THE SWAP LINES THEN AND NOW:
REPOSITIONING THE UNITED STATES AND THE FEDERAL RESERVE
IN GLOBAL MONETARY RELATIONS

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ABSTRACT

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The use of swap lines during and after the global financial crisis of 2008 has attracted a lot of attention as it seemingly put the US Federal Reserve into the position of an international lender of last resort. This thesis questions the validity of this argument critically by problematizing the uses of central bank swap lines in different historical conjunctures. Elaborating on the changes and continuities of US monetary policy via Fed’s swap lines strategies within global capitalism, the thesis investigates how the use of swap lines dates back to the 1960s when they were mainly introduced to defend the gold reserves of the Fed during the Bretton Woods system, and how they are shaped today by various politically-informed domestic and international considerations though within a highly financialized global capitalism.

Keywords: Central Bank Swap Lines, US Hegemony, International Political Economy

ÖZ

GEÇMİŞTEN BUGÜNE TAKAS HATLARI:
AMERİKA BİRLEŞİK DEVLETLERİ VE AMERİKAN MERKEZ BANKASI'NIN KÜRESEL PARASAL İLİŞKİLERDE YENİDEN KONUMLANDIRILMASI

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2008 küresel mali krizi sırasında ve sonrasında takas hatlarının kullanımı, görünüşe göre ABD Federal Rezervini uluslararası bir son kredi mercii konumuna getirdiği için büyük ilgi gördü. Bu tez, farklı tarihsel konjonktürlerde merkez bankası takas hatlarının kullanımlarını sorunsallaştırarak, bu argümanın geçerliliğini eleştirel olarak sorgulamaktadır. Küresel kapitalizm içinde Fed'in takas hatları stratejileri üzerinden ABD para politikasındaki değişimleri ve sürekliliği ele alan bu tez, Bretton Woods sistemi içinde Fed'in altın rezervlerini savunmak için 1960'larda ilk kez kullanılmaya başlanan takas hatlarının, günümüzün son derece finansallaşmış küresel kapitalizmi içinde, bugün nasıl siyasi nitelikli çeşitli içsel ve uluslararası etmenler tarafından şekillendirildiklerini araştırmaktadır.

Anahtar Kelimeler: Merkez Bankası Takas Hatları, Amerikan Hegemonyası, Uluslararası Ekonomi Politik

To my mother

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she provided a great relief and comfort for me to complete this thesis, I am very grateful to her. And finally, I dedicate this thesis to my mother. I sincerely wish that she was here so that we could share this moment or any moment. Without her unconditional love and unwavering belief in me, I wouldn’t be where I am now. I miss and love her dearly.

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LIST OF ABBREVIATIONS

BIS	Bank for International Settlements
BWS	Bretton Woods system
CIP	Covered Interest Rate Policy
ECB	European Central Bank
ESF	Exchange Stabilization Fund
EU	European Union
FCL	Flexible Credit Line
FED	Federal Reserve
FOMC	Federal Open Market Committee
GAO	Government Accountability Office
GFA	Global Financial Architecture
GFC	Global Financial Crisis
GFSN	Global Financial Safety Net
HST	Hegemonic Stability Theory
ILLR	International Lender of Last Resort
IMF	International Monetary Fund
IR	International Relations
LLR	Lender of Last Resort
OPEC	Organization of Petroleum Exporting Countries
PLL	Precautionary and Liquidity Line
QE	Quantitative Easing
RCF	Rapid Credit Facility

SNB	Swiss National Bank
TAF	Term Auction Facility
TCC	Transnational Capitalist Class
UK	United Kingdom
US	United States of America
WWI	World War I
WWII	World War II

CHAPTER 1

INTRODUCTION

1.1 Why and How to Focus on the Fed Swap Lines?

In this age of financialized capitalism, whenever the financial system encounters a crisis, headlines are filled with news on some novel monetary tools or strategies to contain or manage it. Central bank swap lines, or more specifically the Federal Reserve (Fed) swap lines, are one of such tools which have been mentioned rather frequently in the recent years. After their launch to combat the strain in the markets during the 2008 global financial crisis (GFC) and most recently during the Covid-19 pandemic, they have become an essential part of the global financial architecture. The Fed swap lines have been an effective crisis management tool not simply because they provide the receiving countries with the urgently needed liquidity, but also, they send important signals to international investors on which countries the United States (US) is willing to rescue under conditions of global crisis. As Turkey's own experience[1] also shows, the Fed has been using this tool selectively and openly with political considerations. The formation of a new financial alliance among the US, European Union, England, Japan, Switzerland, and Canada along their central banks via swap lines, arguably replacing the G-7 as the C-6, should be duly noted in this regard (Mehrling, 2015).

This thesis aims to make a critical political analysis of central bank currency swap lines, a subject examined mostly with technical and empirical considerations so far, in order to rethink the dynamically changing

[1] During the Covid-19 pandemic it was clear that Turkey wanted to have a swap agreement with the US. (Gürses, 2020). However, because of the political strife between the two countries, the agreement was not realized (Arab News, 2020).

characteristics of global financial (dis)order and the role of the US state within it. This analysis will be also a historical one in two senses. Firstly, the Fed's use of central bank swap lines is not a new phenomenon but dates back to the 1960s, the decade in which they were for the first time widely used. Understanding how and when the Fed has used swap lines thereafter will be one of the important aims of the thesis. Secondly, even though the main working practice of the swap lines has not fundamentally changed, the same cannot be told for their function in the historical development of world capitalism and the hegemonic capabilities of the US. Thus, the thesis will try to differentiate the usage of swap lines during and after the Bretton Woods order in order to highlight the political motives behind their introduction.

To start with the US question, the prominence of US studies in academia extends back to the aftermath of the World War II (WWII). After the war, the US became the most powerful country in the international arena, where the majority of the great powers of the century had been left destroyed economically and lost a significant amount of their population and infrastructure. Under these circumstances, the new world order was to be mainly designed and built by the American state, institutions, and policymakers as it was the country that even benefited from the war economically. Since then, the US has welcomed this leadership role and become one of the most influential forces in the global arena.

As the US assumed this role, there have been many discussions on its position within the international system, such as whether it could be described as a benign hegemon providing collective goods in the system or as an empire acting purely out of interest. In addition, in line with the internationalization of national economies after the 1970s and the popular globalization debate, these arguments have been reproduced within new contexts and the role and position of the US in the 'new' global world have been redefined as one to contribute to this internationalization process. This ongoing debate that questions the directions in the global capitalist trajectory and the position of the US in its historical development has been in overall crucial to understanding the basics of global power relations, which shape the world we live in.

This thesis will engage in such a problematization by focusing on the US Fed's central bank swap lines. It will question how the US has intervened in the world's economic and international monetary system via the central bank swap lines in different historical eras while responding to the challenges stemming from the contradictions of global capitalism. To answer this question, it is important to consider primarily the unique position of the US dollar, which has been functioning as the world currency and subject to some specific privileges and responsibilities that come with it. The last financial crisis and the fragility of the financial markets during the Covid-19 pandemic have arguably put the Fed, as many propose, to the position of the lender of last resort (LLR)[2] as the world's central bank, due to the critical position of the US dollar in the world market. As the financial markets become closely intertwined, the response to any panic and potential loss in global financial markets have become subjected to the solutions offered by the Fed. Usually, the LLR is an economic term that is designed for the domestic economy and underlines that the central bank of each country acts as the ultimate lender to all to manage crises within the domestic terrain. Attributing such a role to the central financial institution of the US means attributing the role of the benign hegemon to the US, an argument which requires to be explored critically due to the Marxist perspective adopted in this thesis. Hence, the research questions to be investigated in this thesis are the following:

1) to what extent can the Fed's use of swap lines be considered a function of international lender of last resort, and

2) what do different uses of swap lines by Fed in history tell us about the state of the US hegemony in global capitalism?

Before moving on to this investigation on the rise of the Fed as the central financial institution arguably assuming global mission in times of crisis, it is essential to remind briefly the retrieval of the International Monetary Fund (IMF), a multilateral institution that has long been employed with a similar role

[2] LLR was first discussed by Sir Francis Baring in 1797, while later Henry Thornton and Walter Bagehot (1873) conceptualized it in its common understanding. The role of the lender of last resort was understood as "to prevent financial panics and crises from being ignited by problems at individual institutions or markets" (Kaufman, 1991, p.95).

in the global financial architecture. For, while one of the important developments observed in the international financial system has been the increasing role of the Fed, hence the American State, in financial crises, this development has been accompanied by a decrease in the actions and scope of the IMF as a crisis manager. There are several factors that have contributed to it. Firstly, the IMF's reputation was severely damaged after the management of the Asian Financial Crisis of 1997. Secondly, the intensity and hyperactivity of the financial markets require fast intervention, a capability that can be more easily fulfilled by the Fed rather than a multigovernmental organization such as the IMF. Indeed, there are accounts that imply the cut of funding of the US for the IMF, which means an increased role for the American state itself.

The declining role of the IMF in global financial architecture has become evident after the 2008 GFC, during which the Fund developed three different tools. IMF explains the introduction of these tools in the wake of the GFC as the emergent need for a provider of liquidity. The first of them was the Flexible Credit Line (FCL). IMF explains this credit line as a way of overcoming the stigma around the Fund's lending practices. The FCL can be applied by countries that have strong economies with sound economic management. IMF states that it can be used if there is a potential or actual balance of payment difficulty. It is flexible in the sense that any country which meets the requirements can draw on the credit line. The application can be renewable; however, the Executive Committee needs to assess the suitability to the economic criteria before the second draw of credit. It is a medium to long-term program in which repayment could take up to five years (IMF, 2012). The second credit line established by the IMF was the Precautionary and Liquidity Credit Line. According to the IMF guidelines, it is very similar to FCL; however, this credit line is intended for countries that are not qualified to apply for FCL. The last tool of the IMF is called Rapid Credit Facility, which is for low-income countries (IMF, 2012). Neither of these facilities has received popularity, and only a few countries applied to use them so far.

One of the reasons was the stigma around the IMF. The experiences of the 1980s and 1990s are still lingering in the memories of the countries, and for many governments, obtaining credit from IMF is still a taboo subject. Secondly, as the mechanisms of these credit lines require a bureaucratic application and selection process, it has not been considered suitable to answer the needs of the global financial system. Therefore, the Fed starts to be considered the new international LLR by many due to its continuing international prestige and operational flexibility in global financial markets. The reintroduction of swap lines by Fed to relieve the pressure on financial markets after the GFC, rather than authorizing the IMF to deliver liquidity to the countries in crisis, has augmented the existence of the Fed in the provision and implementation of global financial order. It is now clear that to have easy and fast access to the very much-needed American dollars, one needs to be within the financial network of the Fed rather than relying on a multinational institution.

Swap lines became also a pressing issue during the early months of the Covid-19 pandemic. The interruptions in production and trade activities and, once again, the existence of uncertainty posed a risk to the financial stability of global markets. In order to ease panic, the Fed activated once again swap lines to its ally countries. However, it was clear since the beginning that the US would not provide this opportunity to all countries which sought a swap line; thus, some countries, such as Turkey, had to seek swap agreements with other countries such as Qatar.

In addition to the swap networks established between the Fed and some selected central banks, China, an emerging economic giant, started establishing its swap lines with several countries. There is also a growing network of bilateral swap lines among developing economies. We are yet to see what will come into existence out of these arrangements; however, according to some scholars, this financial practice might change the outlook of how financial markets work.

Understanding the rising importance of swap lines in global capitalism and how this relates to the dynamically changing hegemonic position of the US in global capitalism will be thus the central concern of this thesis. The thesis will search empirical answers to this fundamental question in the transcripts of the

Federal Open Market Committee (FOMC) meetings of the Fed besides the relevant secondary sources. The transcripts of FOMC meetings would give us important clues on the domestic and international political considerations affecting Fed’s monetary decisions, as discussions over such considerations have always taken place in the FOMC meetings due to the central policy-making position of the committee within the US Federal Reserve System.

The Federal Reserve System is the central bank of the US, and it ensures that the US economy functions effectively through the monetary policies it sets. Its structure is highly decentralized, and FOMC is one of its key entities, along with the Board of Governors and twelve Federal Reserve Banks (Federal Reserve, 2022) in the Fed. The function of the FOMC within this system is to determine the monetary policy, and the policies are adopted with a majority vote rule after lengthy discussions (Chappell et al., 2004, p.9).

Even though the independence of the central bank is a major characteristic of a capitalist liberal economy, even in conventional analyses, it is accepted that the decisions taken by the FOMC may be influenced by politics, as Chappell et al. also point out. During the establishment of the FOMC and the Fed by the US Congress, it was constituted that that the members of the Board of Governors and the president of the Fed were to be appointed by the US president, which means that the Fed has an open space for political influence (Ibid., p.12).

Discussions related to the independence of the Fed have always occupied a significant place in the FOMC meetings. This has mainly meant the Fed’s independence from the US Treasury and other governmental bodies, which take decisions via directly political considerations, while the Fed is considered to be responsive to arguably separate and self-functioning market dynamics. Despite this liberal assumption, which helps form and reproduces the ‘scientificity’ claims of neoclassical economics however, the critical Marxist perspective adapted in this thesis will assume that these institutions including the Fed have always been sites of struggle of political actors as well as classes. This theoretical lens will accept that the rules established, and the policies conducted in monetary issues cannot be separated from the societal and political reality within which they operate. Hence, having been primarily inspired by Leo Panitch and Sam Gindin's 2012 book on *The Making of Global Capitalism: The Political Economy of American Empire* in the development of my own arguments, I will endorse in this thesis a historical materialistic perspective, which focuses on the complexities and contradictions of global capitalism and the states' relatively autonomous conditions of reproduction within these contradictions. As Panitch and Gindin argue, the preeminence of the US state in the face of globalization and the so-called eradication of the importance of nation-states in this new order continues today while specific institutions and policies of the US have been intervening in as well as getting reshaped by domestic and international power struggles, taking place within the dynamically changing global capitalist relations.

1.2. The Structure of the Thesis

The rest of the thesis is structured as in the following. After this introductory chapter, I will first look into four broad conceptualizations about the position of the US in the world order, which stem from various theoretical backgrounds. First, I will present the conventional realist and liberal accounts that attribute the possibility of world order and economic stability to the leadership of a hegemon. These analyses concentrate on the US as it is accepted as the hegemonic power of this century. Secondly, I will discuss the conceptualization of the US as an empire, deriving from mainly Marxist traditions. Thirdly, I will look into the concept of transnationalism and the retreat of the state while explaining the international system. Lastly, I will introduce the critical Marxist approach adapted in this thesis in more detail.

In the third chapter, I will look into different mechanisms of monetary intervention deployed by the U.S. in world markets since the WWII. Chronologically, I will overview the developments from the Bretton Woods era to the current neoliberal period up until the 2008 GFC when the use of central banks and bilateral swap networks started gaining prominence besides other mechanisms of monetary intervention.

Then, in the fourth chapter, I will look into the first systemic use of swap lines by the Fed in the 1960s as an attempt to prevent gold losses and to intervene in the newly established offshore market rates throughout the years up until its abandonment in 1998.

In the fifth chapter, I will look into the reintroduction of swap lines in the face of the GFC and delve into the arguments regarding the global financial safety net (GFSN) and international LLR. Here, I will look into the selection process of the partner countries to show political as well as economic considerations were taken into account in this selection. I will also explain the rationale of the launch of the swap lines in the 2000s and make a comparison with the swap lines of the 1960s. I will claim that while applying these policies, the Fed did not only consider the functioning of the global economy but was interested in domestic monetary considerations as well.

In the last chapter, I will make a concluding discussion on the findings of this thesis.

1.3. The Main Assumptions, Arguments and Findings

As mentioned before, most of the hitherto literature on the central bank swap lines has been empirical. These empirical studies have tried to understand under which conditions the US extends those swap lines, the characteristics of the receiving countries, the economic outlook, and whether the involved actors achieved what they aimed. Although incredibly informative and valuable, these studies do not analyze the potential and meaning of these swap lines from a wholistic perspective that is capable of rethinking them in relation to social and political relations.

Contrary to such analyses, the theoretical perspective informed by the writings of Panitch and Gindin (2012), which suggests that the US State is not a simple servant to global capitalism but also reproduces itself within the contradictory development of world capitalism while also responding to the specific actions taken by other states, helps us understand the specificity of the central bank swap lines as a significant policy tool within the contradictory totality of global capitalism. Their analysis reminds us that while the US State has definitely an immense financial capacity, it has been also limited by the changing conditions of global capital accumulation, which have become highly financialized since the 1990s though by ironically by the US' own policy choices at different moments of crisis besides class dynamics.

When we look at the use of swap lines from this perspective, we see that their introduction in the 1960s was a deliberate choice of certain monetary policy makers, which they proposed to manage the problems the US started facing due to the fixed dollar-gold parity defined by the Bretton Woods System (BWS). The recent usage of swap lines during the global financial crisis of 2008 highlights also a similar consideration though within a highly financialized world capitalism. The US Fed, having been constrained more than ever by the developed financial markets now, try to respond both to the immediate problems it faces in monetary markets via swap lines, a policy tool that is more openly political than the US' earlier mechanisms of intervention in global monetary markets. This response seems to pave the way for some new political controversies in global capitalism. For while it leads on the one hand to the absorption of some other states in the Americanized financial system and the political choices made by the US in the process, it also agitates other countries to develop their own swap line network mechanisms.

Based on these findings, this thesis will mainly argue that Fed swap lines do not serve to the US' arguable role of the international LLR as the specific policy choices regarding the recipients and rationale behind the uses of the Fed swap lines are highly political. The US, as the most powerful and capable country in the global financial system, seems to implement monetary policies, including the swap lines, to overcome its own immediate monetary problems within the contradictions of the capitalist system though the US' central position in global monetary relations requires the definition of this 'immediate' in a more complex way with its far-reaching implications.

CHAPTER 2

THE UNITED STATES IN THE GLOBAL ORDER

2.1. The US as the Hegemonic Power

Even though they have some differences in their understanding of the core mechanisms of the international system, the conventional realist and liberal theories of International Relations (IR) assign a similar role to the US as the hegemon, as it is theorized as an actor capable of affecting international order for the sake of either its self-interest or international cooperation. They explain the necessity and existence of the US hegemony at the top of the political hierarchy by emphasizing the need for order and stability in the international system. For most of these realist and liberal institutionalist theories of international relations, which have been prevalent in Western academia for decades, the international arena is anarchical in nature and claim +the primary motive for state action is survival in this anarchical plane.

Gilpin (1975), a realist scholar, claims that the existence of a liberal market economy is only achievable with the leadership of a strong state under conditions of international anarchy. The proponents of this view do not analyze capitalism as the general social context that shapes both the global market and the US hegemony, but instead as an inherently free market order; they also evaluate state policies adapted within the system in relation to their liberal quality. They assume that capitalist economy brings prosperity when states apply the correct liberal policies; but such a general stand is only possible by the enforcement of the hegemon. Gilpin, for example, argues that:

> [a]s the twenty-first century opens, the decline of American leadership, fraying economic cooperation between the United States and its Cold War allies, and increasing disillusionment with economic globalization in the United States and elsewhere have weakened the underlying political support for an open world economy. Economic regionalism, financial instability, and trade protectionism all seriously threaten the stability and the integration of the global economy, whose future will depend on the foreign policies, domestic economic policies, and political relations of the major economic powers. If the United States does not resume its leadership role, the Second Great Age of global capitalism, like the first, is likely to disappear (2000, p.357).

Another famous realist scholar Mearsheimer, on the other side, claims that establishing global hegemony is the last aim for a great power; as a proponent of offensive realism, his understanding of hegemony is similar to the dominance of one state over others. He also suggests that there was no global hegemon in history, but the US was the only regional hegemon of the modern international system. According to him, even though there are countries that want to increase their power and become regional hegemons, the US is adamant about preserving its status as the sole hegemonic power (2001, p.40-41).

The infamous Hegemonic Stability Theory (HST) derives its assumptions from a similar realist understanding of world order. Charles Kindleberger (1973), who famously conceptualized the HST, claims that the world order needs a hegemonic power to organize peaceful economic and political relations. His account emphasizes that such an order would be profitable for all states. He states that "a liberal economic order needs leadership, a country which is prepared, consciously or unconsciously, under some system of rules it has internationalized, to set standards of conduct for other countries; and to seek to get others to follow them" (Ibid.).

The HST theorists argue that the years between 1945-1970 were the epitome of the leadership of the US in world trade and finance. The economies of nation-states were prospering, and peace was settled among major powers thanks to the US hegemony. The international order and the relations between different actors in the global realm are mainly analyzed as a power-cooperation nexus. It is state-centric in its understanding, and the main principle of action lies in states' *apriori* nature, which is mainly their self-interest. Even though most realist views to hegemony in IR have constraints in explaining the liberal stand expected from the US state, they don’t bother themselves with this problem a lot. As the internal dynamics and characteristics of the states are not included in the realist accounts of IR, main features of the US economy, its specific institutions and their domestic interactions have been disregarded as the explanation for the trajectory of the capitalist world economy.

Liberal perspectives in IR frame a similar picture about the role of the hegemon within the international system. However, for them, even though the hegemon can provide the necessary leadership for a stable system, it is not the only option to deliver a harmonious order; there could be a coalition of states which would provide public goods instead of a hegemon (Matthijs, 2020, p. 6). Liberals reject the prevalence of hard power while conceptualizing hegemony. The power and the capacity of the hegemon to build an orderly system are derived from its ability to establish and promote an institutionalized international system. Rather than relying on material capabilities, it offers a rule-based international regime by gaining the consent of other states (Keohane, 1984; Ikenberry, 2011). Also, another distinctive feature of liberalism claims that even though the hegemonic power is instrumental in building such a regime, its existence is not necessarily vital for its longevity (Keohane, 1984).

The use of the concept of hegemony is not limited with the realist and liberal traditions in IR. Several scholars from the Marxist tradition have used this concept as well to categorize the cycles within capitalist history. In this perspective, hegemon means the most powerful state, which has an immense economic and militaristic capability, and the US has been fulfilling this role since the WWII. However, they do not advocate for the presence of a hegemonic power for order as the hegemon is considered to be part of the inherently contradictory and crisis-prone world capitalism. As the hegemon spreads globally and turns labor into wage labor, it would face the capitalist contradictions that it would not overcome (Arrighi, 1990; Wallerstein,1983).

2.2. Theorizing the US as an Imperialistic Power

Another perspective that explains the position of the US within the world order comes from the Marxist tradition. Some Marxist accounts describe the trajectory of capitalist world history by theorizing the US as the principal actor of capitalist expansion and point out to the imperialistic tendencies and policies it pursues. The US hierarchically governs the international order, and it is ruthlessly expanding its power while also ensuring the expansion of markets and capital accumulation. Several aspects of this perspective require further elaboration.

Firstly, the state's position within the international system is explained with a unitary motive, coming from the state, the policy elites, and several actors who are part of the system. The power struggles among the different actors do not carry much significance, and the results of the ongoing struggles are not used to derive conclusions. Gowan, a famous Marxist scholar, who synthesizes international relations studies with global political economy, explains the unique status of the US in relation to a deliberate, aggressive plan that it has been pursuing since the 1940s. According to him, the American state, business, and elite have a plan to dominate the world and actively work towards it by limiting the scope of the movement of other actors. To achieve this goal of domination, it has weakened the labor movement, positioned itself firmly over the Global South countries, and ensured that American business flourished all over the world (Gowan, 2004, p. 492-498). He also emphasizes the increased power of the US after the collapse of the BWS and argues that the American state has deliberately established a Dollar-Wall Street regime after the 1970s. Not only has it dominated the political and military arena, but it has also augmented its power in the financial arena with this purpose (Gowan, 1999).

On the other hand, another influential scholar, Wood focuses on the empire-making capacities and intentions of central capitalist states throughout history and sees the United States as the final example of it. US foreign policy cannot be thought of in a separate plane from the logic and history of capitalism and the propensity of the major powers to imperialism. Imperialism of this age is, first or foremost, visible in the economic realm but still needs a military power.

The US as of today has to control a fragile balance when there are rising powers such as China. Even the ally blocs such as European Union could potentially be a threat to its prominence as it has considerable economic potential. Within the current imperialistic phase of capitalism, the US asserts its dominance via institutions in which it has the most power over all other actors (Wood, 2021).

Callinicos (2007) also points out the prevalence of geopolitics in contemporary politics, even if some dismiss it after the Soviet Union collapsed. According to him, capitalist imperialism lies within the intersection of economic and geopolitical competition. For such Marxist scholars who emphasize the geopolitical character of US imperialism, the current phase of capitalism should be analyzed as a profound crisis of profitability, and while various capitalist groups have been trying to find a way out of the crisis since the 1970s, the conflict among major powers is also an essential aspect of international politics (Callinicos, 2007; Gowan, 1999).

Both of these perspectives, theorizing the US as a hegemon or as an imperial power that seeks to dominate others, give the state a homogenous outlook. However, there are many layers of challenges and opportunities when we look into the struggles and historical accounts of the changes and continuities both within the state and in the international realm. The policies the US has adopted must be understood within specific historical conjunctures and the political struggles in and out of the states. In the US, different capitalist interests defend different policies for the continuation of the American power and struggles among these different interests shape the US State’s ultimate global policies contingently. Moreover, even though the US has been incredibly successful in exporting its way of governing the economy, this policy has historically paved the way for the other actors to be an integral part of the system. It is within this intersection that we need to analyze the specific policies that have been adopted by the US as well as their implications and contradictory outcomes. However, before moving to the theoretical perspective of this thesis, another theoretical perspective on the position of the American state within global capitalism, which focuses on transnationalism and the demise of the state, should be overviewed.

2.3. The Rise of Transnationalism

Another critical branch of theorization on global capitalism and the position of the US within it offers a perspective that transcends the state's role. The roots of this understanding go back to Gramscianism, particularly the neo-Gramscianism developed by Robert Cox. Adopting the Gramscian understanding of hegemony[3] to the international arena, Cox (1983) identified the imperatives of a hegemon in the international arena and applied Gramscian terms such as historical bloc to the international realm. The school of thought introduced in this section employs this understanding of historical bloc and consent building. It criticizes the traditional view of US hegemony. It claims that in order to understand the rise and decline of the US hegemonic position or even the making of global capitalism, we need to move beyond the state-centric approaches. The new world order that was systemized in the aftermath of the WWII has been transformed with new types of actors and relationships. Even though the position of the US cannot be denied, there has been a new form of hegemonic rationality. Just as the historical bloc cultivates consent from the people for the formation of the state, a transnational historical bloc also socializes other countries into the rationality of the hegemony.

Gill (1986, p.321) extends this view by suggesting that the US “as the most efficient capitalist” managed to have unity among different states until the 1970s so that countries were allowed to adopt Keynesian economics in which they pursued full employment and Fordist production. The decline of the hegemony debate, which has started in the late 1970 and 1980s, could be interpreted as the extension of transnationalism. He suggests that this new order does not mean that the position of the US is declining but instead evolving towards the establishment of a new transnational historical bloc. Also, after the recession in developed countries in the 1970s, the US had attracted

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[3] Gramsci lived during the fascist dictatorship in Italy and his perspective was shaped as a explanation and as a way out according to his experiences. According to Gramscian thought, hegemonic power imposes a certain way of living but impose them through social and political practices, through norms and values (Sassoon, 1982).

much more foreign direct investment. There is a proliferation in several sub-sectors, proving the existence of a transnational historical bloc.

Robinson (2000) also makes his case about the prevalence of the transnational capitalist class, and argues that there is a global ruling class, which comprises transnational corporations and financial institutions operating internationally. Also, media, elites, and some political figures are part of this structure. Within this new global regime, globalization is the main force of this historical bloc. The class formation in nation-states is not proper and adequate to analyze the new type of accumulation regime that this global ruling class promotes. The transnational capitalist class (TCC) has sought transnationalization on their search for a way out of the capital accumulation crises and build a structure for governance while setting up transnational institutions. For Robinson (2000, p.28) "[i]t is through these global institutions that the TCC has been attempting to forge a new global capitalist hegemonic bloc." The historical developments such as the adaption of neoliberal policies and the Washington Consensus are also evaluated on these terms. Rather than protecting national capital, this new type of class formation serves the interests of transnational capitalists (Ibid.).

Even though it is essential to recognize the existence and influence of a globally operating capitalist class consisting of people from different nationalities, and indeed their power seems to get ever more significant each day, without situating the state as a relatively autonomous agency, it is impossible to explain the state of historical events in global political economy. The 2008 GFC has been a crucial turning point to see these interdependent and complex relationships, and besides the measures imposed by global capitalist classes, the existence of the US state and the actions it has taken via its institutions have also been crucial to analyze the developments in global capitalism.

2.4. The US as a State in the Making of Global Capitalism

The critical Marxist and neo-Gramscian approaches covered above do not provide us with proper analytical tools to examine the questions posed in this thesis. For, those perspectives that underline the imperialistic character of the

US do not identify any significant tension between the global requirements of capital accumulation and the specific imperialistic policies of the US; while global hegemony-oriented transnationalism does not attach any priority to the specific interventions of the hegemonic power in the development of global capitalism. Thus, rather than these critical perspectives -and also in contrast to the purely state-centric mainstream IR approaches-, this thesis will adopt Panitch and Gindin's Marxist theorization to understand the role of US in global capitalism. It will be maintained that the unique position of the US state, the consequent hegemony debate, the spread of financialized capitalism, and lastly the economic tools that the US has adapted throughout several capitalist crises it has faced cannot be properly comprehended if these developments are not problematized as also the consequences of the power struggles in the international order and of the contingent policy choices made by a power at the top of the international hierarchy, namely the US, acting to ensure an order most beneficial capitalist order to its own interest rather than playing the role of a benign cooperative power. These developments cannot be seen as a deliberate consequence or a natural extension of the flow of the history as well. In order to understand these developments from a critical class perspective, it is crucial to theorize the changes and continuities as well as conflicts within and outside of the nation-states through a class lens.

As Panitch and Gindin (2012) argue, the US was the sole contestant for the world's leadership after WWII because of the unique character of its continent-sized economy and the configurations of the US business. It was indeed very eager to expand its realm of influence after WWII; even in 1939, the policymakers and the institutions were laying out many different plans to improve the role of the US in global capitalism. However, one thing to remember here is that while trying to influence the global capitalist system, the US was transforming also itself within it. What the US was doing was mainly trying to overcome the hurdles it had faced within the global capital accumulation process. The historically specific policies proposed by different sections of the American capitalist class had contingently shaped the policies of the US' key institutions, while these policies have transformed both the US economy and the global arena in turn. The policies adapted by the US should be seen as a way of preserving its position within, and answering the demands of, global capital accumulation.

This has been however a rather contradictory process. Even though the US has successfully maintained the dollar as the reserve currency of the world and ensured the spread of American-style finance and the reliance on privatized credit so far, assuring an immense power for itself, it also bore the highest financial fragilities and risks to be able to sustain this position (Ibid.). The dollar hegemony overarching the financial markets has definitely helped develop the US State and its financial institutions as the most prominent actors of global capitalism. However, what we are witnessing at the current phase of financialized capitalism is that as the issuers of the world money, the immensely powerful US financial institutions, face various challenges as well.

As the most powerful and influential state in the global arena, the US needs to continue coordinating the demands of other states around its own interests; however, its capacity to do so and the networks it uses to this end have been getting constrained by global financial dynamics beyond its reach more than ever. In the post-War era, the US was capable of both helping the revitalization of Europe and Japan and expanding the territories for the American business via various monetary and financial institutions it initiated. The policy choices made by the US reflected both its political preferences within the Cold War and its capacity to intervene effectively in the capitalist world market. However, the rise of financial globalization and financialization after the 1990s have redefined the role and capacity of the US in global capitalism. Even though the processes which led to financial globalization have also been carried out by various US policies, they have contributed ultimately to the financialization of world capitalism, a process which has exerted significant limitations to the US' capacity to make effective interventions in global financial markets. This is why this change has been debated as the decline of the American hegemony both in policy circles and academia. Such interpretations, however, neglect the fact that in this process of change the stability of global financial markets has become also strictly tied to the well-being of the US economy. Thus, the American State, which has been getting increasingly more confined by the expanding the privatized money markets and financial innovations, has still been the most capable financial actor managing global financial dynamics. While problematizing these dynamic contradictions of global capitalism, Bedirhanoğlu (2021) argues that financialized capitalism has created new challenges and opportunities for the reproduction of individual states within capitalist world economy, an analysis that is also valid for the US State. Specifically, the financial markets have started disciplining social and political actors, including states, more effectively than ever with the implication of limiting the states' room of maneuver vis-a-vis capital, though not necessarily vis-a-vis other actors. In order to understand the new financial architecture and state's role in it, Knafo (2006) argues that the agency of the states must be a significant point of the study. And what he meant by the agency is not only the states' role in capital accumulation but also their position within specific power struggles which affect conditions of capital accumulation. It is in this understanding that I will try to frame my research in the following chapters.

CHAPTER 3

INTERVENTION MECHANISMS OF THE US IN THE GLOBAL MONETARY SYSTEM

3.1. Understanding the Role of the US in Financial Markets

In this chapter, I will briefly discuss the so-called “new economic order” established in the aftermath of WWII and how the US has positioned itself within it. I will also look into the ongoing hegemony *vs* decline of hegemony debate, the essential role of the US dollar in the global financial order, and the US’ deployment of new economic and political tools while adjusting to the changing global capitalist dynamics. As the US has become the most powerful country economically, it is essential to track these different intervention mechanisms it has used in the world monetary markets to understand two issues. On the one hand, how the US created and utilized new tools has been determined by the specificities of different historical conjunctures. On the other hand, the policy choices made by the US have also affected the trajectory of the financial system as it has had a considerable influence over the design of the global order and over the other countries' internal dynamics regarding monetary policies.

The BWS and the fixed-rate currency exchange regime it imposed have been topics that have attracted immense scholarly interest in global political economy studies as financial repression imposed through these regulations meant a rather exception period in the development of global capitalism. Many considered the fixed-rate exchange regime era a massive success; it is still being quoted as reminiscent of the good old days in which there was prosperity and stability. It was during the years when the US dollar price was fixed to gold, and when the financial system was seemingly under control and subserved to the interest of the productive sector. However, a closer look at this era reveals that there were inherent contradictions in the making that worked against the viability and continuity of the system, while the culmination of various domestic and international economic problems ultimately led to its end. Unsurprisingly, the new (dis)order, which gave way to the rise of finance and the floating exchange rate regime, strengthened the position of the US while transferring the burden of the dollar to the other countries. To have a clear understanding of the US' role within global capitalism and its continuing dominant position in monetary issues despite the end of the BWS, this chapter will provide a historical overview of the different mechanisms of intervention used by the US in international monetary markets since the World War I (WWI).

3.2. Early Steps to Make the US Dollar a Reserve Currency

In the literature, it is often accepted that the rise of the economic hegemony of the US starts after WWII. However, the rise of the US dollar and the early steps of the US looking for opportunities to extend its economic power and influence originates back to the end of WWI and to its unique economic and financial system, which was built in the aftermath of the American Civil War. Two historical factors, namely the opportunities brought by the WWI and the loss of status experienced by the United Kingdom (UK), helped the US to rise as a significant power both economically and financially, and the US dollar started its journey to become one of the reserve currencies of the world.

The US had a very robust standing economically in the late 19th century. It was the land of production as it was situated in a vast land that occupied a large part of the American continent. In addition, it was the land of financial innovations from the start. Initially, it didn't have a developed financial market compared to that of Britain. However, the system, which was established after the Civil War, brought up new mechanisms which would ensure the centralization of financial capacity in New York and the creation of liquidity in domestic markets. One of the crucial developments in this regard was the requirement of the holding of the Treasury notes for the national banks. The other significant development was the banks' turning to financial banking rather than commercial banking because previous legislation enabled borrowers to skip the banks. As a result, the banks engaged in the securitization of assets, and the masses were made integrated into finance by the new dynamic but risky financial innovations. The arena of finance being made readily available to the public was also related to the American ideal of republican independence (Konings, 2009, p. 52-53). Hence, when the British power declined in the aftermath of WWI, the US was a strong candidate to take over the lead both as an economic and a militaristic power.

The economic outlook of the US experienced a boost during the WWI. The war started when the US economy was experiencing recession. However, the war-time trade with Europe and the US joining the battle itself created a long period of economic boom, which lasted around 44 months between the years 1914-1918. As Rockoff (2004) suggests "[t]he long period of U.S. neutrality made the ultimate conversion of the economy to a wartime basis easier than it otherwise would have been."

Before the war began, the position of the US in the world economy was not strong as it was a net debtor country. However, this situation changed after 1918, and the US started to increase its international influence by activities such as investing in Latin America. In a way, it started to replace the position once occupied by the old colonial powers. The war not only increased the capabilities of the US production wise, but also helped New York to have a start as an important financial center (Ibid.). Even though in the immediate aftermath of the war, the economy was only relatively stabilized and there was a brief depression in 1920, the Federal Reserve[4] was keen to preserve the gold standard. Several Federal Reserve banks decided to keep the discount rate down. Such a policy harmed the economy in terms of real output; however, because the interest rates were high, the US received a gold inflow. This policy

[4] The Federal Reserve System was established on December 23, 1913. The duty of the Fed is described as follows in its official website: "…[manages] the nation's monetary policy, supervises and regulates banking institutions, maintains the stability of the financial system, and provides financial services to depository institutions, the U.S. government, and foreign official institutions" (The Federal Reserve, 2017).

ultimately helped to strengthen the gold reserve ratio well above the required one (Crabbe, 1989, p. 428).

Wilson was the first American statesman to foresee that the US had grown, in Tooze's words, into "a power unlike any other. It had emerged, quite suddenly, as a novel kind of 'super-state,' exercising a veto over the financial and security concerns of the other major states of the world" (Frum, 2014).

Meanwhile, in Europe, many countries suffered the long-term effects of the war, such as printing off money to afford the war and abandoning the gold standard, which created new problems such as inflation. In order to tackle this problem, there was a wave of devaluation starting in Britain in 1931, and many countries followed suit, some of them gaining short-term benefits and seeing their productivity increased. The US at the time did not let the dollar to float but rather devaluate in a fixed regime, making an ounce of gold $35 instead of $20. It was one of the significant decisions that helped the US dollar retain the reserve currency status replacing the British sterling (Lewis, 2014).

Hence, it was also during this era that the American dollar started to become an international medium of exchange, replacing the position of the sterling as the key international currency. Even though these two currencies shared this position during the interwar years, the preferences for the reserve currency moved increasingly towards the US dollar because of the problems experienced by the British sterling (Eichengreen et al., 2009).

To conclude, the conditions that prepared the US to global hegemony were related to its structural capabilities and the events taking place in specific historical conjunctures, such as the Great War in Europe. But the domestic character of the US type of institutionalization was also crucial for the expansion of the U.S. capital in collaboration with the state. The upcoming decades set the stage for American capitalism to become even more dominant and innovative.

3.3 The Bretton Woods System: The Establishment

As WWII came to an end, apart from millions of lives lost across the continents, it had also left the countries' economies that participated in the war devastated heavily. The protectionist, mercantilist economic policies of the inter-war years were suspected as one of the main reasons that sparked the war. There was an agreement among policymakers that there was a need for cooperation on every level to prevent such a disaster from happening again. The possibility of the occurrence of such a war among the core powers of the capitalist system was to be abandoned under any circumstances, and the developments which followed the WWII reflected this commitment to peace among core countries.

With its robust economy, the US was the only option for the leadership of cooperation efforts and took the task to design and build an international system based on cooperation and stability. Even though the US capitalist class and policymakers were seeking new ways to increase their influence, therefore, the profitability of their business endeavors before the war, the leadership of the United States shouldn't be analyzed as a deliberate plan for hegemony, even though the US administration was very keen on to oversee the design of the postwar economic system in order to gain an advantage in economic terms. But also, it should be kept in mind that the structure for the postwar system was born out of the conditions during the war as well with the input of many different interest groups, and rather than a rigid plan for world dominance, the U.S. institutions tried to shape their strategy in accordance with the developments during the war. What had an immense effect on the US economy during the war was the expansion of production in the country. Therefore, to be able to sustain such an economic outgrowth and the markets to sell US products were the main priorities on the part of the US (McLauchlan, 1997, p. 14-15). Such a need of the most powerful country in the aftermath of the war meant that one of the main characteristics of the new order would be based on a stable economic system which would support liberal international trade.

In order to design this new system, representatives from 44 countries gathered in Bretton Woods to hold a conference in 1944 (Rosenberg, 2003, p. 83). However, this conference was being prepared and anticipated by the US long before it actually took place. After the bombing of Pearl Harbor in 1941, President Franklin Roosevelt started envisioning the postwar economic order.

In accordance with this idea, the Secretary of Treasury Henry Morgenthau tasked Harry Dexter White saying that “to think about ... and plan for setting up an Inter-Allied Stabilization Fund that would ‘provide the basis for post-war international monetary stabilization arrangements, and to provide a postwar international currency’” (Wachtel, 1986, as cited in Corbridge, 1994).

Harry White was adamant to make the dollar the reserve currency after the war. He even prepared a report in 1942 to draw a blueprint for the postwar strategy. He believed that to construct the postwar international economic order, there needed to be a conference that was to be attended by great powers, and the US Treasury should lead this process. When he handed his draft to Morgenthau, Morgenthau was convinced that there should be preparations for the postwar economic and financial order and wanted to invite finance ministers of the Allied countries. However, this demand was rejected by the State Department that wanted to have bilateral sessions especially with Great Britain, as Dean Acheson from the State Department informed them. At the time, the bilateral meeting started as the State Department envisioned.

The officials from the Great Britain were anxious for the process as they thought that if the Americans would not have liked it, they might reap the plan, nonetheless, they went along with the initial negotiations as they have seen it as an opportunity to influence the American plan before it became concrete. The American plan, mainly prepared by White, and the British Plan, mainly prepared by Keynes, were thus on the table when negotiations started in 1942 (Steil, 2013, p.157-161).

The sessions have started on July 1 under the presidency of the American delegate. Keynes, the architect of the British proposal, proposed a new international bank which would be called Clearing Union, which would have its own currency to be called the anchor. He advocated the use of this currency in place of the gold as a reserve medium. The countries would be allocated a quote which would be determined according to their balance of payment status, and the clearing mechanism was designed to oversee the balance of payment issues. In his plan, both the debtor and the creditor countries would need to adjust their financial outlook, and the creditor countries would not be allowed to follow tight monetary policies. His aim was to impose full employment policy by regulating the policies of the surplus countries (Green, 2020, p.83-84). This proposal was clearly disadvantageous for the US as the net surplus country in the system, hence did not gain support from the US. The US side claimed that it would create inflationary tendencies and did not leave enough room for the nation-states to control their monetary policies to achieve their balance of payment targets. The US plan, on the other hand, which was prepared by Henry White, a staff member of the US Treasury, focused on the stability of the currencies. He envisioned a system in which an international institution which would oversee the stability of the system by ensuring that the attending countries would not apply devaluation policies to gain advantage.

On the other hand, bankers from New York and financiers preferred a plan called Key Currency Plan. Even though none of these plans were accepted in its original form, in the end, the White Plan was adopted with some revisions. For the US side, the US dollar's centrality was a key determinant, and they were adamant for the application of such a system. Being the issuer of the most important international reserve currency would privilege the US economy immensely and the decision was made in line with US proposals after lengthy debates. The pegging of gold to the US dollar meant that for the coming decades the international liquidity, thus the stability of the international monetary and financial system, was tied to the preferences of the US economic policies. This final structure of the agreement was far from the multilateral vision of Keynes, and the insistence for the dollar's centrality meant victory for the American side (Green, 2020, p. 91). This agreement effectively made the US dollar the reserve currency of the world or world money and institutionalized the role of the US in global monetary affairs (Panitch and Gindin, 2012, p.74). Such a provision aimed to provide the necessary trust and stability to the other countries, creating the conditions of an interlinked international economic system in which the market economy could prosper.

It is important to mention that the influence of Federal Reserve was minimal during the construction of the new economic order in the postwar world.

Because it was believed that the Great Depression of 1930 was the result of the policies of the Fed, and the US government decided to take the lead in the negotiations as the main actor.

On July 20, the Articles of Agreement of the International Monetary Fund were agreed upon, followed by the endorsement of the Articles of Agreement of the International Bank for Reconstruction and Development on July 22. Both President Roosevelt and Secretary Morgenthau emphasized that the principles adopted in the conference wouldn't be binding and government adoption would be necessary (Beckhart, 1944: 489-490). Therefore, these agreements, rather than constructing a rigid system, provided vague policy guidelines to be followed by the attending countries. One of the historically crucial aspects of the BWS was pegging the US dollar’s exchange rate to gold. In the postwar world order, one ounce of gold would be exchanged for $35, and it would be interchangeable upon request as the Federal Reserve would back up dollars with its gold reserves.

The convertibility system which the BWS designed was not activated until 1958. The war-torn European countries and Japan were building their domestic infrastructure and focusing on domestic economies. Also, class dynamics dominated most European countries internal politics, and the economic priorities were to be designed in line with that priority. Ruggie (1982) calls this era embedded liberalism, and apart from an interest group consisting of bankers in New York, policymakers were in tune with the policies Europe was following.

When the first steps to adjust their currency to the fixed-rate regime came from the UK in 1947, the US officials encouraged this adjustment by providing an aid package to the UK. However, since it had faced a threat of "run on the pound," the UK retrieved back the convertibility (Corbridge, 1994). The other Western European countries and Japan were also hesitant to apply the norms of the BWS unless they were ready to do. Corbridge points out that in this decade, most of the American economic power was related to its foreign aid and investments, such as Marshall aid to Europe, rather than the functionality of the BWS (Ibid.).

The immediate aftermath of the war was characterized by a dollar shortage, as the European countries were demanding American dollars to afford US imports. Their use of gold reserves augmented the gold reserves of the US even more in this period. However, the aid packages that the US provided to the funding of this policy change in other countries came at an expense at this time; for, as the US kept printing dollars and the amount of dollars in foreign banks surged to higher levels, the US and the European countries started facing new challenges. The effect of the BWS was to transfer the inflationary credit practices of the US to the international realm. The dollar flow which was achieved through the Marshall Plan and bilateral aid program was in fact a tool to manage the militancy of labor organizations (Mandel, 1975, as cited in Holloway, 1996, p.31). The Eurodollar markets funded in the 1960s added a new layer to the complexity as well as new opportunities for some of the actors. The flow of the dollar into Europe turned into credit in international financial market. The countries with excessive amounts of dollars started to demand gold as the position of the dollar was becoming less reliable in the 1960s (Holloway, 1996, p. 31-32).

Even though the BWS achieved its major goal, which was ensuring peace among major powers, the economic aspect of the system started to shatter as the countries adjusted their currencies to convertibility conditions. The post-war economic system was initially constructed by finance ministers because they did not trust the input of the central banks. However, when we come to the late 1950s and early 1960s, the system needed the central bank system of liberal economy in order to achieve price stability (Andrews, 2003).

3.4. The Non-Convertible Era: 1945-1958

The intervention mechanism of the US in the global monetary system in this era was the international financial institutions of the BWS as well as bilateral relations with the countries via aid packages.

IMF was aimed to operate as an international lender of last resort in times of crisis with the triumph of the American side in Bretton Woods negotiations (Reinhart et al., 2016, p. 5). During its early years, its mandate was mainly exchange rate management in accordance with the Article of Agreements. The beneficiary countries were mainly developed countries which needed short-term lending. Among the beneficiaries were Belgium, France and the UK (Ibid.).

The conditions of the IMF lending were undoubtedly highly influenced by the US political preferences. Southard (1979, p. 19) as one of the Executive Directors of the Fund claims that during the 1950s, the US was the decisive actor. In order exemplify, he mentions the funding during the Suez Crisis and notes that the approval of funding was decided in a direct manner by the American side.

The short-term lending provided by the IMF was not the only mechanism to provide capital to the countries in need. Bilateral aid programs provided by the US government were another option for the US in which it could create its sphere of influence directly. One of the most famous programs was the Marshall Program, in which the US supported the postwar recovery in Western Europe. The need for such a program came after the realization that the Bretton Woods institutions were not enough to rebuild and compensate for the dollar gap that Europe needed. American officials thought that unattended Europe might have turned its face to communism. Also, another concern was to extend economic diplomacy (Kunz, 1997, p.165). The funding was approximately around 2 percent of the GDP of the countries which received the aid between the years 1948 and 1951 (Reichlin, 1996, p. 43). There are conflicting accounts on to what extent it helped the economic recovery of Western Europe since, in many countries, the growth rates had already reached the prewar levels by 1947. However, even if the extent of the economic effect of the Marshall aid is contested, and many scholars agree that its main importance laid in the political and institutional fields (Ibid., p.64).

It is essential to point out that the Fed's role in economic policy was limited in the aftermath of the WWII, and the constitution of the global economic structure was mainly decided by the US Treasury. However, the Treasury-Fed accord, which was signed in 1951, enabled the independence of the Fed. After this agreement, the Fed was able to pursue an independent approach though it is still essential to note that the US' international economic policies have been almost always decided upon together with the Fed and the Treasury. Therefore, even though the Fed gained its independence with this agreement, it will be evident in the coming decades that it has continued coordinating its decisions with the preferences of the US Treasury. After the establishment of the BWS and the bilateral aid programs of the immediate postwar era, the international monetary and financial system were ready for the next step as most of the countries' domestic economies were good enough to support the pegged-exchange rate system which was envisaged in the BWS. The next part focuses on the developments in 1958-1973.

3.5. The Establishment of the Eurodollar Market and the Role of the State

While the US and the other countries were struggling to find the most efficient monetary policies, another development that was revolutionary for the extension of financial globalization was taking place in the late 1950s and early 1960s. The establishment of Eurodollar markets meant a new era in world capitalism as they provided new opportunities for capital accumulation besides displaying its contradictions. This development was pivotal for the centrality of the dollar, arguably more so than the BWS as it had strengthened the world currency status of the dollar, and the end of the fixed exchange regime was accelerated with the implementation of this financial market (Green, 2020, p. 102-103). This newly created space for financial infrastructure would soon become an archetype for financial liberalization and innovation in the coming decades.

To explain briefly, the initialization of Euromarkets stems from the financial actors' search for a way out of the financial limitations imposed by political authorities in the postwar era. The late 1950s and 1960s were times when finance was repressed, as it was thought to be a source of disorder economically. However, the financiers and bankers were keen to find new ways and innovations which would help them tackle with the bureaucratic and legal constraints, and in order to increase their profit, they were eager to find loopholes in the system.

The development of these markets was a response to the restrictions imposed in the US on banks and finance, starting with the New Deal, Regulation Q, and UK restrictions applied to achieve capital account convertibility. Because of the tight monetary policy in the UK and the regulations on sterling, a clearing bank Midlands innovated a new financial product; rather than using sterling, they started to use American dollars and offered a lucrative interest rate over a 30-day deposit, and that way, they bought loopholes around the constrictions in the UK on sterling and Regulation Q in the US which imposed a maximum for the interest rate payable (Schenk, 1998). The Bank of England was cautious about these developments; nonetheless, it was not against the law, and it helped to attract the flow of dollars, which in turn decreased the deficit. Such operations quickly expanded their scope, and American and Japanese banks increased their share in Eurodollar markets in 1962 (Ibid., p. 231-232).

Even though the establishment of the offshore dollar market in Europe has been materialized by the needs of the capital, the state's role needs to be also emphasized. At first, American bankers and the Fed were uncertain about its prospects and feared that such development could endanger the stability of the international financial system (Burn, 2006:140). US Treasury was also cautious about the implications of this market; however, the ever-growing balance of payments problem of the US made the policymakers re-evaluate the situation (Ibid., p. 167). Eurodollar markets both contributed to the issue of the deficit, and by settling international business on a dollar-denominated market, improved the reserve currency status of the US dollar. It provided a starting point for the demise of the BWS and liberalized financial system built upon the US dollar (Green, 2020, p.133).

3.6. The Peak of the BWS: 1958-1973

It was from 1958 to 1973 that monetary principles of Bretton Woods were implemented properly, while though the US started drifting away from the ideals of Keynesianism (Walter as cited Gill,1994). The US started experiencing current account deficits, which would become chronic soon. The majority of the European countries managed to adjust their currencies so that they would be convertible (Fernandes Mata, 2005). However, the existence of the Eurodollar market, increased military spending of the US during the Cold War, and the speculative flows to Europe were all creating pressures on the US dollar. According to Konings (2009, p.231), during this era, American finance, which had time to expand its scope while European countries were dealing with crisis in the aftermath of the war, started to influence the international structure and 'assume international dimensions.' In other words, the American liberal financial system was adopted internationally. Even though initially it was necessary for countries to focus on internal dynamics such as rebuilding their sectors and protecting currencies, the vision for the international global order was to have a system in which counties liberalize their system and let the free flow of capital. However, the contradictions of the gold standard within a capitalist world production system were unsustainable. Among the three corners of an economic system, which is called the Triffin dilemma, all of the ideals of the Keynesian model could not be achieved simultaneously.

In order to preserve a fixed exchange regime, the countries had to obtain dollars for foreign currency reserves. Because the US dollar was the reserve currency even though it was a domestic currency as well, in order to run the system, it pursued an expansionary monetary policy which resulted in ever-increasing inflation (Williamson, 2018, p. 119-120). Also, because all of the other convertible currencies were pegged to the dollar, the US couldn't depreciate the value of the dollar (Ibid. 126). At the end of the 1960s, the search for a solution on how to alleviate the burden of the BWS on the US economy resulted in a study group and policy recommendation by Volcker, even though it was never put into action. The Volcker group’s report acknowledged the necessity to abandon the convertibility of the dollar to gold. However, there was a hesitation on the consequences of such an action. They feared that it might divide the Atlantic alliance and create separate blocs on the dollar standard and the gold standard. The US tried to keep the inflation low; however, developments such as increased spending due to the Vietnam War and the Great Society project of President Johnson after 1965 necessitated the US to follow an inflationary monetary policy. The main rule for the continuation of the BWS was to keep inflation in check; nevertheless, given the international structure at the time, this proved impossible for the US, and the European countries became increasingly more critical of the situation (Bordo, 2020). Even though the policymakers from the US Treasury advocated to meet international responsibilities, then President Nixon was not interested in international monetary arrangements. The US was experiencing a recession in 1969, and Nixon wanted to decrease inflation without hurting the employment rate. The head of the Federal Reserve, Martin, increased the interest rates, which caused a capital flow from Europe to the US and eventually harmed European economies. High-interest rates were also not the preference of Nixon, so he has appointed Burns as the next Fed president. This time expansionary monetary policies of Burns, which initially had positive results, turned out to be ultimately disastrous. When France and Britain started giving signals that they might turn their reserves into gold, problems in the domestic economy such as falling wages combined with the propensity to expand the volume of money more forced the Nixon administration to close the gold window in 1971, followed by the subsequent establishment of a floating exchange regime in 1973 (Bordo, 1993; Williamson, 2018).

The path leading to the abandonment of the BWS is also important to understand the diffusion of neoliberal ideals and the pragmatic concern over others. As President Nixon established his group working on economic policy, the key people there were Volcker, Schulz, and Burns. Even though Volcker and Burns were deemed as Keynesians, the arrival of Schulz, who had been educated in Chicago and adopted the views of Friedman, had a decisive influence over the path to be taken. Schulz was appointed as the Secretary of Treasury in 1972 and he initiated monetary policies which launched the decades of neoliberalism (Williamson, 2018, p. 100-103).

3.7. The Start of Globalization and Dependency on the US Dollar as a Financial Tool

The ever-expanding and increasingly more interconnected world economy needed more resources to feed its need for expansion. The closing of the gold window has opened up new possibilities for the states, financial actors, and policymakers.

After the announcement that the US would no longer back the dollar with gold, there were different alternatives that were discussed to decide how to proceed. The first attempt was the Smithsonian agreement which was signed in December 1971, and it sought to bring an order to the parities among national currencies even though there was no longer pegged rates. However, this agreement did not work practically, and the floating exchange rate regime started in February 1973 (Subacchi, 2008). During 1970s, the U.S. was trying to establish a domestic and international monetary system which would suit its interests. The policies in this era were mostly experimental as it had problems with the devaluation of the dollar as the value of German mark and Japanese yen increased (Gowan, 1999, p. 40).

Under the floating exchange rate regime, the countries needed to do necessary adjustments because floating exchange regime meant that on the one hand they could have a domestic anchor but any impediments to the free flow of the currencies was also no longer in existence. In the volatile economic period combined with inflation, high nominal interest rate decreased the influence of the US dollar. The dollar regained its influence in the late 1980s thanks to the demand for the trade-weighted exchange rate of the dollar (Subacchi, 2008).

The liberalization which has started in the 1970s was characterized by the institutional structure of the American system. Konings (2011) describes the evolution of the international system in conjunction with the influence of America as a vortex. The specific traits of the American financial system created such an influence that the globalization has accentuated the capacity of the US institutions. The liberalized financial world order was being built in a way that was mainly benefiting the US. Therefore, the American state and its institutions, such as US Treasury, as well as the international institutions such as IMF, World Bank, have become active actors to increase the expansion of the liberalized market order, engaging in opening up of the markets as well as pursuing intervention during financial crises. The scope of responsibility and the mandate for the Bretton Woods institutions started to change slowly in this era as well. IMF had been designed to provide short-term credit to the countries which were facing problems in their budget deficits and throughout the Bretton

Woods era, it had mainly provided sources to the developed countries. However, in a liberalized financial system in which countries were joining one by one regardless of whether their economies were ready or not, it became a supervisor of financial outlook of its members and offered programs to developing countries in which these were tamed to become part of the liberalized economic system.

3.7.1. The Beginning of Transformation: The 1970s

The 1970s embarked the beginning of the mobilization of private capital in US as the labor movement intensified. Major business owners as well as small to medium enterprises came together to defeat the workers mobilization, while the finance sector in New York was already working through its expansion in the offshore markets. As Panitch and Gindin (2004, p.164-165) argue, the specificities of the US capitalism have identified the basic characteristics of the global arena, as the US capitalists led their way internationally to constitute Trilateral Commission. It was one of the early and most important mobilization of private capital led by David Rockefeller, and the Commission brought the transnational capitalist from the US, Japan and the Western Europe (Gill, 1990). It sought to cooperate to protect their interest against the state policies.

Apart from the dissolution of the fixed exchange rates and the creation of the Eurodollar markets, another defining event for the demise of the BWS was the oil shock of 1971. The Organization of the Petroleum Exporting Countries (OPEC) countries poured their petrodollars to the system, providing the American bankers with a new investment opportunity. The structure of the IMF lending also changed by these developments. To assist to the countries with balance of payment deficits, the lending practices which involves longer-term repayment plans and less strict conditionalities were offered. The objective of these lending facilities was to share the deficit and offer medium-term solutions. However, this policy preference clashed with the preferences of the US Treasury at the time. The US Treasury was advocating for more strict policies on the one hand, and willing to use the financial opportunities petrodollars offered without the mediation of the IMF on the other hand (Felder, 2009, p. 179).

The policy difference between the US Treasury and the IMF ended in 1976 and the IMF "[a]ligned itself behind the US's rejection of the financing of disequilibria and greater loan conditionality – and moreover applied it very stringently to the 1976 standby loan to the UK" (Ibid.).

After this policy change, the advanced and middle-income countries withdrew from seeking assistance from the IMF as it was now very costly. Moreover, the proliferation of offshore markets and the abundance of the private credit lending opportunities enabled them to seek financial assistance through these channels. This situation, in which only the poorest countries would come to the IMF for assistance, adhered a new role to the Fund. The IMF started checking debtor countries' debt recycling capacities and its duty was to monitor the countries' financial status as opposed to its role as an advisor which offers short-term credit to support the budgetary issues (Kahler 1990 in Felder, 2009, p. 180).

3.7.2. The Decade of Neoliberalism: the 1980s

As mentioned above, to tackle the chronic problem of inflation in the US in the 1970s, the then-president Nixon had decided to take a radical step and appointed Paul Volcker as the head of the Federal Reserve who radically raised the interest rates. This policy change, known as Volcker Shock, has resulted in severe crises elsewhere in the coming decades. However, those who governed the economic policies and had a say in the decision-making were aware that such a policy change was necessary. Even though it would bring volatility, it would also suit the interests of the capital better, as it was deemed as " part and parcel of the process of creative destruction (Panitch and Gindin, 2012, p.18). The high-interest rate policy combined with the elimination of limitations in front of capital mobility improved the economic outlook of the US as there was a surge in the inflow of capital to the US markets. The US was able to finance its balance of payments deficit with this inflow of capital (Barcellos, 2018).

Even though the aim with such a policy was to restore the domestic imbalances, persistence in this strategy marked the abandonment of any of the remaining Keynesian economic ideals, marking the US turn towards a new era in which the politically conservative, economically neoliberal agenda gained a triumph. It is worth mentioning that during this era, the dollar was still the recognized international medium of exchange and unit of account (Barcellos, 2018, p. 405-406) Public and private actors from the US continued to mobilize internationally to spread the values of (neo)liberal market economy by the effective use of the media and advocacy groups (Ibid.).

The trajectory of global finance in this era shifted its weight to the private markets rather than following national and international authorities even though such a shift did not change the status of the dollar as the reserve currency; it has remained as the most used currency financial activities and trade transactions (Walter, 1991, p.199). Helleiner (1994) describes this era, where neoliberal ideals shaped the globalized financial system, as a market-based and non-negotiated system. According to him, the increase in the power of the private financial actors was a result of political decisions, which in the end strengthened the power of the American state. It is vital to recognize that the neoliberal project endorsed by the US was highly reflective of the American practices. The US' legal and juridical rules and practices were imposed on foreign economic actors by the American state as well as multilateral institutions such as the IMF and the World Bank to achieve the neoliberal policy objectives of liberalizing trade and finance (Panitch and Gindin, 2012, p. 223).

3.7.3. The Decade of Globalization- The 1990s

When we arrived in the 1990s, the project of liberalization and deregulation of finance in the developed capitalist countries was almost completed. The vulnerabilities of the countries of the Global South to the same policy line became apparent however with the Asian Financial Crisis of 1997. Before the crisis, most East Asian were experiencing current account deficit and they fixed their exchange rate to US dollars. The large financial institutions in these countries were borrowing large amounts of dollars. Meanwhile, domestic banks were lending to domestic companies in local currencies. However, there was a mismatch in currencies since some of the large institutions were borrowing dollars about holding reserves of local currency. There was the problem of mismatch of both the currency and the maturity date regarding the loans and there was credit risk. The financial environment at the time was positive as the credit was easily accessible. However, the tide turned negative overnight when on July 2, 1997, speculators started selling off the Thai baht-denominated assets. At the same time, foreign investors withdrew dollar-denominated loans. The baht lost 16% of its value on the first day and five months later it lost over 50% of its value. Other East Asian countries experienced a similar path and these countries had to give up their currency pegging. Because the foreign investors withdrew their investments elsewhere, these countries experienced devastating banking crises. The governments needed to recapitalize the banks which were on the brink of defaulting, the balance of payments records of these countries suffered as a result of recapitalization process and these countries had to apply to IMF for financial assistance and to obtain funds (Hale, 2011).

It was during this era that the crisis-ridden countries were held accountable for their inefficient economic and monetary policies, and the IMF was called for a solution. At the time, the American interference was not voiced by the media; nonetheless, it was clear that the US was monitoring the process of crisis management since the beginning. According to Austin (2009), it was by no doubt certain that following the outbreak of the crisis, the US officials arrived in Seoul on the same day that the IMF officials arrived. Also, the documents which were published in 2000s showed the clear leadership of the US Treasury, Congress, and the Wall Street. The US Treasury was trying to adhere to the tight policies in line with the interests of the US Congress. Austin also points out to the fact that the cause of the crisis was the international financial system structured according to Western interests, and again in the aftermath of the crisis the Asian assets, which were once highly valued but lost their value by the crisis, were bought mainly by the Wall Street agents and American companies (Ibid.).

It was also a financial crisis, as the US Treasury official Rubin considered, that pioneered others that would shake the global economy thereafter. In his book, he recalls that:

> …the entire Asia experience left me with the view that future financial crises are almost surely inevitable and could be even more severe. The markets are getting bigger, information is moving faster, flows are larger, and trade and capital markets have continued to integrate. So it's imperative to focus on how to minimize the frequency and severity of such crises and how best to respond if and when they do occur. It's also important to point out that no one can predict in what area—real estate, emerging markets, or wherever else—the next crisis will occur… (Rubin, 2003, p. 273).

Crises indeed have become an unavoidable characteristic of the upcoming decades, and the US have tried hard to find ways to patch these problems not only to manage their consequences for the US economy but also to strengthen the so-called international financial architecture in its own favor.

3.8. The Challenges of the Financial Globalization and the Response of the Fed in the 2000s

As the issuer of the international medium of currency, the US Fed has a special power in the global financial system. However, this power is not without challenges, and the US' specific responses to different challenges have redesigned its crisis management capacities, and hence its hegemonic capabilities.

As I have laid out in this chapter, in the post-Bretton Woods era, the new mission of the US in the creation of liberal international order has proved to be a challenge to the years-long belief in a fixed exchange regime. However, the transition to floating exchange rates and the deepening of financial markets, exacerbated by the use of technology, have created their own problems as well.

The subprime mortgage crisis, which started in the US and triggered a global crisis in world capitalism, meant another important moment in the reconstitution of the US hegemony in a new form. The 2008 global capitalist crisis manifested the level of financialization capitalist world economy reached together with the limitations of the US in administering crisis management strategies at both domestic and global levels. The post-2008 period provides us with ample examples of how the US has tried hard to coordinate the domestic and international implications of its monetary policies in order not to lose its hegemonic status and endanger domestic political stability.

This era of financial deepening has been continuing today in different forms despite the 2008 crisis, triggering crises at different levels and introducing new ways of state reregulation of the markets. When states don't reregulate openly, they intervene significantly in the infrastructure in which the financial actors function; however, that does not mean that states or the US State are the only powers in the making of capitalism. The rise of financialization and its penetration into each national market have created a certain systemic pressure, a dynamic in which even the most potent state, the US, needs to rearrange its position accordingly. Understanding the history of swap lines and their different uses by the American governments is important to observe how US financial institutions, such as the Treasury and the Federal Reserve, have redesigned their policies in accordance with the changing domestic, international, and global environment. Within such a context, central bank swap lines, which were once launched as a tool to defend the gold stock of the Fed and later on to intervene in the foreign exchange markets, were introduced once again. As will be discussed in detail in the following chapters, the swap lines have been a tool both to leverage the political influence of the US in an era when there were new rising powers and to manage the financial system, which has adopted the dollar-nominated assets as its own currency.

3.9. Financialized Capitalism as a Broad Conceptualization

To have a better understanding of the neoliberal era that has been transforming the global economic outlook and state-market relations via policies of liberalization, privatization, and deregulation since the 1980s, the phenomenon of financialization and its implications on world capitalism need to be questioned. The term financialization has gained academic popularity in recent years and is mainly used to emphasize, as explored by Epstein in his influential book, "the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies" (Epstein, 2005, p. 3). It is also used to define and categorize a certain period of time in the history of capitalism, thus the emphasis made on 'financialized capitalism' (Sawyer, 2013). What is meant by financialized capitalism in this thesis closely follows the second version of it.

Even though the term has been used to describe the specific characteristics of finance in the pre-neoliberal period as well, the financialization as of today has some specific characteristics which makes it unique, and it adds both to the power and fragility of the dollar-dominated system. The specificity of this period originates from the use of finance as capital. (Fine and Saad-Filho,2017, p.691). The financial system, which has been constructed slowly since the 1960s, can be used to create profits by indulging in financial activities as compared to nineteenth century financialization, which was used in relation to productive capital. Consequently, it encourages the pursuit of short-term and speculative financial investments, the availability of huge sums of profit in finance, and the distribution mechanism it employs rewards the ones on the top of the capitalist system (Ibid.).

As the subjectification of the corporations and common people to financial imperatives has intensified by the pressures of the financial markets, it pictures a “whole global economy enmeshed in trading of financial instruments and subjected to their abstract measures of value” (Panitch and Gindin, 2011, p. 8). The route to accumulation being reformulated in financial activities also calls for state action and restructuring of the role of the state and the relationship between the state and capital. Especially when the system becomes prone to crises because of the deregulated financial system and the speculative investments which reward taking risk and leveraging, the importance of the state capacity to manage these crises amplify. It thus reflects the contingency of capitalism and the position of the state in it -in this case, the American state- as the constitution and reconstitution of capitalism is a contradictory-ridden process.

Panitch and Gindin explain this contingency as:

> [s]uch contingency is based on the indeterminacy of whether and how social relations can be modified to accommodate the resumption of accumulation, whether capital can deploy, and if so how quickly, new technological and organizational forms. This contingency is especially related to whether the state has the capacity to intervene in ways which contain the crisis and can develop the new institutional infrastructure needed to support a regeneration of accumulation (Ibid.).

The role of the US and the Fed has become even more crucial in this context as financialized capitalism revolves mainly around the US dollar and its management needs quick responses. Also, it is important to remember the output and challenges of other actors in shaping the response of the US in the formation of financialized capitalism. In the 1980s, as the neoliberal policies were strengthening the financial actors, the financial system of the US, which was characterized at the time by a few large banks and many small banks, was fragmented by the different needs and interests of these actors. During this time, it was not unusual for Congress to become deadlocked, and eventually, the policies repressing finance had to be freed (Picciotto, 2011, p.265).

Also, the crisis-prone nature of the financial system under the rules of financialized capitalism has been intensified by certain sets of policies that were related to the political battles between the actors influential on state policies and the capital. One example is a battle between the US Treasury Secretary Larry Summers and the head of a regulatory agency who proposed a system in which financial derivatives would be regulated. However, because Summers was not supportive of this regulation, he banned the possibility of any regulation on financial derivatives. This intervention then resulted in the proliferation of toxic assets in the financial markets, which would eventually cause the GFC, which would shake the world in 2008 (Kotz, 2015, p.547)

Among the actors who shaped the financial system, the most important one has been the American central bank, the Fed, as it has the tools to sustain and manage crises with its dollar-creating abilities. One of the critical crisis-management tools that have been exploited by the Fed in the recent decades has been monetary expansion. The Fed has deployed monetary expansion after the dot-com bubble exploded by decreasing the interest rates. The effect was short-lived and, in reality, fed into the problems of asset price inflation. (Lucarelli, 2012, p.432). The Fed followed the same policy of monetary expansion when the financial markets were wrecked after the 2008 GFC. Apart from its low-interest rate policy, it increased the amount of US dollars in the global markets via QE and the swap lines.

CHAPTER 4

THE SWAP LINES IN 1962-1998:
A TOOL TO MANAGE THE CRISES OF FINANCIAL REPRESSION

4.1. Historicizing the Swap Lines

The central bank swap lines attracted a lot of attention, particularly when the US and some other countries following the US-orchestrated central bank swap lines during the 2008 GFC. However, it was not the first time in history that the US operationalized an intervention into the financial system via the swap lines to manage global monetary order. The systemic use of swap lines was first applied in the 1960s when the BWS entered into a terminal crisis, and they became indeed an important policy tool in that decade, used to defend the gold reserves of the US. As the bilateral character of the swap transactions ensured by the immense power of the Fed has always sparked some debates and controversies, it is important to look into the historical trajectory of this intervention mechanism, which has been re-used and reactivated in response to the specific challenges of different historical conjunctures.

To this end, this chapter will focus on the very historical circumstances in which the swap lines were initially developed, the purpose they served, and the surrounding political struggles between different actors at domestic and international levels during the 20th century. Prior to this investigation however, a brief technical explanation on how a swap line works between central banks will be provided.

4.2. The Working Mechanisms of a Swap Line

This part will briefly explain the mechanisms of central bank swap lines and how they function with some technical details. In order to arrange a swap line, both the Fed and the recipient central bank open accounts in each other's headquarters and deposit an agreed amount of their currencies in these accounts at a specific rate, usually the spot exchange rate[5] of that day. The agreement would identify a set future date to determine when this transaction will come to an end. The deal's longevity could end the next day or last up to three months. At this specific deadline, the central banks pay back the amounts that they loaned to each other at the rate which was agreed upon earlier. Because of the interest rate agreed upon beforehand, any gap regarding the value of the currencies does not alter the amount that will be exchanged when the agreement is to be settled. There is an interest rate that needs to be paid by the recipient central banks as part of the agreement. The central bank, which received dollars via this agreement, then answers to the liquidity needs within its domestic jurisdiction. The interest rate that Fed is operating on is also set in these agreements. The Fed does not have any decision-making capacity or responsibility when choosing the recipients within the jurisdiction of the foreign central bank. It is under the responsibility of the receiving central bank Therefore, if there is any insolvency or failure, it is under the responsibility of the recipient central bank. It is debated whether this creates a moral hazard, but it also enables the Fed not to put into much work, and still be most possibly immune if there would be a failed institution. (Bahaj and Reis, 2021, p.7)

Also, in many cases, even though both countries deposit the agreed amount, usually only one of the parties involved would be the recipient and obtain the hard currency it needs for liquidity (Perks et al, 202, p. 16). In addition, the amount available in the swap lines can be counted as international reserves if

[5] The spot exchange rate is the current market price for exchanging one currency for another (Investopedia, 2022).

only it is activated. The reason for this is that the reserve assets, to be considered as such, should be available to use. However, even if it is not withdrawn, hence not counted toward the reserve, the existence of lines should be reported (Ibid.).

4.3 The Swap Lines under the BWS

The central bank swap lines started to be extensively used[6] in the early 1960s, while the aim of using swap lines has changed throughout the decades since then. Consequently, their meaning for the US' hegemony in global capitalism has changed as well.

In the 1960s, the creditor nation position of the US combined with the dollar-to-gold convertibility started posing some challenges to the US policymakers. As the European countries were retrieving back their competitiveness after the war with the help of the US-led BWS, the conditions of capital accumulation in these countries and the changing dynamics in world trade were threatening the stability of the economy in the US. The facts that the US had to provide dollars as the issuer of the world currency while also preserving the value of dollar in terms of gold were creating a contradiction that was hard to solve and, in the long-term, would be impossible to sustain. Policymakers in the US, especially the those in the Federal Reserve Bank of New York, a branch of the Fed responsible for the foreign exchange markets, were looking for novel practices which could enable them to intervene in the foreign currency markets to stabilize speculative behaviors against the value of the US dollar. In addition, the excess dollar reserves in some of the European countries meant that they could demand an exchange for these dollars under the BWS, and thus the gold stock of the US would diminish.

The responsibility of the US to keep the dollar-gold ratio stable proved problematic in the longer run. As the amount of liabilities in dollars started to

[6] The 1960s was not the first time that the Fed undertook swap operations. In 1925, the Fed had a swap agreement with Bank of England (Coombs, 1976, as cited in Hetzel, 1996). The Federal Reserve Bank of New York established swap lines with several foreign central banks earlier to make their currencies convertible. Nevertheless, Board of Governors intervened and banned the direct operations of the Fed New York (Hetzel, 1996).

exceed the amount of gold reserves, it sent signals to the international community that the US might not be able of securing the convertibility of dollars to gold. Another problem was that in the London Markets, the value of the dollar had increased to $40 per ounce, which could have encouraged other countries to exchange their dollar assets for gold and then sell it in London (Perry, 2020, p. 736). There was an urgent need to innovate some new tools in order to prevent gold loss and to defend the exchange rate stability.

Before introducing the central bank swap lines, US policymakers were using some other mechanisms to prevent the loss of gold reserves. For example, US Treasury was orchestrating efforts to defend gold stock via its Exchange Stabilization Fund (ESF)[7]. However, the ESF had a limited scope of action, and its funds were already allocated to a limited number of countries. Also, it needed the approval of the US Congress to take action and adjust the limit of its participation in foreign markets (Bordo et al., 2015a, p. 355). Therefore, in order to increase the availability of the funds and the US' ability to intervene quickly, the US Treasury wanted to use the Fed's capacity to create money and encourage its participation in these markets (Bordo et al., 2015b, p. 138). The swap mechanism of the Fed was planned as a short-term solution to provide liquidity and stability.

The architect of the swap system to protect the gold reserves was Charles Coombs of the Federal Reserve Bank of New York, and he was the Chief of the Branch of Foreign Exchanges. Even though he was the chief U.S. official who visited the European countries to initialize such agreements, in his memoir on his experiences in the management of the American and global financial system, he confessed that the group in charge of the creation of intervention mechanisms was indeed under the authority of Fed Chairman Martin. The Fed suited better for a more active role because it was the issuer of the dollar and

[7] It is established by Congress in 1934 and its objective was to protect the international value of the dollar. The Gold Reserve act of 1934 dictated that the ESF operations could be undertaken by the US Treasury and the Presidency. The main uses of ESF were intervention into international exchange markets sand financial assistance to other countries (Osterberg et al, 1999).

was able to respond to monetary markets in a quick and flexible manner. Other main actors who were influential in terms of economic and financial decision-making, Dillon from the Treasury and Roosa from the Fed, were also keen on the idea that the duty to intervene in foreign exchange markets to protect the US dollar should be under the mandate of the Federal Reserve. However, it was also agreed upon that if the two institutions, namely the Treasury and the Fed, did not have a consensus, then the proposals would not be realized (Coombs, 1976).

Here, it is important to note that even though the Fed is independent while managing the domestic economy and deciding upon which policies to pursue, Fed's important monetary policies in the international arena require the approval of the US governments as well. Hence, in the international arena, the Fed is not immune from the interference of politics (Chey, 2012). Binder et al. (2009) explain this propensity in their book as the interdependence of the Fed rather than dependence to political actors. For them, while there have been several influences over Fed decisions, coming mainly from the Congress and the US Treasury and reflecting different priorities of different interest groups, the system that Fed represents can best be described as interdependent rather than independent. The Fed was political, because the design of the Federal System allows it to be influenced by the demands of all different interests, which have a say in its working.

Moreover, the US officials in different instances accepted the highly political nature of the international economic and monetary policy making of the Fed. Thus, the former Secretary of Treasury Shultz admitted that the decisions regarding international practices came directly from the President, while the US Treasury mediated it. A former staff at the Treasury also mentioned the political nature of the US economic decision-making by saying that:

> [t]here is a deep distinction in the U.S. (unlike the U.K.) between international and domestic monetary policy: the Fed is totally and utterly independent when making a domestic monetary policy decision; not only is there no clearance with the Treasury—to attempt it would cause a constitutional crisis. The international arena is more

> complicated: here, the Fed's independence is unknown and has not been fully tested, but in practice, it is limited. The Treasury controls international finance (Chey, 2012).

Thus, it is important to evaluate the rationale behind the policies of the Fed as well as its arguable independence with these insights in mind.

Turning back to the question of the systematic use of swap lines by the Fed in the 1960s, it should be noted that the first proposal to tackle the problem of gold losses in that decade was buying large sums of European currencies. In that way the US would have a mechanism to defend the American dollar when the European countries with excessive dollars would seek to exchange their dollar reserves, but this idea did not gain enough support. Then, Coombs came up with the idea of having bilateral swap line agreements with European countries (Coombs, 1976).

He started a European tour during the summer of 1962 to convince the major European countries and met with the heads of their central banks. Even though European counterparties were not willing to take part in such arrangements, at the end of the year, the US side convinced them to establish swap networks between the Fed and the correspondent central banks (Mccauley& Schenk, 2020, p.9). Despite the enthusiasm of the American side, the doubt carried by European counterparty could be seen in this extract of the memorandum which was written by Governor Brunet (of France) to his counterpart in the Bank of England he "thought that the American idea of organizing swap facilities around Europe for large sums indefinite in time was wrong in principle," and according to him, by doing that, the US was finding a way to not go to the IMF and dealing with the problems of the US dollar (McCauley and Schenk, 2020, p.10).

Coombs also mentions the novelty of this mechanism by quoting the concerns of a British journalist who called this system a monetary incest, because at the time it was perceived as creating large amounts of money out of nowhere (1976).

Coombs met Julien-Pierre Kozsul, the head of the Foreign Department of the Bank of France, during his visit in France in January 1962. Initially, there were some problems regarding the amount and the legal conditions of the transaction, but eventually Kozsul agreed upon the amount of the exchange the US demanded and reached out to Coombs to make the transaction in February. The first ever telegraph which would be the standard for the coming era embarked the bilateral swap operations between France and the U.S. as well the swap operations the Fed undertook in this era. The telegraph was as follows:

February 28,1962

BANQUE DE FRANCE

PARIS

NO.151

For Kozsul from Coombs

Federal Reserve proposes a 3-month French franc-dollar swap in the amount of $50 million. On March 1 we shall credit your account $50 million. Please credit French franc equivalent to "Federal Reserve Bank of New York Account A" advising by cable account credited and marker rate of Exchange. The swap will have an initial maturity of three months. On maturity the swap will be liquidated at the same rate of Exchange. –

---To protect both parties against the remote risk of revaluation of either currency we suggest the following procedure: We place with you a standing order to be executed when necessary for that purpose to purchase for our account French francs of any amount sufficient to replenish any earlier drafts upon our franc balances created by the swap. We accept from you a similar standing order to be executed when necessary for that purpose to purchase dollars against French francs for purposes of replenishing any earlier drafts upon your dollar balances created by the swap.

FEDERAL RESERVE BANK OF NEW YORK

(Coombs,1976:75-76)

The Federal Open Market Committee (FOMC) transcripts during this era also shed some light on the perspective of the American side and how it was perceived as a political move by many. Still, it can also be seen that it was a project agreed upon without much consultation from the members of the Committee, as it can be seen in the transcripts that the members raise their doubts and mention the hastiness of this mechanism. The documents from

March 6th, 1962, indicate that Committee held a meeting for the transaction of currencies. According to Chairman Martin, it was essential to consider that the counterparty to these operations was other governments. In this sense, it was a fundamental operation in which the attendance of the whole Committee was important. During this transaction, the majority of the committee agreed upon, but two members abstained, whereas one member was detained. Their reasoning was that they did not have enough time and resources to evaluate the situation. Their response to the situation hints that it was a quickly prepared program in response to an urgent threat. It is possible that the team that came up with the idea wanted to minimize the discussion over the mechanism. It was quickly opened to the discussion without further elaboration on its effectiveness and problems it might create for economic and political matters.

During the meeting, Coombs, the architect of the system, briefed the committee, commenting on the foreign currency markets. In his view, the relative calmness of the markets and perseverance of the gold reserves were due to the effect of the announcement of central bank cooperation (FOMC, 1962, p. 59-60).

It is understood by the transcripts that the Bank of France had some reservations about the amount and the conduct; however, in the end, the amount of $50 million was agreed upon. The FOMC members also received briefings about the possibility of such cooperation mechanisms with other countries such as England. Coombs explained to the Committee that the preliminary meeting with the Bank of England was positive, and the structure of the swap line would be similar to the swap line extended to the Bank of France. His plan was to offer a swap line of $50 million as soon as possible to realize the extension of the swap line but he also indicated that the limit for this swap line could go as high as $300 million (FOMC, 1962, p.52).

The discussions held at the Committee confirm that it was a hasty plan as a quick solution to a possible gold drain. One member of the Committee, Mr. Hayes, proclaimed that the Committee did not receive any information or memorandum regarding the economic outlook of France when they were asked to take a decision to approve the swap line (FOMC, 1962, p.62).

The discussions regarding the international monetary policy arrangements have been a continuous challenge between the Fed and the Treasury. It can be seen here that even among the several different prospects within the Fed did not have the same opinion and information regarding the process.

Even though Coombs drew a positive outlook regarding his meetings with the officials from central banks of the European countries, the European side was unsure about the intents of the US officials and did not want these swap lines to be used for foreign exchange market intervention. The negotiations between Charles Coombs of the Fed and Roy Bridge of the Bank of England shaped the basic principles: that the swaps would be used to counter speculation, to prevent seasonal fluctuations, and for any other purpose, both parties needed to reach an agreement (McCauley&Schenk, 2020, p.10).

Until the end of the BWS, the US used the swap mechanism effectively to prevent speculation against the dollar and limit gold loss. Also, It can be inferred that countries that have central banks within this network came to the conclusion that it would work for the benefit of all and chose to take place within the operations of the system.

The swap network and its operation multiplied from its start until the end of the BWS. The amount exchanged was around $11.2 billion, and other central banks such as Denmark, Japan, Mexico, Norway, and Sweden also joined (Bordo et al., 2016, p.101). The swap lines were used extensively in this period because it was providing coverage to other central banks as they guaranteed the value of the exchange rate up until the maturity rate of the swap operation. In turn, it created an environment in which the central banks did not have an incentive to exchange their unwanted dollar reserves for gold (Bordo, 2020, p. 17). The mechanism was working in a way that the Fed would buy foreign exchange and then would sell the foreign currency for the amount of unwanted dollars. The other central bank would have the same amount of dollars at the end of this exchange; however, it would have a guarantee regarding the exchange rate because the swap operations' first leg required setting the exchange rate (Bordo et al.,2016, p. 101).

The swap mechanism was mainly used by the US in this era; hence, its use was generally one-sided. When the US needed the currency of the other country, it could activate the swap mechanism, obtain the foreign currency in need, and could intervene in the foreign exchange market to defend the value of the dollar against speculative movements. Several characteristics of the swap mechanism made it very useful for the realization of this objective. The fact that it was flexible and could be used quickly to intervene, the mechanism of swap lines proved helpful against speculative attacks.

When the speculative operations stopped, the amount that was obtained was usually paid back quickly. Even though it had started as a short-term agreement to provide a quick solution, conditions changed over time. Initially, the majority of the swap agreements had a maturity date of three months, and they could be renewed only once. Later, the typical maturity date of a swap operation was extended to six months. Finding the necessary resources to pay back the foreign currency could be a challenge for the Fed because of the short maturity dates, considering the limitation of the FOMC placed on the Fed regarding the buying currencies which were above their parity values. When the Fed faced problems regarding paying its debt, the US Treasury would provide flexible solutions (Perry, 2020, p.738). There were a couple of examples where the swap agreements extended for a year, and when the deal came to an end, the US Treasury would be repaid by Roosa bonds.[8] Additionally, the US would draw on the IMF. The IMF General Agreement was allowing to borrow from G-10 countries. These countries agreed to

[8] Roosa bonds were used between 1962 and 1971 and their main objective was to defend the US gold reserves. They were medium term bonds and denominated in foreign currencies, including the German mark, Italian lira, Swiss francs, Belgian francs and Austrian schillings. These bonds were offered to the institutions of foreign countries the prevent gold exchange (Pauls, 1990, p.893).

provide funding to IMF if the US needed drawing. The mechanism was also available for use of other countries (Cooper, 2009, p.91).

This close cooperation between the US Treasury and the Fed while managing the exchange rates and providing protection to the gold reserves of the US created problems and concerns about the independence of the Fed at this time as well (Perry, 2020, p.738). However, the imminent problem, waiting for a quick solution, was more important than these concerns, so the Fed and the Treasury continued working together until the 1990s.

To conclude this part, during this era, the central bank swap lines were mainly intended as a short-term solution to an inherent problem. The Fed tried to solve the problem of a possible gold drain in its reserves through the creation of this intervention mechanism. This swap solution served its purpose in terms of controlling the financial market mechanism to discourage the exchange of unwanted dollar overexposure (Ibid.). However, the problem was more extensive than this, as the fixed-exchange rate system was sending alarming signals at every corner. Therefore, as the BWS was no longer viable for the pursuit of domestic economic goals, and some of the European countries, such as France and Britain, wanted to receive gold in exchange for their dollar reserves, the dollar-to-gold convertibility was abandoned. In August 1971, President Nixon declared that the US would no longer back the dollar with gold (Bordo, 2020). However, even though the gold convertibility policy was abandoned, the swap line operations would continue in the following decades even though the objective for their usage experience transformation in accordance with the needs and necessities of the era.

4.4 The Swap Lines in Retreat after the Collapse of the BWS

After the closing of the gold window, the swap line operations continued. Even though the significance of the swap operations decreased after the late 1970s (Hooyman,1994, p. 158), the earlier operations that the Fed undertook left it with outstanding swap commitments. The repayment proved challenging since most currencies appreciated against the dollar after the closing of the gold window, and the central banks did not want Fed to buy their currencies and chose to wait until the new exchange-rate parities were constituted (Bordo et al., 2015b, p. 201).

The swap obligations that the US needed to pay were around $3 billion in UK pounds, German marks, Swiss francs, and Belgian francs in 1971. The Fed was able to receive the marks from the market and complete central bank swap operations; it also bought sterling from the market. Hence throughout 1971 and 1972, it was able to pay back the obligations in these currencies. The obligations regarding the Swiss franc and Belgian franc were more problematic since they were more valuable. The Treasury stopped paying its obligations since it wanted an equal share of risk. Eventually, it took the Treasury and the Fed more than seven years to pay their obligations in Belgian francs. Such delay in payments costs more than $2 billion to these institutions (Bordo et al., 2015b, p. 207-208).

During the floating-exchange rate era, the US was content to use the swap lines as a foreign-exchange intervention mechanism. Rather than having reserves of foreign currencies, the Fed started relying on swap operations. However, since the operations had a short-term maturity, the obligations to pay back continued to be a problem as they used to be after the abandonment of gold-to-dollar convertibility. At the end of 1978, the Fed had record-level swap obligations, which amounted to an $890 million agreement. Most of the obligations during this era were in German francs, and the Bundesbank was complaining about the US intervention policy and wanted to have some changes in the swap line agreement. For the policymakers of the FOMC, on the other side, the use of swap line agreements to intervene in foreign exchange markets rather than having foreign currency reserves meant that the other countries could influence the monetary policy of the US. Starting from 1980, the swap lines were not preferred apart from one exceptional drawing by the Bank of Sweden in 1981 (Bordo et al., 2015a, p. 362-363).

Apart from it being a practical policy tool, it is necessary to think about the driving mechanism which made European countries to be willing to take part in this system. Because of the power of the American side and the Western European countries' belonging to the economic bloc represented by the US during the Cold War, one can conclude that the inclusion of the central banks of major European powers in the swap network was no surprise. Also, they needed to balance out their acts in a way that their interest in business and finance would not be threatened. Magdoff (1969) explains this propensity to cooperate with power dynamics. According to him, what maneuvers are happening in international finance are closely related to the struggle over power. The power struggle over the financial domain and the unique status of the dollar within the Western economic order, both as a domestic currency and world currency, gave the US unprecedented status and power. The contradictions born out of this position necessitated new mechanisms to control the outcomes; however, these new mechanisms made the system even more fragile but dependent on the dollar.

4.5 The Use of Swap Lines in Eurodollar Markets

As we have seen in the previous part, the Fed's swap network played a significant and decisive part in "the defense of the dollar." However, the use of the central banks swap lines was not limited to the country-specific central bank networks. The Fed also established swap lines with the Bank of International Settlements (BIS). The establishment of the swap lines with the BIS was closely related to the emergence of the Eurodollar markets. The swap lines extended to BIS controlled the liquidity, in a fashion similar to the functioning of the swap lines after the GFC. In order to understand the function and the position of the BIS in these operations, I will briefly explain the establishment and the mandate of it in this era.

The BIS was founded as a money clearing mechanism in the 1930s. When the Bretton Woods institutions were established, the U.S. officials thought that it could be abolished, and the IMF could acquire the role it plays. Nevertheless, in the 1960s it was clear that the functions of the BIS could not be conducted by the IMF, and it was a hub in which the central bankers were coming together and deciding about the necessary policies. As it has the institutional capacity, it has redeemed itself as a critical institution in the conduct of international financial policies (Felsenberg et al., 1994, p. 958).

The relation of the US with the BIS is rather complex officially. It didn’t partake within the institution until the 1990s. However, the BIS meetings have always accompanied an official from the US. Considering the dominant role of the US and the American dollar, such a cooperation was necessary even if the preferences of the American side has not directly guided BIS decisions (Ibid.).

One of the critical rationales for the usage of these swap lines with the BIS was to have a tool to intervene in and stabilize Eurodollar markets. Controlling the differences in Exchange rates with the help of swap operations between the Fed and the BIS has helped the implementation of the US monetary policy (Bordo,2020, p. 17).

Charles Coombs thought that the swap lines could also be used to control the dollar liquidity in offshore markets. To this end, the BIS had two swap lines. One of them was a Swiss franc swap line. The other one was explicitly used to provide dollar liquidity in the Eurodollar market with the authorization of the FOMC. Such operations were used extensively in the 1960s (McCauley& Schenk, 2020, p. 21-22).

This second line was extended in 1965 to provide the BIS with a means of acquiring temporary cash for routine transactions and the Federal Reserve with access to other foreign currencies. In order to provide liquidity via this swap line, the Fed would ask the BIS to draw dollars through this second line and inject the funds into the Eurodollar market. It has operationalized this line because there were times that the interest rate in the Eurodollar market was so high that it would hurt the flow of funds to the US. The intervention of the US into the offshore markets is nothing new, as the Fed has asked foreign central banks many times to put dollar reserves in offshore markets when there is a strain in the market. However, the Fed has also operationalized the swap mechanism in a way that would make it easier to control the injection of funds via the swap line to the BIS.

Nonetheless, these operations were insufficient to cover the problems experienced by the US dollar and the international financial system. It proved a supplementary rather than an effective solution (Ibid.).

4.6 The Mexican Crisis and the Decision to Terminate Swap Lines

In 1994, Mexico was experiencing economic difficulties, mainly because of the pressure on its economic institutions due to financial liberalization policies. The political assassinations during the election year of 1994 and the uprising of the Zapatista movement in late 1994 put immense pressure on Mexico's already strained financial system. The Mexican peso had to be devaluated. However, the news of the devaluation made capital fly out of the country and sparked a financial crisis (Boughton, 2012). Clinton administration and US Treasury also adamantly supported the idea that Mexico should be given short-term assistance. However, the plan was rejected by Congress.

During this time, the existence of the swap lines started to be questioned in the US. When we look at the Fed Transcript from November 15, 1994, it can be seen that some concerns were raised by a committee member. During a regular discussion about the extension of swap lines with the exception of Canada and Mexico, the Committee was getting ready to make a routine vote. However, Mr. Borrogs opened up a debate about the symbolic meaning of the Fed offering swap lines to these central banks. This debate is a recurring one about the moral hazard aspect of the Fed swap lines. The Fed was ready to intervene in the markets and in this meeting, the Committee approved the use of swap lines. The reasoning was summarized by the Committee Member Mr. McConough, saying:

> [I]f the Federal Reserve were to decide to disengage itself from being part of the U.S. monetary authorities for foreign exchange purposes, we would have to announce that to the world. We can't just let it slip out…
>
> …It is the classic case of the dog that didn't bark in the night. When we renew the swap lines, it is such a routine matter that nobody pays any attention. If we didn't renew the swap lines, it would create an international hoopla of very considerable seriousness and, I think, a very negative one (FOMC, 1994, p. 52-53).

However, this issue would be back in discussion in less than a year even though, at the time, the Fed agreed to use them for the Mexican Crisis. Such a decision was influenced by the interference of the US Treasury.

As mentioned earlier, the Treasury plan was not approved by Congress. It then prompted the Fed to open swap lines to Mexico and pledged that it would be responsible for the risk undertaken. There were several different swap lines that Fed offered. Firstly, there was the permanent swap line worth $3 billion, and they added a temporary swap line of another $3 billion with the condition that it would be paid back in 12 months. The U.S. Treasury was also pushing for another swap line with Fed. The type of swap line it was considering extending more liquidity to Mexico was a Fed-Treasury swap line. To achieve this, the Treasury was planning to use its German mark, French franc and Japanese yen reserves. So that it would have more US dollars to inject into the Mexican Crisis (Bordo et al., 2015). There was some reluctance on the Fed side however, considering that undertaking such an operation under the leadership of the Treasury could lead to some issues such as the independence and neutrality of the economic policies of the Fed. The analysis of the FOMC transcripts from this era shows an apparent discontent among some of the members both about the technicalities of these operations and the position of the Fed.

First of all, the members of the Committee were not inclined to offer swap lines as the plan suggested that the repayment could take ten years. The involvement in the seemingly ‘bail-out’ was questioned as well because of the pressure by the US Treasury. Some of the members challenged why the Treasury could not deal with the swap itself; however, it was mentioned that since the fund of the Treasury comes from selling Treasury bills, it couldn’t have the necessary amount, it had a limited reserve. Secondly, Mr. Truman calls it a participation issue. (FOMC, 1995,71-72) Even though it could be observed that the participation in these swap lines, which had lost its primary purposes of defending against gold loss, started to gather more questioning and dissatisfaction among the members of the Committee, in the end, the Fed acted out according to the plan of the U.S. Treasury. The chairman of the Fed, Greenspan, was supportive of this operation of extending swap lines to Mexico under the Treasury plan and claimed that it was necessary for a safe and sound financial system. In the end, the operation was not risky or large in terms of the amount Mexico withdrew. However, the experience of the FOMC during the Mexican crisis prompted a discussion about the role of the swap lines and the independence of the Fed. In November 1998, with compliance of the foreign central banks, the FOMC terminated all of the swap lines which were in place (Bordo et al., 2015a).

CHAPTER 5

THE HISTORICAL RETURN OF SWAP LINES AFTER 2008

5.1. The Swap Lines After the 2008 Global Financial Crisis

The use of swap lines in the 21st century was briefly reintroduced in response to the financial effects of 9/11. After the 9/11 terrorist attacks in 2001, the world economy faced a potential threat of dollar illiquidity in global markets, and in order to ease the tensions, the Fed extended temporary swap lines to some foreign economies to alleviate the problems regarding the US dollar. The central banks which received the US dollars via these swap lines were indeed the central banks of the same countries the Fed established a partnership in the 1960s. The amount allocated to the European Central Bank (ECB) was $50 billion, whereas the amount received by the Bank of England was $30 billion. In addition to those, the amount allowed to the Canadian central bank was increased to $10 billion from the previously set amount of $2 million. The maturity date of these swap lines was 30 days, and after that, there were no renewals offered (Chey, 2012, p. 4).

After that, there was no mention of the central bank swap lines by the Fed until the global financial crisis hit. The 2008 GFC started in the US subprime mortgage markets in 2007 with the introduction of highly risky financial tools such as special vehicle mechanisms, including securitizations. The mortgage market, which consists of highly insecure loans, created panic in US financial markets, which then spread to global financial markets all around the world. Even though the Fed and Congress were predominantly occupied with the bailing out of some of the large institutions of the US, the Fed needed to act quickly to prevent insolvency and liquidity crises in the markets of other countries as well. The central bank swap lines have been one of the most debated and essential tools to alleviate the direness of the situation during this time (Tooze, 2008).

In order to understand the urgency and the need for dollar funding during the financial crisis, it is essential to understand the amount of exposure of non-US banks in the prior decade. Between 2000 and 2007, the dollar exposure amounted to more than half of the foreign exposures in European banks. It is predicted that banks of the EU, UK, and Switzerland had a dollar exposure on their balance sheets of around $8 trillion. And before the financial crisis, these banks were able to acquire the funding they needed from the money markets, central banks, and foreign exchange swap markets. They also had a considerable amount of dollar exposure on their off-balance sheets, which created more pressure to require dollars. Therefore, non-US banks, including European banks, were reliant on wholesale market funding to acquire the much-needed U.S. dollars. Then in 2008, when the crisis first hit the US financial system, and the panic spread after the U.S. investment bank Lehman Brothers was declared insolvent on September 18, 2008, the markets in which the non-US banks funded their dollar needs came under extreme stress (Goldberg et al. 2010, p. 4).

The world economy fell into a recession throughout the globe, especially for the European financial institutions. Huge losses occurred as some of them heavily invested in securitized products, which were deemed highly risky because of subprime mortgage loans. In order to prevent more insolvency and a systemic collapse, there needed to be a quick and flexible solution to this problem of dollar illiquidity; hence, reestablishing swap lines was one of the several mechanisms that were implemented to relieve the stress. It was then turned into a permanent system among a few selected countries. It became one of the mechanisms of providing liquidity, as proved by the quick action taken by the Fed when the markets were strained due to the Covid-19 pandemic as well. This chapter will firstly account for the chronological developments happening in financial markets during the financial crisis of 2007-2008, then the developments regarding the establishment of permanent swap line network after the 2008 GFC and the Covid-19 pandemic will be covered. Then I will analyze the new position of the Fed and the US regarding the international financial architecture, by questioning whether the Fed has become an important part of the GFSN and an international LLR in the lack of a multilateral institution.

This chapter will highlight that the Fed operationalized the swap lines in order to consolidate its partnership and form stronger alliances with its permanent Western allies. Two main arguments will be developed out of this discussion. The first one is that in the face of a relatively decreasing capability to manage global financial markets -therefore a declining influence over the political and economic matters globally- the US redirects itself to bilateral relations or multilateral relations of its own choosing. Secondly, contrary to the arguments that the US acts as a global LLR, the evidence suggests that the Fed has been mainly focusing on its own domestic monetary considerations.

5.2. The Unfolding of the Global Financial Crisis and the Swap Lines

In August 2007, it was clear to the American side that there were strains in money markets, as evidenced by spikes in dollar funding costs to the European markets. This had the potential to create disruption for the US money markets as well (Tooze, 2018, McDowell, 2016: 164). In order to deal with the strains in these credit markets and to prevent potential losses of money market funds, the Fed started to think of establishing swap lines with the ECB. Wessel claims that the Fed approached the ECB about the plan and was met with unwillingness. The ECB didn't want to partake in this arrangement and thought that the existence of such a credit line would have meant that the ECB was also part of the problems being experienced in financial markets (McDowell, 2016, p.164). Thinking that they could refute this problem, the ECB answered to the Fed, saying that because it was a dollar problem, it was a problem of the Fed, and consequently of the US, and it wanted to pin the Great Panic on the United States. Since the situation in markets was volatile, the US side did not follow up on this proposal for the next few months. However, by December 2007, the seriousness of the situation was once again debated in Federal Reserve as, once again, the dollar funding necessities of the European banks were increasing. According to Chairman Ben Bernanke, as this demand for dollars was met in wholesale markets before the strain caused by the financial crisis, which is short-term money markets, it was rendering a rise in federal funds rate and causing stress for the monetary policy of the Fed. It would be a lot better if the European Banks would meet their dollar demands via swap lines by engaging in a cooperation with the Fed. It would have also a positive psychological impact on the global financial system (Mc Dowell, 2016, p.165).

As the distress in financial markets deepened, the ECB changed its attitude towards swap lines. Another mechanism to provide dollars to overseas, which is called Term Auction Facility (TAF)[9], was also being discussed in late 2007. The ECB was now willing to establish swap lines if the TAF mechanism was activated as well (McCauley and Schenk, 2020). At the time, the ECB did not need swap lines urgently as they had their own dollar reserves, but as Sheets, a member of the FOMC, proclaimed, such an arrangement between central banks would deliver more information about the monetary status of the ECB, which in turn would assist the Fed while pursuing a monetary policy (Ibid.).

Following the discussion within the FOMC, on December 12, 2007, the Board of Governors came up with the TAF for US depository institutions, and the FOMC announced the extension of two swap lines to the ECB and SNB (Federal Reserve, 2007). The extension of these swap lines this time was met with criticism by only one member of the Committee, Mr. Poole, and his perspective was closely related to the critical perception of the swap lines in the previous decades. He mentioned that (FOMC, 11 Dec 2007, p.13) the use of swap lines was interlinked to foreign market intervention. For Europe, it might mean an initial signal for a "coordinated intervention in the foreign

[9] The Federal Reserve auctioned term funds to depository institutions. The auction process was open to all depository institutions which were part of the primary discount window. The auctions lasted for a fixed amount, and the last TAF auction was held on March 8, 2010 (Federal Reserve, 2015).

exchange market," and such an expectation would result in an unfavorable environment for markets. However, Ben Bernanke suggested that in the announcement, money market issues would be emphasized. He also explained the reasoning of using swap lines by claiming that they are technically easier to use as well. More importantly, he declared that from the perspective of the Fed, it gives them the authority to fully see the operational amount and control over money markets (Ibid).

Initially, the agreed-upon amounts were $20 billion for the ECB and $4 billion for the SNB. Then, the swap lines offered to advanced economies proliferated, amounting to 10 in total; the newcomers were the Bank of Canada, Reserve Bank of Australia, Central Bank of Sweden (Sveriges Riksbank), Central Bank of Denmark, (Danmarks Nationalbank), Central Bank of Norway (Norges Bank), and Reserve Bank of New Zealand (McDowell, 2016, p. 143-145). There was a short-lived relief on pressures early in 2008, and when Bear Stearns was taken over by JPMorgan, there was again a heightened demand for dollar auctions and the swap lines (Goldberg et al., 2010). In September 2008, the total amount delivered via swap lines reached $620 billion after the collapse of Lehman Brothers. On October 13, the limitation on the amount that can be extended via swap lines, which is called cap, was lifted for some central banks, namely the ECB, SNB, Bank of England, and Bank of Japan (Tooze,2018; Broz, 2015). In addition, for the first time in its history, the Fed has extended swap lines to four developing countries' central banks: Central Bank of Brazil, Central Bank of Mexico (the Banco de Mexico), the Bank of Korea, and the Monetary Authority of Singapore (Aizenman and Pasricha, 2010, p. 353).

In the FOMC transcripts, the rationale behind launching swap lines with these developing country central banks was explained by Sheets (FOMC, 2008, p.10). He said in the meeting that these four countries approached the Federal Reserve and expressed their intention to receive a temporary swap line because of the heightened strain in global financial markets. He explained the reasoning behind the approval of the extension of the Fed swap lines to these countries on three grounds. Firstly, all of these countries have developed financial markets with crucial financial mass. Three of them, namely Mexico, Brazil, and South Korea, have large economies, each having a GDP of approximately $1 trillion. In contrast, Singapore is essential because it is one of the important financial centers. He stressed the importance of Mexico and its ties to the US economy but also underlined that "[g]iven the structural interconnectedness of the global economy and the financial fragilities that now prevail," and because of their massive economies, it was vital to extend the swap lines to these countries to prevent any risks they might create if they wouldn't receive the necessary assistance.

The second point he mentioned was that the stable economic policies of these countries were in line with the preferences of the liberal economic order and the Fed. These economic policies enabled them to have low inflation rates and balanced current accounts. The abnormalities that they were facing at the time of this discussion were the spillover effects of the problems of other advanced countries. The third point was that the extension of swap lines would likely help alleviate the stress in these countries. Especially Brazil and Korea needed them as they were facing severe problems in their dollar funding operations. He summarized the objective of these lines as follows: "[T]hese lines would promote financial stability by helping to ensure that financial institutions and corporations in these countries have access to dollar liquidity" (FOMC, 2008).

As he asked for approval for the extension from the Committee, he also outlined the technicalities of the swap agreements. The amount of dollars to be made available was to be 30 billion for each of these countries, and the expiry date would be 30 April 2009. The amount and the date set for the agreement were the same as the swap lines offered to Australia, Canada, and Sweden.

However, these economies were evaluated differently regarding the conditionalities attached to the extension of swap lines. Sheets explained that the rules for these countries would be different, and there would be some limitations in providing safety. According to these rules, the countries, as mentioned earlier, would need extra authorization to draw on the line, and there would be a limitation on the maximum amount which could be taken, which was $5 million at the time. The Foreign Currency Subcommittee could perform the role of the authority in this scenario so that :

> [t]he subcommittee would ensure that the dollars drawn would be used in a manner consistent with the purposes of the swap agreement. The central banks in these countries would also agree to publicly announce the fact that they had drawn on their lines and the mechanisms that they had used to allocate the dollar liquidity (Ibid.).

The amount allocated through swap lines was at its peak in December 2008 with around $580 billion, an amount that covered around one-third of the balance sheet of the Fed (McDowell, 2016). The extensive use of swap lines created the expected result, calming the markets. The countries which received swap lines were then responsible for the allocation according to the funding needs within their jurisdiction. The Fed did not bear any responsibility for insolvency and only negotiated with the central banks (Goldberg et al., 2010, p. 6).

As of 2009, the market conditions got better, and the banks were able to find the amount of dollars from other sources; hence, the use of swap lines was terminated by the Fed on February 1, 2010, and eleven days later, on February 12, 2010, the final loan provided reached its maturity rate (Fleming et al., 2010, p.5).

5.3. The Fed's Swap Line Policy after the GFC

Even though the extensive use of swap lines came to an end in 2010, important steps were to follow after the Eurozone crisis. Shortly after the Eurozone crisis hit, it was again clear that there needed to be some sort of mechanism which would relieve the stress that market participants were experiencing. It was clear that, in a crisis-ridden global financial system, this mechanism was needed to be able to respond quickly. The solution was perhaps to construct a cooperation mechanism permanently rather than activating the mechanism on an ad-hoc basis.

The rationale for such a cooperation mechanism was discussed during the FOMC meeting on 29-30 October 2013, and it was presented under the title Financial Developments and Open Market Operations. A member of the Committee, Mr. Potter, explained that the use of the swap lines was at a minimum rate since 2011; however, they have proved to be a very influential and effective tool when the markets were prone to crisis. In this meaning, a previously distributed memo titled “Action on Liquidity Swap lines” was opened for a vote. Mr. Potter summarizes the benefit of a standing agreement as decreasing the uncertainty over swap lines so that the actors would know beforehand the swaps could be used, and it would also minimize the risks of misunderstanding. He also emphasized that FOMC would still be the authority over the swap lines as the withdrawal of the US dollar via these swap lines would require the approval of the Chairman. Also, they would be subjected to changes yearly, and the rates and fees that these agreements were based on could be changed each year as long as the foreign central banks agreed on the new terms (FOMC, 2013, p.9). In that sense, while securing a solid message to the financial system, the Fed would also hold the power of decision-making regarding the scope and function of the swap lines.

The central banks which were made part of this permanent swap network were the Bank of Canada, the Bank of England, the Bank of Japan, ECB and SNB. With this arrangement, the central banks involved both decreased the interest rate that was applied to the currencies borrowed through lines while they also decided that these swap lines would be offered in any of the domestic currencies that these central banks were able to offer. Federal Reserve announced this agreement saying that the aim was that “[t]he swap lines have helped to ease strains in financial markets and mitigate their effects on economic conditions. The standing arrangements will continue to serve as a prudent liquidity backstop” (Federal Reserve, 2013).

The establishment of such a network in 2013 coincided with another significant development; it was the year the Fed declared the end of its program of Quantitative Easing (QE) that it had been pursuing since 2008. Even though the intentions had been there since the beginning of the year -as it can be seen throughout successive FOMC transcripts-the public and the markets were not aware of the plan up until May 2013. Before the Fed officially announced its intentions to end the program, Chairman Bernanke exposed the plans for a taper when he was answering the questions before he attended a meeting in Congress. He famously started the period which was named as “Taper Tantrum” as he announced “[i]f we see continued improvement, and we have confidence that that’s going to be sustained then we could in the next few meetings ... take a step down in our pace of purchases.” (Reuters, 2019).

The markets did not receive these news well as it was signaling that the availability of the funding would be tighter. As a response to the news, the financial markets began to adjust their position as bond yields increased, whereas stocks experienced a loss in their value (Ibid.).

A couple of weeks later, the same sentiment was repeated with an emphasis on the outlook of the economy. In the press conference of the FOMC on June 19, 2013, it was announced that:

> … [i]f the incoming data are broadly consistent with this forecast, the Committee currently anticipates that it would be appropriate to moderate the monthly pace of purchases later this year; and if the subsequent data remain broadly aligned with our current expectations for the economy, we would continue to reduce the pace of purchases in measured steps through the first half of next year, ending purchases around midyear….
>
> … I would like to emphasize once more the point that our policy is in no way predetermined and will depend on the incoming data and the evolution of the outlook, as well as on the cumulative progress toward our objectives. If conditions improve faster than expected, the pace of asset purchases could be reduced somewhat more quickly. If the outlook becomes less favorable, on the other hand, or if financial conditions are judged to be inconsistent with further progress in the labor markets, reductions in the pace of purchases could be delayed; indeed, should it be needed, the Committee would be prepared to employ all of its tools, including an increase in the pace of purchases for a time, to promote a return to maximum employment in a context of price stability…” (Business Insider, 2013)

During the policy meeting of December 17-18, the Fed started to apply its plan to withdraw from the program. At the time, it was purchasing assets worth $85 billion in a month, and it declared that it would drop to $75 billion, and considering the economic performance, the plan would continue with continual reductions (Reuters, 2019).

Therefore, with the implementation of tapering, the monetary abundance was to come to an end, and the most strategic partners of the US were facing a future dollar liquidity crisis in a system that was now made more fragile as also borrowing from the market was made tighter. It was during this period that the US announced the swap line network which was activated in 2011 and included the central banks of EU, England, Japan, Switzerland, and Canada made into a permanent facility. The establishment of such a network was deemed as the most important financial event by Mehrling (2015). According to him, it implied that these countries would be the most important ones in the upcoming years in terms of financial outlook and named the group as C-6 while claiming it would dethrone the G-7 countries. For the Federal Reserve swap lines, this development was one of the last important announcements up until the Covid-19 pandemic hit the world and created a new concern for the global financial system.

5.4. The Aftermath of the GFC and the Swap Lines during the Covid-19 Pandemic

After the extensive use of swap lines during the global financial crisis, some unexpected developments followed suit in the next few years regarding swap lines. The central bank swap lines have emerged as a monetary tool that is applied whenever there is a strain in financial markets. It was precisely what happened and needed when a pandemic threatened not only public health but also interrupted the economy and caused concern about a possible interruption in financial markets.

When the Covid-19 pandemic was identified as a health threat in December 2020, the financial markets looked for a sign that there would not be a problem regarding the flow of money, especially that of the international medium, the US Dollar. The measures taken by governments and uncertainty of the future regarding production, trade, and investment also affected the movement of the dollar. Interest rates in the US markets and also the CIP (Covered Interest Rate Parity) deviations[10] were sending signals as they increased in early March. In order to calm the markets, the Fed needed to take action quickly. Therefore, the network of swap lines consisting of six central banks declared that they would start operations and there would be a cut on the OIS interest rate[11] that they would be applying on March 15. Then quickly, operations began first between the Bank of Japan and the Fed, and later, on March 19, the swap lines were established with nine other central banks of the following countries: Australia, Brazil, Mexico, Denmark, Korea, Norway, New Zealand, Singapore, and Sweden. There were some similarities and differences between the conditions tied to this newly added network of central banks and the original network of six central banks. The maturity of the swap lines and the fact that the monitoring of the funds received in the domestic jurisdiction was under the responsibility of the foreign central banks were the same (Bahaj and Reis., 2020, p.4). However, according to Bahaj et al. (2020), there were three critical differences. These differences consist of the maximum amount that can be received, the method of receiving, and the frequency of the operations.

Initially, the demand was high via these swap lines to acquire US dollars. During the Covid-19 panic, which caused a strain on financial markets, the amount of dollars which has been used as part of dollar swap lines reached $449 billion at its highest in May, and it was somewhat closer to the peak of the use of the swap lines during the global financial crisis which increased to $583 billion. However, as the markets adjusted to the circumstances, the amounts used decreased to $183 billion in July as the pricing of the dollar in markets returned to its average values (Aldasoro et al., 2020, p. 6). The demand for dollars via swap lines has fallen after the initial months of the uncertainty

[10] CIP shows the relationship between the spot exchange rate, the forward exchange rate and the nominal interest rates between two currencies (Vallo,2021). Since it shows that the market has a tendency to expect a risk, since 2008 the deviation here represents the negative expectation in the financial markets.

[11] An Overnight Indexed Swap is a different type of interest rate. First, OIS contracts involve the exchange of obligations for short period of time, the longest being up to one year. Second, the floating reference rate in the OIS decided by overnight rate (Choy, 2003).

the pandemic brought. On March 23, it was declared that the Bank of England, the Bank of Japan, ECB, and SNB, as they consulted with the Federal Reserve, would stop providing dollar liquidity which has 84 days maturity rate, and this decision will be activated on July 1, 2021. But the weekly operations would continue after this date

5.5. The Position of the Fed in Global Financial Architecture (GFA) and the Reasons to Extend Swap Lines

In today's financial architecture, the role of central banks is crucial. As the issuer of the dollar, the role of the Fed has been one of the most debated, especially in times of systemic uncertainty of financial crises. There has been a systemic change observed in the sense that now the central banks have become one of the primary financial institutions that the world turns into for a sign to relieve the problems the global financial system is facing replacing the earlier role of multilateral financial institutions such as the IMF. Therefore, among the tools central banks can offer, the central bank swap lines are considered an essential part of the GFSN. The GFSN is a broad term that has been popularized in the aftermath of the 2008 global financial crisis. However, even the very need for a safety net in times of crisis has been an ongoing debate. There were several debates on the possibility of a financial safety net or international financial safety net during the 1990s when the financial system was shaken by the consequent crises, which were the Mexican peso crisis of 1994-1995, the Asian financial crisis of 1997-1998 and its effect on economies of Russia and some Latin American countries. Frequent and debilitating financial crises initiated the discussion, and variable actors made many different suggestions to provide a stabilization mechanism for the problems of the international financial system. Helleiner (1999) collected the main proposals for a safety mechanism, and the suggestions ranged from national proposals such as the US proposal offering credit lines to countries experiencing financial difficulties to a new global institution which would be established as a part of IMF, and to private proposals such as Garten's global central bank.[12]

Nevertheless, in the pre-2008 GFC era, there was no such consensus among policymakers and scholars about the pillars of financial safety. On the contrary, in today's environment, in which there is much more financial interdependence and financialized economies, there is a more concrete structure to discuss the GFSN. According to the European Stability Mechanism (n.d.), the GFSN consists of four layers: national, bilateral, regional agreements, and international levels. There is a hierarchy between these layers, even though any of the layers can effectively provide a solution to stabilize the financial system.

Another term that received scholarly attention in the aftermath of the 2008 GFC has been the term 'international LLR', as mentioned before. According to some, the Fed effectively became the international LLR to the world (McDowell, 2012). Before the GFC, the literature mainly focused on the IMF's role, whether it should act as the international LLR, and whether it could supply the necessities of a safety net. The IMF has still been considered as part of the financial safety net, but there are questions about its capacity and tools. Also, the conditionalities it put upon debtor states throughout the 1980s through financial restructuring programs created a stigma around the institution. However, even in the 1990s, it was one of the institutions which were seen as the most suited candidate to oversee the stability of the international financial system. While some have pointed out its deficiencies in providing an emergency solution in financial distress, others emphasize its positive role in this regard (Calomiris, 1997; Sachs, 1999).

As mentioned earlier, particularly after the 2008 GFC, there was a proliferation of analysis and publications that deemed the Fed the highest and most effective

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[12] Jeffrey Garten who worked under the administration of Nixon, Ford and Clinton and worked as an academic in University of Yale proposed for a world's central bank in the editorial piece he wrote for Newsweek. He suggests that the international financial institutions such as IMF proved insufficient for the task of managing the world economic order and the national or regional central banks are not up par since they would pursue national interests. Therefore, he suggested the establishment of a world central bank (2008).

pillar of GFSN and the central bank of the world, which put it into the position of international LLR. The following parts will question the role of the Fed as the international LLR and the part it plays within the GFSN by focusing on the central bank swap lines.

5.6. The US Central Bank Swap Lines and the Economic Considerations

It has been debated that there has been a fundamental change in the use of central bank swap lines since the global financial crisis. Whereas in the 1960s and the subsequent decades up until its termination in 1994, it was used as an intervention mechanism in foreign currency markets, aiming to defend the dollar initially and to preserve the gold reserves. Under the floating rate regime, its objective was to prevent speculative attacks on currency rates; hence, it was a tool to bring stability and safety (Bordo et al., 2015; McCaulay and Schenck, 2020). However, the use of swap lines in the 2000s changed dramatically with a new aim and scope.

According to the policymakers of the Fed, extending swap lines was basically an economic issue. The documents of the Government Accountability Office (GAO) in 2011 suggest some insight into the procedure and rationale of extending swap lines from the perspective of the Fed.

These documents showed that, first of all, consideration of a swap line takes place after a request by the recipient country. Then, the approved countries were expected to meet specific criteria such as “economic and financial mass of the country's economy, a record of sound management, and the probability that the swap line would make an economic difference." In addition, it was emphasized that it was critical to be a primary partner of the US in trade or be a significant global financial center (Broz, 2015, p. 11-12).

How the internationalized aspect of banking and their close ties with the US had affected the decisions regarding the extension of the swap lines has been analyzed by Broz. He implemented several models, and U.S. bank exposure is identified as the essential determining factor across all the models he tested. Therefore, if a country's private financial institutions are more exposed to the

US banks' lending practices, it has a significantly greater chance of receiving a swap line from the Fed (2015, p. 22).

McDowell as well argues that the exposure of the US banks was the main factor, whereas other indicators such as trade partnership or the shortage of dollar liquidity did not correlate with the extension of a swap line (2017, p. 157-158).

According to these studies, the rationale for the swap lines is to protect the national interest by protecting the US financial institutions which heavily invested in other markets. By providing liquidity and easing the tension, the US indeed protects, first and foremost, its own investors and financial institutions.

Some other studies analyzing the rationale and process of extending swap lines focus more on the psychological side. Because there is a lack of information and a time limit for decision-making, the policymakers need to rely on some other indicators which are not strictly calculable. Marple (2021) argues that the decision-making process is mainly explicable by looking at the similarity factor. Central bankers' backgrounds and shared values can explain central banks' selection process, which was to receive a swap line. Also, since the swap lines were used during an emergency situation, there is not much time for an analysis based on economic realities, even though the countries which received these lines were essential partners for the US economy. Still, some countries that received swap lines, such as New Zealand, and some that didn't, such as Chile, cannot be explained solely on economic terms such as the amount of US investments or capital account openness. The next part will explore the political aims of the swap lines by problematizing the Fed’s selection of the recipient countries from a political economy perspective.

5.7. The Selection of Recipient Countries

5.7.1. The Selection of Developed Countries

The partnership of the Fed with advanced capitalist countries has not changed much since the end of WWII; still, there are specific characteristics that inform us from a political economy perspective. The countries which received the Fed swap lines share these two attributes mainly, which are the exposure of US financial institutions and capital account openness.

In order to determine the degree of influence of political alignment in receiving a Fed swap line, Cassetta (2022) measures the relationship between these variables. His analysis shows that closer political alignment with the US increased the chance of obtaining a swap line from the Fed along with the other positively correlated variables, such as ownership of US assets and US bank exposure.

Helleneier (2014) points out the fact that the post-2008 world did not change the hegemonic position of the US, and by extending its financial reach, the US has been indeed preserving the status quo.

5.7.2. The Selection of Developing Countries

The studies regarding the developing countries which has been the recipient of the Fed's swap lines also bring varying explanations. Aizenman and Pasricha (2010) conclude the main criteria of the recipient selection was the US bank exposure, and the econometric data was consistent except for India. Trade exposure, capital account openness, and a robust financial system have also been deemed crucial.

When it was decided that the emerging market countries would receive swap lines, Chairman Bernanke assured that these four countries, namely, Mexico, Brazil, South Korea, and Singapore, were selected carefully, and they were the right candidates to extend the lines. As he argued, there was no plan to acquire more countries as it would not be acceptable economically and diplomatically. Also, even though the Fed tried to coordinate its effort to provide liquidity with the IMF, FOMC argued that it needed to incorporate these emerging economies into the network for the following reasons. First of all, the funds available to IMF were not enough for the requirements of these large economies. And secondly, these countries did not want IMF assistance (Harris, 2015, p. 403).

Chey (2012), on the other hand, offers an analysis in which he focuses on the political side. When the characteristics of the developing countries which received swap lines are analyzed, it can be concluded that the US has aimed to strengthen its relationship with strategically crucial developing countries. Since the early 2000s, international economic architecture has been transforming, and new actors have gained influence in monetary and financial matters. Chey points out the US-Europe conflict of the era, and the US, according to him, by strategically making alliances with the influential developing countries, wants to increase its influence over financial matters, and the outcomes of the G20 meeting after the global financial crisis were on the agenda of the U.S. party rather than the European party. To exemplify, one of the priorities of Europe was a global financial regulator, whereas the US wanted to make sure the preservation of the unregulated and liberalized nature of the global financial system (Ibid.).

As Panitch and Gindin (2012) argue, for the unique ways American capitalism changes and responds to the challenges within the global financial system, the case of extending the swap lines to several selected emerging economies provides a good example.

Chey (2012) analyzes further that the political decision regarding swap line selection has been prominent. The South Korean example is interesting to see the political considerations in that sense. When it was first approached for a swap line, the idea was not welcomed by the US side. However, the approach of the US changed when it was approved that then-president Bush was to hold a G20 Summit. This decision was announced on October 22, and on October 24, the Korean Central Bank was approached by the Fed. It was also the day then-Korean Assistant Deputy Finance Minister Shin Je Yoon was informed via a phone call by an official from the US that Fed would possibly extend a swap line to Korea. This example shows that rather than purely economic considerations about the soundness of the economy or specific criteria regarding the financial rules and exposure, the US was making political considerations to an ally in the G20 summit.

The curious opposite case of the non-selection of countries that approached for a swap line is Chile. The Fed paid much attention to the Chilean case while deciding on the recipient countries. The country's economic outlook was not good enough even though it had a fully open economy and good growth rates with manageable inflation. Because of its capital account openness and being part of Western countries, there were proponents in the FOMC who advocated for a swap line for Chile. For example, according to Committee member Fisher, despite its size, Chile was a significant representation. However, the influence of Chile in international economic governance was minimal, and it was not a member of the G20. Therefore, even if it had a moderately positive outlook, it did not receive a swap line (Sahasrabuddhe, 2019, p. 475-476).

These accounts deliver detailed explanations for the emergence of the swap lines, how the U.S. acted the way it has had, and the critical criteria for selecting recipient countries. But from a critical political economy approach, there is room to analyze the emergence of such a mechanism by going to the first part of the discussion. Thus, the discussion about the GFSN and the Fed being the ILLR needs more elaboration in light of the data available about the swap line network.

5.8. Domestic Monetary Policy Considerations of the Fed in the Usage of Swap Lines

As we have seen above, the dollar's unique position in the world economy and the prominent role of the US has significant consequences for itself and the world economy. The policy choices and the interventions made by the actors transform the international system in ways that cannot be predicted but still, the accumulated power is hard to resist. Since the US is in a position to create an effect, its choices dictate or change the systemic conditionalities at another level.

It is also critical to analyze the considerations and consequences for internal matters of the American state. The use of central bank swap lines occurs in the international realm, and the literature we have delved into focuses mainly on the global consequences of monetary policy. Even though many studies elaborate upon the selection process of the recipient countries and there is overwhelming evidence of the nationalistic considerations of the U.S. interests, the use of swap lines and their consequences on the domestic monetary policy is debated by few. The global implications of the swap lines cannot be denied; however, it is also essential to comprehend that the Fed, first and foremost as the central bank of the US, adopts the policies which would let it realize its internal responsibilities.

Pape (2021) shows that the swap lines offered during the Covid-19 pandemic did not just provide relief to the international markets and foreign central banks' sphere of influence. While extending these swap lines, the Fed was able to manipulate offshore yields. The credit flows were restructured with the help of swap lines, and in turn, the capital came back to the US markets.

Similarly, foreign banking organizations based in the US experienced a shock, and there was an increased need for credit in the domestic market. Especially in the third week of March 2020, there was a sharp decrease in their deposits in contrast to the heightened demand for loans. Therefore, when the Fed opened up its swap lines to its temporary partners as well as improved the conditions for the permanent swap network, these foreign banking institutions were able to access the liquidity via their parent companies (Cetorelli et al., 2020).

To conclude, the provision of swap lines does not only have international dimensions as the Fed uses its capacity to provide liquidity for the US markets as well.

CHAPTER 6

CONCLUSION

In this thesis, I have aimed to show the peculiarity of US capitalism through the use of swap lines and argue that the position of the US should be analyzed from a historical perspective. This historical perspective also requires us to look into the dynamics within the US and how different domestic interests and ideologies have fought over the path to be taken, and how the US has been shaping the world capitalism after its image. However, it is not only a one-way street, as this liberalized financial system also puts pressure on the US to develop mechanisms to protect its domestic economy as well as its position in the world economy.

First of all, the developments which took place in the aftermath of the Civil War in the US paved the way for a lot more radical and innovative financial system. Also, as the world struggled through two world wars, the US was able to use the advantage of its productive sector and became the powerful leading economy. However, a liberal world economy was not readily achieved. The financial difficulties experienced both within the US and in other major economies shaped the construction of the post-war global economic order. The pegged-exchanged rate regime established via the BWS created its own problems as the countries focused on their domestic economies until they were able to convert. Soon, the problems became apparent, and the US started experiencing balance of payments deficits as the issuer of the world currency. It was also at risk of losing its gold reserves as it agreed to change the US dollar in exchange for gold. The swap lines were first systematically established at this time. Their use was met with some doubts and concerns initially; however, soon, it became a routine financial exchange among central banks.

The abandonment of the gold standard by Nixon in 1973 started a new stage regarding international economic relations. While the global international architecture was becoming more complex and interdependent, especially in relation to the establishment of offshore markets, the US dollar preserved and even strengthened its world currency status. The US was also the most influential actor in multilateral institutions such as IMF and World Bank. The mandate of these institutions changed as well as the international monetary system, and financial relations started to get transformed. The role of the IMF has been critical in this sense that its mandate changed from ensuring the stability of the international financial system and giving short-term credits to European countries to being a crisis manager, issuing longer-term debts which were unable to catch up with the necessities of a liberalized economic order. The influence of the US over IMF practices has been a critical issue; however, the disastrous IMF policies in the 1980s and 1990s created a stigma around the institution.

As the expansion of the financial products and markets was getting more extensive and more profound in the 1990s, there were also new roles for the prominent financial actors and for the US state as well. Even though the Fed stopped its use of swap lines due to concerns about its independence in the late 1990s, the use of swap lines came to light once again when the financial crisis hit the advanced market economies after 2008. As the panic spread through the financial markets, there was a need for a quick solution. Such a temporary solution could not be offered by a multilateral institution; rather, the Fed had to provide a solution to the lingering anxiety in the financial markets, and the answer was to activate swap lines once again to pour dollar liquidity into the countries which were in dire need of US dollars.

The use of swap lines in the 1960s and 2000s shows us the novel ways the Fed employs in order to tackle the problems of the capitalist system as well as the

Fed's capabilities as the central bank of the dominant power. Under the financial repression applied by the BWS, the US was able to convince other developed capitalist economies to join the swap line network in order to defend the monetary structure of the BWS in which the dollar was the backbone of the system with its value tied to gold. In this capitalist phase where the Keynesian principles ruled and the Cold War was prevailing, this strategy was proved to be successful up until 1971. The Fed was able to manage the contradictions of the pegged-exchange rate system in cooperation with the other countries though in this period the swap lines worked to provide the Fed with the currencies of other countries. Once the crisis hit in 2008 within a global context that financial system had expanded immensely, it was this time other countries that needed US dollars. The analysis above shows that the decision-making regarding the selection of the recipients was both political and economic. Moreover, the US' intervention in financial markets via Fed's bilateral swap reliefs rather than a global regulatory practice might indicate decreasing capacity of the Fed to manage financialized capitalism. As Panitch and Gindin remind us (2012, p. 21), the recent financial crisis did not create a conflict between capitalist states. Rather it has created a social conflict, and the scope of the financial crisis showed clearly "how far all of the world's states are enveloped in capitalism's irrationalities." Even though the financial markets revolve around the US dollar and it has as least preserved the financial hegemony of the US state, the scope of the financialized capitalism is enormous and contradictory that the Fed does not seem to have the capacity to make a dramatic intervention which would encompass the whole system; rather it alleviates the strain and the stress the ally countries experiencing while the countries which are not deemed as part of the network are left to find other solutions themselves.

The action taken by the Fed to alleviate the strain over the markets, resulted in one of the biggest operations that it undertook. This also appointed Fed to the world central bank among many. However, a close look to the recipient countries and the global conjuncture reveals another aspect of these swap lines alongside with its status as the hegemonic power.

As I have discussed in the previous chapters, the extension of swap lines by the Fed is highly political as it extends the swap lines firstly to the advanced economies in which it already has political alliances, reflected in the existence of the US assets and high exposure of the US banks. Hence, swap lines provide a mechanism serving the US' self-interest. Secondly, swap lines have been extended to the developing countries which have either critical geopolitical importance to the US such as Mexico, or to countries which have a potential to be systematically important in the governance of the international economic system such as Brazil and South Korea, or major financial centre, Singapore.

In addition, the use of these swap lines has resulted in a positive outlook in US corporate markets. As the Fed's primary responsibility is to provide a stable domestic economic system, it is essential to pay attention to the domestic considerations of the Fed's policies.

The permanent swap network between the central banks, namely, the Bank of Canada, the Bank of Japan, the Bank of England, SNB, ECB, and the Fed, coincides with the withdrawal of the US easy money policies. Being part of a mechanism, which allows quick access to the US dollars, has resulted in an important advantage for the financial institutions in these countries, whereas the majority of the countries are still in need to look for emergency assistance either from IMF, private credit markets or increasingly via regional or bilateral swap agreements even though the volume of transaction via these swap lines is nowhere near the Fed swap lines yet.

Also, as the Fed deploys the use of central bank swap lines in a historical period where it withdraws the dollar from international financial markets, it implies that the US as a hegemonic power is no longer capable of providing benefits to a large group of participants of the international system. The selectivity might indicate a turn to bilateralism in which superpowers seek to expand their sphere of influence with bilateral or regional relations as opposed to a multilateral international order.

Even though, for now, the swap lines seem like a permanent feature of the global financial architecture, the tensions, and struggles among different interest groups in the US policy making circles, might again change the scope of this tool as it happened in the 1990s.

All in all, the US as the most powerful country shapes and reshapes the rules of the global financial arena as it fits best to its interest. However, as the power of the markets gets immense there is a dialectical relationship between the policies of the US and the dynamics exerted onto the policy choices of the US. As we can see throughout this research, the first and foremost use of the swap lines has always been in the interest of the US rather than performing ILLR duties.

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APPENDICES

A.TURKISH SUMMARY / TÜRKÇE ÖZET

Bu tez, küresel finansal düzen(sizliğ)in dinamik olarak değişen özelliklerini ve Amerika Birleşik Devletleri'nin (ABD) rolünü yeniden analiz etmek için, genellikle teknik ve ampirik araştırmalara konu olan merkez bankası para takas hatlarının eleştirel bir politik analizini yapmayı amaçlamaktadır. Bu analiz aynı zamanda iki anlamda tarihsel bir analiz olacaktır. İlk olarak, Amerikan Merkez Bankası'nın (Fed) merkez bankası takas hatlarını kullanması yeni bir olgu değildir, kökeni 1960'lara uzanmaktadır. Fed'in takas hatlarını nasıl ve ne zaman kullandığını anlamak tezin önemli amaçlarından biri olacaktır. İkinci olarak, takas hatlarının temel çalışma prensibi tamamıyla değişmemiş olsa da, dünya kapitalizminin tarihsel gelişimindeki işlevleri ve ABD'nin hegemonik pozisyonu açısından anlamı farklılaşmıştır. Bu nedenle tez, merkez bankası takas hatlarının Bretton Woods sistemi sırasında ve sonrasındaki kullanımlarının ardındaki politik nedenleri ve bunların farklılıklarını vurgulamaktadır.

İkinci Dünya Savaşı sonrasında ABD dünya düzeni için kurucu rol üstlenirken, uluslararası sistemdeki konumu hakkında, sistemde kolektif fayda sağlayan iyi huylu bir hegemon olarak mı, yoksa tamamen çıkarlarına göre hareket eden bir imparatorluk olarak mı tanımlanabileceği gibi birçok tartışma yapılmıştır. Ayrıca, 1970'lerden sonra ulusal ekonomilerin uluslararasılaşması ve popüler küreselleşme tartışması doğrultusunda, bu argümanlar yeni bağlamlarda yeniden üretilmiş, ABD'nin 'yeni' küresel dünyadaki rolü ve konumu yeniden tanımlanmıştır. Hala devam eden bu tartışma, içinde yaşadığımız dünyayı şekillendiren küresel güç ilişkilerinin temellerini anlamak için önemlidir.

Bu tez, Fed'in merkez bankası takas hatlarına odaklanarak böyle bir sorunsallaştırmaya girişmektedir. Bu bağlamda, küresel kapitalizmin çelişkilerinden kaynaklanan zorluklara yanıt verirken ABD'nin farklı tarihsel dönemlerde merkez bankası takas hatları aracılığıyla dünya ekonomik ve uluslararası para sistemine nasıl müdahale ettiğini sorgulamaktadır. Bu soruyu cevaplamak için öncelikle dünya para birimi olarak işlev gören ve beraberinde getirdiği bazı ayrıcalık ve sorumluluklara tabi olan ABD dolarının benzersiz konumunu göz önünde bulundurmak önemlidir. Covid-19 pandemisi sırasındaki son finansal kriz ve finansal piyasaların kırılganlığı, kritik konumu nedeniyle Fed'in dünyanın merkez bankası olarak son kredi mercii (LLR) konumuna gelip gelmediğini tartışma konusu yapmıştır. ABD'nin merkezi finans kurumuna böyle bir rol atfetmek, iyi niyetli hegemon rolünü ABD'ye atfetmek anlamına gelir ki bu tezde benimsenen Marksist bakış açısı nedeniyle eleştirel olarak araştırılması gereken bir argümandır. Bu sebeple tezde, Fed'in takas hatlarını kullanmasının ne ölçüde uluslararası son kredi merciinin bir işlevi olarak değerlendirilebileceği ve tarihte Fed'in takas hatlarının farklı kullanımlarının küresel kapitalizmdeki ABD hegemonyasının durumu hakkında ne söylediği sorgulanmıştır.

Tezin ilk bölümünde ABD'nin dünya düzenindeki konumuna ilişkin dört farklı kavramsallaştırma ortaya konmuştur. Bunlardan ilki, ana akım realist ve neoliberal kurumsalcı Uluslararası İlişkiler teorilerinden türemiştir ve bu teoriler hegemonyayı farklı şekillerde ele alsalar da, Amerika Birleşik Devletleri'ni düzeni sağlayan hegemonik bir güç olarak gören bir kavramsallaştırmaya karşılık gelmektedir..

ABD'nin dünya düzeni içindeki konumunu açıklayan bir başka bakış açısı, Marksist gelenekten gelmektedir. Bu yaklaşım, ABD'yi emperyalist bir güç olarak değerlendirmekte ve kapitalist yayılmanın baş aktörü olarak kuramlaştırarak, kapitalist dünya tarihini yönlendirdiğine dair analizler yapmaktadır. Buna göre ABD, uluslararası düzeni hiyerarşik olarak yönetmektedir ve gücünü artırırken, piyasaların genişlemesini ve sermaye birikimini de sağlamaktadır.

Bu bakış açılarının her ikisi de ABD'yi bir hegemon ya da başkalarına hükmetmeye çalışan emperyal bir güç olarak teorize ederek, devlete homojen bir görünüm kazandırmaktadır. Bununla birlikte hem devlet içindeki hem de uluslararası alandaki değişimlerin ve sürekliliklerin arka planına baktığımızda, bunların siyasi ve toplumsal mücadeleler içinde ve çelişkili süreçler içinde şekillendiğini görürüz. ABD'nin benimsediği politikalar, belirli tarihsel konjonktürler ve devletlerin içindeki ve dışındaki siyasi mücadeleler içinde anlaşılmalıdır. ABD'de farklı kapitalist çevreler, Amerikan gücünün devamı için farklı politikaları savunmakta ve bu farklı çevre ve çıkarlar arasındaki mücadeleler, ABD devletinin nihai küresel politikalarını şarta bağlı olarak şekillendirmektedir.

Küresel kapitalizm ve onun içinde ABD'nin konumu üzerine yapılan kuramlaştırmaların bir başkası, devletin rolünü aşan bir bakış açısı sunmaktadır. Bu anlayışa göre 1970'lerin sonlarında ve 1980'lerde başlayan hegemonya tartışmasının gerilemesi, ulusötesiliğin uzantısı olarak yorumlanabilir. Bu yaklaşım, yeni düzen içinde ABD'nin konumunun zayıflamadığını, bunun yerine düzenin yeni bir ulusötesi tarihsel bloğun kurulmasına doğru evrildiğini öne sürmektedir. Bu perspektif ayrıca ulusötesi kapitalist sınıfın oluşmakta olduğunu iddia etmekte ve ulusötesi şirketlerden ve uluslararası alanda faaliyet gösteren finansal kurumlardan oluşan küresel bir yönetici sınıfın varlığına işaret etmektedir.

Bu tez, bu görüşlerden farklı olarak, küresel kapitalizmde ABD'nin rolünü anlamak için, ABD devletinin kendine özgü konumuna ve tarihsel süreç içerisindeki mücadeleler sonucunda ortaya çıkan politika seçimlerine odaklanılması gerektiğini savunmaktadır. Kapitalizmin tarihsel gelişimi tarihin akışının bilinçli bir sonucu veya doğal bir uzantısı olarak da görülmemelidir. Bu gelişmeleri eleştirel sınıfsal bir perspektiften anlamak için, ulus-devletlerin içindeki ve dışındaki değişim ve sürekliliklerin yanı sıra çatışmaları da sınıf merceğinden kuramlaştırmak önemlidir.

ABD'nin küresel kapitalizm içindeki üstünlüğü oldukça çelişkili bir süreç içinde gerçekleşmiştir. Bu süreçte ABD, doları dünyanın rezerv para birimi olarak başarıyla korumuş, Amerikan tarzı finansın yaygınlaşmasını ve özelleştirilmiş krediye güvenilmesini sağlayarak, kendisine muazzam bir güç sağlasa da aynı zamanda en yüksek finansal kırılganlıkları ve riskleri de beslemiştir. İkinci Dünya Savaşı'ndan sonra, ABD'nin yaptığı politika seçimleri, hem Soğuk Savaş içindeki siyasi tercihlerini hem de kapitalist dünya pazarına etkin bir şekilde müdahale etme kapasitesini yansıtıyordu. Ancak, 1990'lardan sonra finansal küreselleşme ve finansallaşmanın yükselişi, ABD'nin küresel kapitalizmdeki rolünü ve kapasitesini yeniden tanımladı. Finansal küreselleşmeye yol açan süreçler çeşitli ABD politikaları tarafından yürütülmüş olsa da nihayetinde, ABD'nin küresel finansal piyasalara etkin müdahaleler yapma kapasitesini önemli ölçüde sınırlayan bir süreç olan dünya kapitalizminin finansallaşmasına da katkıda bulunmuştur. Bu nedenle bu değişiklik hem politika çevrelerinde hem de akademik çevrelerde Amerikan hegemonyasının çöküşü olarak tartışılmaktadır. Ancak bu tür yorumlar, bu değişim sürecinde küresel finans piyasalarının istikrarının da ABD ekonomisinin refahına sıkı sıkıya bağlı hale geldiği gerçeğini göz ardı etmektedir. Böylece, genişleyen özel para piyasaları ve finansal yeniliklerle hareket alanı giderek daha da sınırlanan Amerikan Devleti, küresel finansal dinamikleri yöneten en yetenekli finansal aktör olmaya yine de devam etmektedir.

Tezin üçüncü bölümünde, Birinci Dünya Savaşı'ndan başlayarak, takip eden tarihsel dönemlerde ABD'nin dünya piyasalarındaki konumu ve bu dönemlerde ABD tarafından uyarlanan önemli parasal müdahale araçları araştırılmıştır. On dokuzuncu yüzyıl sonlarında artmaya başlayan üretim kapasitesi ve yenilikçi finansal araçları ile ABD ileride güçlü bir ülke haline gelmenin koşullarının temellerini atmaya başlamıştır. Dolayısıyla, Birinci Dünya Savaşı sonrasında İngiltere'nin gücü azaldığında, ABD hem ekonomik hem de militarist bir güç olarak liderliği ele geçirmek için güçlü bir aday olarak öne çıkmıştır. ABD'nin ekonomik görünümü, Birinci Dünya Savaşı sırasında bir iyileşme yaşadı. Savaş başlamadan önce ABD'nin net borçlu bir ülke olması nedeniyle dünya ekonomisindeki konumu güçlü değildi, ama savaş sonrasına net borç veren bir ülke haline gelmiştir. Dolayısıyla, Amerikan dolarının uluslararası bir değişim aracı haline gelmesi ve İngiliz sterlininin kilit uluslararası para birimi konumunun yerini alması bu dönemde olmuştur. Her ne kadar iki savaş arası yıllarda bu iki para birimi bu konumu paylaşsa da, İngiliz sterlininin yaşadığı sorunlar nedeniyle rezerv para birimi tercihleri giderek ABD dolarına doğru kaymıştır.

ABD ve ABD dolarının egemenliğinde tarihi dönüm noktası İkinci Dünya Savaşı'ndan sonra gelmiştir. ABD savaş sonrası uluslararası sistemi tasarlama fırsatı bulmuştur ve 1944 yılında düzenlenen Bretton Woods Konferansı, ABD dolarının rezerv para birimi olarak kabul edilmesiyle sonuçlanmış ve ABD doların değerini altına sabitlemiştir. Altının ABD dolarına sabitlenmesi, önümüzdeki on yıllar için uluslararası likiditenin, dolayısıyla uluslararası para ve finansal sistemin istikrarının ABD ekonomik politikalarının tercihlerine bağlanması anlamına gelmiştir. Anlaşmanın Keynes'in çok taraflı vizyonundan uzak olan bu nihai yapısı ve doların merkeziyetinde ısrar, Amerikan tarafının zaferini simgelemiştir.

Bu anlaşma, ABD dolarını etkin bir şekilde dünyanın veya dünya parasının rezerv para birimi haline getirmiş, ABD'nin küresel parasal işlerdeki rolünü kurumsallaştırmıştır. Ancak Amerikan dolarına olan talep ve doların altın tarafından karşılanma zorunluluğu sistem içinde sorunlar yaratmaya başlamıştır. Bretton Woods Sistemi'nin (BWS) etkisi, ABD'nin enflasyonist kredi uygulamalarını uluslararası alana taşımak olmuştur. 1960'larda finanse edilen Eurodolar piyasaları, bazı aktörler için yeni fırsatların yanı sıra karmaşıklığa yeni bir katman eklemiştir. Doların Avrupa'ya akışı uluslararası finans piyasasında krediye dönüşmüştür. 1960'lı yıllarda doların pozisyonunun daha az güvenilir hale gelmesi nedeniyle çok fazla dolar biriktirmiş olan ülkeler altın talep etmeye başlamışlardır.

BWS, büyük güçler arasında barışı sağlamak olan ana hedefine ulaşmış olsa da ülkeler para birimlerini konvertibilite koşullarına göre ayarladıkça sistemin ekonomik yönü parçalanmaya başlamıştır. Bu dönemde ABD'nin küresel para sistemine müdahale mekanizması, BWS'nin uluslararası finans kuruluşlarının yanı sıra ülkelerle yardım paketleri aracılığıyla ikili ilişkileri olmuştur. En önemli yardım paketlerinden biri Marshall Programı'ydı.

Bu dönemdeki bir başka önemli parasal gelişme ise Eurodollar piyasalarının başlatılmasıdır. Bu piyasalar finansal aktörlerin savaş sonrası dönemde siyasi otoriteler tarafından dayatılan finansal sınırlamalardan bir çıkış yolu aramalarından kaynaklanmıştır. BWS'nin devamı için ana kural enflasyonu kontrol altında tutmakken, o zamanki uluslararası yapı içinde bunun ABD için imkansız olduğu ortaya çıkmış ve Avrupa ülkeleri durum hakkında giderek daha eleştirel hale gelmiştir. ABD Hazinesi'nden politika yapıcılar uluslararası sorumlulukları yerine getirmeyi savunsalar da o zaman Başkan Nixon uluslararası parasal düzenlemelerle ilgilenmemiş ve Nixon yönetiminin 1971'de altın penceresini kapatmasının ardından 1973'te dalgalı döviz rejimi kurulmuştur.

Altın penceresinin kapanması, devletler, finansal aktörler ve politika yapıcılar için yeni olanaklar açmıştır. 1970'lerde başlayan liberalleşme, Amerikan sisteminin kurumsal yapısı ile karakterize edilmiştir. Liberalleşen finansal dünya düzeni, esas olarak ABD'nin yararına olacak şekilde inşa edildiğinden, Amerikan devleti ve ABD Hazinesi gibi kurumlar ile IMF, Dünya Bankası gibi uluslararası kuruluşlar, serbest piyasa düzeninin genişlemesini artırmak için aktif aktörler haline gelmişlerdir.

ABD'nin politik olarak muhafazakar, ekonomik olarak neoliberal politikalara doğru yöneldiği bu dönemde dolar uluslarararası pozisyonunu korumuştur. Bu dönemde küresel finansın yörüngesi, doların rezerv para birimi statüsünü değiştirmese de ulusal ve uluslararası otoriteleri takip etmek yerine ağırlığını özel piyasalara kaydırmıştır.Özel finansal aktörlerin gücündeki artış, sonunda Amerikan devletinin gücünü de artıran siyasi kararların bir sonucudur.

Tezin dördüncü bölümünde, Fed takas hatlarının sistematik olarak kullanılmaya başlandığı 1962 yılından başlayarak, kullanımının durdurulduğu 1998 yılına kadar olan sürede takas hatlarının tarihi bir analizi yapılmaktadır.

Buna göre, Avrupa ülkeleri ABD öncülüğündeki BWS'nin yardımıyla savaş sonrasında rekabet güçlerini geri kazanırken, bu ülkelerdeki sermaye birikimi koşulları ve dünya ticaretinde değişen dinamikler ABD'de ekonominin istikrarını tehdit etmekteydi. ABD'nin dünya para biriminin ihraççısı olarak dolar sağlamak ve aynı zamanda doların altın cinsinden değerini korumak zorunda kalması, çözülmesi zor ve uzun vadede sürdürülmesi imkânsız bir çelişki yaratmaktaydı. ABD'deki politika yapıcılar, özellikle de Fed'in döviz piyasalarından sorumlu bir kolu olan New York Federal Rezerv Bankası'ndakiler, spekülatif davranışları istikrara kavuşturmak için döviz piyasalarına müdahale etmelerini sağlayacak yeni uygulamalar arıyorlardı. Ayrıca bazı Avrupa ülkelerindeki dolar rezervlerinin fazla olması, BWS kapsamında bu dolarların takasını talep edebilecekleri ve dolayısıyla ABD'nin altın stoğunun azalacağı anlamına gelmekteydi. Bu sebeple oluşturulan altın rezervlerini korumaya yönelik takas sisteminin mimarı, New York Federal Rezerv Bankası'ndan Charles Coombs'du ve Döviz Şubesi Başkanıydı. Burada, Fed'in yurt içi ekonomiyi yönetirken ve hangi politikaları izleyeceğine karar verirken bağımsız olmasına rağmen, Fed'in uluslararası arenada izlediği önemli para politikalarının ABD hükümetlerinin de onayını gerektirdiğini belirtmek önem arz etmektedir. Dolayısıyla uluslararası arenada Fed, siyasetin müdahalesinden muaf değildir, çünkü Federal Sistemin tasarımı, onun işleyişinde söz sahibi olan tüm farklı çıkarların taleplerinden etkilenmesine izin vermektedir ki Coombs’un 1960’lardaki politikaları bu bağlamda düşünülmelidir.

Charles Coombs 1962 yazında büyük Avrupa ülkelerini ikna etmek için bir Avrupa turuna başladı ve merkez bankalarının başkanlarıyla bir araya geldi. Avrupalı merkez bankaları bu tür düzenlemelerde yer almak istemese de yıl sonunda ABD tarafı onları Fed ile muhabir merkez bankaları arasında takas ağları kurmaya ikna etmiştir. FOMC’da yapılan tartışmalar, bunun olası bir altın akışına hızlı bir çözüm olarak acele bir plan olduğunu teyit etmektedir.

BWS'nin sonuna kadar ABD, dolar karşısındaki spekülasyonları önlemek ve altın kaybını sınırlamak için swap mekanizmasını etkin bir şekilde kullanmıştır. Ayrıca, bu ağ içerisinde merkez bankaları bulunan ülkelerin, bu uygulamanın herkesin yararına çalışacağı kanaatine vardıkları ve sistemin işleyişi içinde yer almayı tercih ettikleri söylenebilir.

Takas ağı ve işleyişi, başlangıcından BWS'nin sona ermesine kadar genişleyerek devam etmiştir. Bu dönemde değişim yapılan miktar 11,2 milyar dolar civarındadır ve Danimarka, Japonya, Meksika, Norveç ve İsveç gibi diğer merkez bankaları da takas ağına katılmıştır. Takas işlemi, vadesine kadar döviz kurunun değerini garanti ettiği bu dönemde yoğun olarak kullanılmıştır. Buna karşılık, merkez bankalarının istenmeyen dolar rezervlerini altınla takas etme teşvikinin olmadığı bir ortam yaratmıştır.

Takas mekanizması bu dönemde ağırlıklı olarak ABD tarafından kullanılmaktaydı; bu nedenle, kullanımı genellikle tek taraflıydı. ABD, diğer ülkenin para birimine ihtiyaç duyduğunda, takas mekanizmasını harekete geçirebilir, ihtiyacı olan dövizi temin edebilir ve spekülatif hareketlere karşı doların değerini korumak için döviz piyasasına müdahale edebilirdi. Esnek olması ve hızlı bir şekilde müdahale edilebilmesi gerçeği, takas hatlarının mekanizmasının spekülatif saldırılara karşı yardımcı olduğunu kanıtlamıştır.

Fed'in döviz kurlarını yönetirken ve ABD'nin altın rezervlerini korumaya çalışırken Hazine ile kurduğu bu yakın ilişki, bu dönemde de Fed'in bağımsızlığı konusunda sorun ve endişeler yaratmıştır. Ancak, acil çözüm bekleyen sorunun bu endişelerden daha önemli olması nedeniyle Fed ve Hazine 1990'lara kadar birlikte çalışmaya devam etmiştir.

Öte yandan, sabit döviz kuru sistemi her köşede alarm sinyalleri gönderdiği için sorun bundan daha kapsamlıydı. BWS artık iç ekonomik hedeflerin peşinde koşmak için uygun olmadığı ve Fransa ve İngiltere gibi bazı Avrupa ülkeleri dolar rezervleri karşılığında altın almak istedikleri için dolardan altına konvertibilite terk edildi. Ancak, altın konvertibilite politikasından vazgeçilmiş olsa da ve kullanım amacı çağın ihtiyaç ve gerekliliklerine uygun olarak dönüşüme uğratılsa da sonraki on yıllarda da swap hattı operasyonları devam edecekti.

Pratik bir politika aracı olmasının yanı sıra, Avrupa ülkelerini bu sisteme katılmaya istekli kılan itici mekanizmayı da değerlendirmek gereklidir. Amerikan tarafının gücü ve Batı Avrupa ülkelerinin Soğuk Savaş döneminde ABD'nin temsil ettiği ekonomik bloğa ait olması nedeniyle, büyük Avrupa güçlerinin merkez bankalarının takas ağına dahil edilmesinin sürpriz olmadığı sonucuna varılabilir.

Bu çağda takas hatlarının bir de Eurodollar piyasasına müdahale etmek ve istikrarı sağlamak için kullanıldığı görülmektedir. Ancak bu operasyonlar ABD dolarının ve uluslararası finans sisteminin yaşadığı sorunları gidermede yetersiz kalmış ve etkili bir çözümden ziyade tamamlayıcı bir çözüm olarakj kalmıştır.

1994'te Meksika'da yaşanan ekonomik krize nasıl müdahale edileceği ABD'de çeşitli fikir ayrılıklarına yol açmıştır. Clinton yönetimi ve ABD Hazinesi Meksika'ya kısa vadeli yardım verilmesi gerektiği fikrini desteklemiştir ancak plan Kongre tarafından reddedilmiştir. Bu durum, Fed'in merkez bankalarına takas hatları teklif etmesinin sembolik anlamı hakkında bir tartışma başlatmıştır. Fed takas hatlarının ahlaki tehlike yönünü tartışmaya açan bu tutum, o dönem Fed'in Hazine etkisi altında takas hattı açmasına engel olmasa da 1998 yılında takas hattı kullanımının sonlandırılmasında rol oynamıştır.

Beşinci bölümde, 2008 küresel finansal krizi sonrasında swap hatlarının kullanımı ve tarihsel dinamikleri ve yansımaları analiz edilmiştir. 2008 Küresel Finans Krizi, menkul kıymetleştirmeler de dahil olmak üzere özel araç mekanizmaları gibi oldukça riskli finansal araçların piyasaya sürülmesiyle 2007 yılında ABD yüksek faizli ipotek piyasalarında başlamıştır. Son derece güvensiz kredilerden oluşan ipotek piyasası, ABD finans piyasalarında panik yaratmış ve ardından bu panik tüm dünyada küresel finans piyasalara yayılmıştır. Fed ve Kongre ağırlıklı olarak ABD'nin bazı büyük kurumlarının kurtarılmasıyla meşgul olsa da diğer ülke piyasalarında da iflas ve likidite krizlerini önlemek için Fed'in hızlı hareket etmesi gerekmekteydi. Merkez bankaları takas hatları, bu süre zarfında durumun direncini azaltmak için en çok tartışılan temel araçlardan biri olmuştur.

2000 ve 2007 yılları arasında, dolar riski, Avrupa bankalarındaki yabancı risklerin yarısından fazlasına ulaşmıştır. Bu dönemde AB, İngiltere ve İsviçre bankalarının bilançolarında 8 trilyon dolar civarında bir dolar riski bulunduğu tahmin edilmektedir. Finansal kriz öncesinde ise bu bankalar ihtiyaç duydukları fonları para piyasalarından, merkez bankalarından ve döviz takas piyasalarından temin edebilmekteydiler. Ayrıca bilanço dışı hesaplarında önemli miktarda dolar riskine sahiptiler ve bu da dolar talep etmeleri için daha fazla baskı yaratmaktaydı. Bu nedenle, Avrupa bankaları da dahil olmak üzere ABD dışındaki bankalar, çok ihtiyaç duyulan ABD dolarını elde etmek için toptan piyasa finansmanına güvenmeye başladılar.

Tezde bu tartışmadan iki ana argüman geliştirilmiştir. Birincisi, ABD'nin küresel finans piyasalarını yönetme kapasitesinin görece azalması ki buna göre küresel olarak siyasi ve ekonomik meseleler üzerindeki etkisinin zayıflaması ABD'yi ikili ilişkilere ya da kendi seçeceği çok taraflı ilişkilere yönlenmektedir. İkincisi, ABD'nin küresel bir son kredi mercii (LLR) olarak hareket ettiği argümanlarının aksine, kanıtlar Fed'in kendi yerel parasal değerlendirmelerine odaklandığını göstermektedir.

2008 krizinin etkilerini hafifletmek ve dolar likiditesi sağlamak için başlangıçta, üzerinde anlaşılan miktarlar Avrupa Merkez Bankası (ECB) için 20 milyar dolar ve İsviçre Merkez Bankası (SNB) için 4 milyar dolardı. Ardından, gelişmiş ekonomilere sunulan takas hatları çoğalarak toplamda 10'a ulaştı. Yeni gelenler ise Kanada Bankası, Avustralya Merkez Bankası, İsveç Merkez Bankası, Danimarka Merkez Bankası, Norveç Merkez Bankası ve Yeni Zelanda Merkez Bankası idi. 2008'in başlarında yaşanan kısa süreli bir rahatlamanın ardından Eylül 2008'de, Lehman Brothers'ın çöküşünden sonra takas hatları yoluyla sağlanan toplam miktar 620 milyar dolara ulaşmıştır. Buna ek olarak, Fed tarihinde ilk kez dört gelişmekte olan ülkenin merkez bankasına takas hatları genişletilmiştir: bu bankalar Brezilya Merkez Bankası, Meksika Merkez Bankası, Kore Merkez Bankası ve Singapur Merkez Bankası'dır.

Fed, takas hatlarının gelişmekte olan ülkelere yaygınlaştırılmasının onaylanmasının arkasındaki mantığı üç gerekçeyle açıklamıştır. İlk olarak, bu ülkelerin tümü çok önemli finansal kütleye sahip finansal piyasalar geliştirmiştir. İkinci gerekçe, bu ülkelerin istikrarlı ekonomi politikalarının liberal ekonomik düzen ve Fed'in tercihleri ile uyumlu olduğudur. Üçüncü nokta, takas hatlarının genişletilmesinin bu ülkelerdeki stresi hafifletmeye yardımcı olacağıdır.

Takas hatları aracılığıyla tahsis edilen miktar, Aralık 2008'de yaklaşık 580 milyar dolar ile zirvedeydi ve bu, Fed'in bilançosunun yaklaşık üçte birini kapsamaktaydı. Swap hatlarının yaygın kullanımı 2010 yılında sona ermiş olsa da,,Euro Bölgesi krizinden sonra önemli adımlar atılmıştır. Zira, Euro Bölgesi krizinden kısa bir süre sonra, piyasa katılımcılarının yaşadığı stresi azaltacak bir tür mekanizmanın olması gerektiği bir kez daha ortaya çıkmıştır. Krizle boğuşan bir küresel finans sisteminde bu mekanizmaya hızlı yanıt verebilmek için ciddi bir ihtiyaç olduğu açıktı. Bu nedenle, Kanada Merkez Bankası, İngiltere Merkez Bankası, Japonya Merkez Bankası, ECB ve SNB kalıcı takas ağının bir parçası haline getirilmişlerdir. Fed bu haberi, amacın "swap hatlarının finansal piyasalardaki baskıları hafifletmeye ve ekonomik koşullar üzerindeki etkilerini azaltmaya yardımcı olması" olduğunu söyleyerek duyurmuştur.

2013 yılında ise Fed'in dünya piyasalarındaki rolü ve takas hattı ağında önemli bazı gelişmeler yaşanmıştır. Bu yıl, Fed'in 2008'den beri sürdürdüğü Niceliksel Genişleme (QE) programının sonunu ilan ettiği yıl olmuştur. Daraltma uygulaması ile para bolluğu sona erecekti ve ABD'nin en stratejik ortakları gelecekteki bir dolar likidite krizi ile karşı karşıya kalacaktı. Artık daha kırılgan hale getirilen bir sistemde piyasadan borçlanma da sıkılaştırılmıştır. Bu dönemde ABD, 2011 yılında devreye giren ve AB, İngiltere, Japonya, İsviçre ve Kanada merkez bankalarını da içeren takas hattı ağını kalıcı bir krediye dönüştürdüğünü duyurmuştur. Aralık 2020'de Covid-19 pandemisi sağlık tehdidi olarak belirlendiğinde, finans piyasaları başta uluslararası medya olan ABD Doları olmak üzere para akışında sorun olmayacağına dair işaretler aramıştır ve Fed’in bu dönemlerdeki rolü LLR rolü üzerine tartışma başlatmıştır.

Ancak Fed’in partner ülke seçimleri ve iç ekonomi dinamiklerine öncelik vermesi takas hatlarının LLR rolünü güçlendirdiğine dair güçlü bir dayanak sunmamaktadır. Öncelikle, Fed'in gelişmiş kapitalist ülkelerle ortaklığı, İkinci Dünya Savaşı'nın sona ermesinden bu yana pek değişmemiştir. Fed takas hatlarını alan ülkeler, esas olarak, ABD finans kurumlarının temel özelliklerini paylaşmaktadır.

Ayrıca, ABD ile daha yakın siyasi uyum, Fed'den bir takas hattı alma şansını artırmaktadır. Swap hattı alan gelişmekte olan ülkelerin özellikleri incelendiğinde, ABD'nin stratejik öneme sahip gelişmekte olan ülkelerle ilişkisini güçlendirmeyi hedeflediği sonucuna varılabilir.

Buna ek olarak, Covid-19 salgını sırasında aktive edilen takas hatlarının sadece uluslararası piyasalara ve yabancı merkez bankalarının etki alanına rahatlama sağlamadığını göstermektedir. Bu takas hatlarını genişletirken, Fed denizaşırı getirileri manipüle edebilmiştir. Bu sayede kredi akımlarını yeniden yapılandırmış ve sermaye ABD piyasalarına geri dönmüştür. Benzer şekilde ABD merkezli yabancı bankacılık kuruluşları da şok yaşamış ve iç piyasada kredi ihtiyacı artmıştır. Bu nedenle, Fed geçici ortaklarına takas hatlarını açtığında ve kalıcı takas ağının koşullarını iyileştirdiğinde, bu yabancı bankacılık kurumları ana şirketleri aracılığıyla likiditeye erişebilmişlerdir. Sonuç olarak, Fed kapasitesini ABD piyasalarına da likidite sağlamak için kullandığından, takas hatlarının sağlanması sadece uluslararası boyutlara sahip değildir.

Bu tezin sonuç bölümünde, 1960'larda ve 2000'lerde takas hatlarının kullanılmasının, Fed'in kapitalist sistemin karşılaştığı sorunları çözmek için kullandığı yeni yolları gösterdiği iddia edilmektedir. BWS kapsamında uygulanan finansal baskılama politikaları altında ABD, doların bel kemiği olduğu BWS'nin parasal yapısını savunmak için gelişmiş kapitalist ülkeleri takas hattı ağına katılmaya ikna edebilmiştir. Bu sayede, ABD bir yandan bu ülkelerin para birimlerine ihtiyaç duyarken, diğer yandan sistemin tek koruyucusu olarak ve bu ülkelerle işbirliği içinde sabit kur sisteminin çelişkilerini yönetebilmeyi başarmıştır. 2008 sonrasını anlamak için ise, öncelikle bu dönemde finans sisteminin çok genişlediğini hatırlamak gerekmektedir. Bu ortamda takas hatları, gelişmiş kapitalist ülkelerin ABD dolarına duydukları ihtiyacı karşılamak için tersine işlemeye başlamıştır. Bu tezde yapılan analiz, alıcılar sorununa ilişkin karar verilmesi sürcinin hem siyasi hem de ekonomik olduğunu göstermektedir. Ancak, Fed’in küresel finansal piyasaları bütün olarak düzenleyen uygulamalardan belirli ülkelerle takas uygulamaları yoluyla giderek ikili kurtarma operasyonlarına kayması, Fed'in finansallaşmış kapitalizm içinde gideren sınırlanan kapasitesine işaret etmektedir. Finansal piyasalar ABD doları etrafında dönse ve bugüne kadar ABD devletinin finansal hegemonyasını korumuş olsa da, finansallaşmış kapitalizmin kapsamı çok geniş ve çelişkilidir. Bu ortamda ABD daha ziyade müttefik ülkelerin yaşadığı baskıyı ve stresi hafifletirken, ağın parçası sayılmayan ülkeler başka çözümler bulmak zorunda kalmaktadır.

Sonuç olarak, küresel kapitalizmin finansal olarak hala en güçlü ülkesi olarak ABD, küresel finans arenasının kurallarını kendi çıkarlarına en uygun şekilde şekillendirirken, aynı piyasanın değişen dinamikleri kendi kapasitesi ve müdahale araçlarını da dönüştürmektedir. Bu tez, iki temel konunun altını çizmiştir: birincisi, takas hatlarının kullanımının tarihi, ABD’nin uluslararası borç verme mercii görevini yerine getirmekten ziyade, her zaman kendi özgül devlet çıkarlarına uygun hareket ettiğini göstermektedir; ikincisi, ABD’nin takas hatları ile sisteme müdahale edebilmesinin koşulları, küresel kapitalizmin değişen dinamiklerine paralel olarak zaman içerisinde değişmiştir.

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