Still an Extraordinary Power After All These Years:

US and the Global Financial Crisis of 2008

Eric Helleiner
University of Waterloo

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Parts of this paper are drawn from Helleiner (forthcoming).
Susan Strange is well known for her interventions into discussions about the trajectory of US hegemony in the 1980s. 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. Strange was particularly keen to highlight this point in the global financial arena where she argued that the US to continue to shape outcomes in direct and indirect ways that no other state could match.1

The global financial crisis of 2008 presents a unique opportunity to re-visit Strange’s arguments about the enduring power of the US in global finance. The US-centred crisis is widely seen as an event that dramatically symbolized the decline of US financial power. Does this mean that Strange’s critique is finally outdated? Quite the contrary. In this paper, I suggest that it remains as relevant and important as ever. US structural power is particularly apparent when we examine two international developments during the crisis: the Fed’s currency swaps of 2007-2010 and the absence of a dollar crisis at the height of the crisis. Both revealed quite starkly how that the US remains, as Strange put it in 1982, “still an extraordinary power” in the global financial realm.2

The Dollar and the US Rescue of the World Economy

The significance of the Fed’s currency swaps 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.3 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 2008-09.4 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 from the G20 summits.5 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”.6 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.7 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

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2 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.
3 See for example Drezner 2012.
7 G20 2009b: 1. See also Brown 2010: 113.
and the new $250 SDR allocation had little immediate practical value. Even the head-grabbing $500 billion devoted to tripling the IMF’s funds was inconsequential because 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 help foreign 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 threw caution to the wind and 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 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 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).

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8 For trade finance, see Wade 2009: 547; Reuters 2009. For the SDR, see Helleiner forthcoming: ch.2.
9 Helleiner forthcoming: ch.2.
10 McDowell 2012.
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.\textsuperscript{12} 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.\textsuperscript{13} 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.\textsuperscript{14}

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.\textsuperscript{15} 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.\textsuperscript{16} 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. 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.\textsuperscript{17}

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.\textsuperscript{18} 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

\textsuperscript{12} Allen and Moessner 2010: 43; Obstfeld, Shambaugh, and Taylor 2009.
\textsuperscript{13} 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).
\textsuperscript{14} Allen and Moessner 2011.
\textsuperscript{15} See for example Moessner and Allen 2011.
\textsuperscript{16} Broz 2012.
\textsuperscript{17} Financial Crisis Inquiry Commission 201: 377, Barofsky 2012: ch.10.
\textsuperscript{18} Board of Governors 2012.
much more limited - $35 billion in aggregate for the ECB and $57 for the SNB – and actual drawings were small.\textsuperscript{19}

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.\textsuperscript{20} In addition, the Bank of Japan set up small swaps in 2008-09 for India ($3 billion) and Indonesia ($12 billion).\textsuperscript{21} 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.\textsuperscript{22} 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”.\textsuperscript{23} 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. 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.\textsuperscript{24} This power was even more starkly on display during the 2008 crisis.

If US authorities had a unique capacity to act as an international lender of last resort, what explains their willingness to take on this role? 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.\textsuperscript{25}

\textsuperscript{19} 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).
\textsuperscript{20} Grimes 2011: 295.
\textsuperscript{21} Allen and Moessner 2010.
\textsuperscript{22} Yang 2012, 2014.
\textsuperscript{23} Moessner and Allen 2011: 18.
\textsuperscript{24} Strange 1987: 569.
\textsuperscript{25} Broz 2012, McDowell 2012, Aizenman and Pasricha 2009.
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 2008.26 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.”27

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 US willingness to use that power actively was key to the international financial management of the crisis. Individual countries were keenly aware of their dependence on the US when they requested dollar swaps with the Fed during the crisis. This awareness was heightened by the fact that not all requests were met; even some G20 members such as Indonesia were denied by the Fed which preferred to limit the risks involved in its lending.28 Indeed, because of the risks involved, Fed officials allowed all their crisis-related swaps to expire in February 2010.29 Because of the concerns about the burdens and responsibilities that might be placed on the Fed, US authorities also rejected post-crisis proposals from some G20 members as well as from IMF staff to expand and institutionalize in a permanent and multilateral way the swap arrangements created in the crisis.30 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) and that was 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

26 McDowell 2012. See also Allen and Moessner 2011. Chey (2012) notes that US officials may also have been worried that if countries such as Korea sold more reserves to defend their currency, this behaviour might adversely affect the US Treasury market.
28 The Fed rejected Indonesia’s requests for a swap in early 2009. 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.
29 McDowell 2012. 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.
30 Kim and Chey 2012; Oliver 2010; Allen and Moessner 2010: 78; Suominen 2012: 118.
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 will rise 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.\textsuperscript{31}

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%).\textsuperscript{32} 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.\textsuperscript{33}

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{34} 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{35} 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{36}
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{37} 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.38

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 1973.39 Contrary to expectations, foreign investors plowed into the dollar rather than fleeing from it.

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 exacerbated the domestic financial troubles of these countries. In the US case, a similar collapse in the greenback’s value would like have forced the US Federal Reserve to hike US interest rates dramatically (as it had in 1979 when faced with a dollar crisis), 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, this unpleasant scenario 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.40 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 risker than the United States and bought Treasury securities copiously”.41

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

38 James 2009: 224, 227
41 Reinhoff and Rogoff 2009: 222.
invest in higher-yielding instruments in foreign currencies.42

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.43

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 were preventing their own officials and financial institutions from selling US investments.44 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 2009.45

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”.46 Before the crisis, Western analysts had worried that these politically-controlled investment funds might “increase the fragility of cooperation in global finance”.47 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

42 McCauley and McGuire 2009.
45 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).
46 Schwartz 2009: 211.
depreciate, so we hate you guys but there is nothing much we can do”. 48

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. 49 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.

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”. 50 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. 51 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). 52

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. 53 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. 54

The Chinese decision to peg its currency and defend the dollar put pressure on many other

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48 Quoted in Sender 2009. See also Otero-Iglesias and Steinberg 2013: 14
50 Quoted in Otero-Iglesias and Steinberg 2012: 15..
52 Schwartz 2009. See also Helleiner and Kirshner 2014.
53 James 2009.
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”. 55 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 discusses 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. 56 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. 57 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 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. 58 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.” 59

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. 60 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. 61 US officials also made efforts throughout the crisis to keep in touch their major foreign official creditors, encouraging their investments in US troubled financial institutions and welcoming support for the dollar. 62 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”. 63

As we have seen, the reasons why foreigners – both official and private - choose to support the dollar were linked to the broader structural power of the US in global political economy. This power derived from factors such as: the unique attractiveness of US financial markets, the

55 Setser 2008: 22.
56 Kirshner 1995: 118.
57 Momani 2008, Murphy 2006, Otero-Iglesias and Steinberg 2012.
59 Quoted in Bradsher 2009.
60 Otero-Iglesias and Steinberg 2012: 19.
61 Blustein 2012.
centrality of the dollar in private international financial markets, the importance of the US as a destination for foreign exports, its geopolitical dominance, and foreign government’s “entrapment” in the dollar order. Of course, foreigners still had agency within this structural context. But 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 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 “need not be confined to outcomes consciously or deliberately sought for. Power can be effectively exercised by ‘being there’”. 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.

Conclusion

It seems fair to assume that Susan Strange would have been fascinated by the global financial crisis of 2008. This is not just because it resulted partly from the kinds of financial deregulation and casino capitalism that she had critiqued for much of her career. It is also because, despite claims to the contrary, 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 Fed’s international lender of last resort role and the unexpectedly robust foreign support for dollar during the crisis provided fascinating evidence of this power. Strange would have good reason to claim that her arguments remain relevant a quarter century after she first put them forward.

This is not to suggest that the 2008 crisis might not 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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65 Strange 1988: 7
66 Helleiner 2011.
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