of the late 1980s when Strange highlighted how foreign governments and private investors were supporting the dollar and financing much of the US fiscal deficit without any US compulsion. As she put it then, “an empire that can command such resources hardly seems to be losing power”. The observation seems an equally apt description of the US situation during the 2008 crisis. Instead of challenging the dollar’s international role, the crisis ended up demonstrating the wider structural power of the US that helps to sustain its dominant global position.

This point highlights an important issue in Strange’s analytical framework that Guzzini has highlighted: the exercise of structural power can take quite different forms. When making decisions about the provision of dollar liquidity, US authorities exercised their structural power in global finance in a very intentional manner. By contrast, the absence of a dollar crisis resulted more from a passive, or what Guzzini calls “non-intentional”, exercise of US structural power in global finance and other structures of the global political economy. As Guzzini notes, the significance of the latter is often neglected in agency-driven conceptions of power in the global political economy.

Conclusion

It seems fair to assume that Susan Strange would have been fascinated by the global financial crisis of 2008. One reason is that the crisis resulted partly from the kinds of financial deregulation and casino capitalism that she had critiqued for much of her career. But Strange would also likely have been intrigued by how the global financial crisis of 2008 demonstrated the enduring structural power of the US in the global financial system in some dramatic ways. Both the unprecedented scale of the US international lender of last resort role and the unexpectedly robust foreign support for dollar during the crisis provided strong evidence of her argument. They highlight how the US remains, as Strange put it in 1982, “still an extraordinary power” in the global financial realm.

An analysis of these development in the 2008 crisis also enables a clarification of some aspects of Strange’s concept of structural power at a more analytical level. To begin with, the two

73 Strange 1982: 77.
77 Helleiner 2011.
78 Strange 1982. My argument reinforces that of others who have also recently emphasized the enduring nature of US financial power such as Germain 2010 and Oatley et al 2013.
developments analyzed in this chapter provide very useful contrasting examples of Strange’s point that structural power can be exercised either very consciously or in a more non-intentional manner. Second, they also demonstrate Strange’s point that structural power is exercised over not just foreign states but also private actors in the global political economy (e.g. private financial interests need for dollar liquidity and their role in supporting the dollar). Third, the analysis highlights how the sources of US structural power in global finance derive not just from the pre-eminence of the US dollar and financial markets but also from US dominance in non-financial spheres such as global production and security (a point explored more fully in Schwartz’s chapter). Finally, the experience of the 2008 crisis demonstrates how structural power in global finance provides a number of benefits to the US, ranging from the unique influence it had in politics of crisis-resolution to the unusual macroeconomic flexibility that stemmed from foreign support of the dollar.

If the 2008 crisis demonstrated the enduring nature of US structural power in global finance, is that power likely to last well into the future? This is obviously a question beyond the scope of this chapter. It is worth noting, however, that the 2008 crisis might come to be seen in future years as a catalyst for developments that undermined US power in global finance over the medium term. In the wake of the crisis, many foreign governments expressed very public frustrations with their dependence on the dollar, US financial markets and the US economy more generally. Those frustrations have already generated some initiatives that may undermine US structural power in the coming years. For that reason, future scholars may come to see the 2008 crisis as an important turning point for the global political economy. But for analysts of the crisis itself and its immediate wake, Strange’s critique of the “declinist” school is still remarkably germane.

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