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NOMI PRINS

MONEY AND POWER IN THE TWENTY-FIRST CENTURY: FINANCIAL CRISIS, CENTRAL BANKS COLLUSION, AND RAMIFICATIONS FOR THE UNITED STATES, CHINA, AND BRAZIL

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2020

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Tese submetida ao Programa de Pós-Graduação em Estudos Estratégicos Internacionais da Faculdade de Ciências Econômicas da UFRGS, como requisito parcial para obtenção do título de Doutor em Estudos Estratégicos Internacionais.

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Porto Alegre, November 12th, 2020.

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To my father, Jack Prins, who passed away on October 9, 2019, for his love and inspiration.

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ABSTRACT

This dissertation aims to shed light on how money and power relationships serve to decrease democracy, transparency and equality, and to provide a deeper understanding of how central banks have impacted political, banking and economic events particularly with respect to the United States, China and Brazil, as well as increased the gap between financial markets and the real economy. Thus**,** this dissertation seeks to provide a better understanding of the relationship between money and power in the twenty-first century, and the rising power of central banks in that realm. In particular, the specific goals of this work are to revise the literature of money and power in the field International Political Economy (IPE), so that we can identify where this research fits; to understand the historical connections between politicians and bankers, using the United States case as a model; to understand how the central banks of the United States, China, and Brazil have colluded against the common man; to understand whether or not the central banks in a specific sample of less developed countries are different (or how differently they have behaved) and to show how central bank power manifested a shift in the power hierarchy of politicians and nations. To research this subject, this dissertation first examines the literature focused on money and power, then it moves on to analyzing the historical nature of money and power in the United States as it connects with the banking sector, and with respect to and how that pertained to American domestic and international influence during the twentieth century. The dissertation continues this thread through the twenty-first century, while also shifting focus to the relationships between money and power and central banks specifically in the United States, China and Brazil, and concludes by noting the permanent distortion between the real economy and the financial markets that has resulted.

Keywords: Money. Power. Central Banking. United States. China. Brazil. Stock Market.

RESUMO

Esta tese tem como objetivo lançar luz sobre como as relações de dinheiro e poder servem para diminuir a democracia, a transparência e a igualdade, além de fornecer uma compreensão mais profunda de como os bancos centrais têm impactado eventos políticos, bancários e econômicos, particularmente com relação aos Estados Unidos, China e Brasil. Estes aumentaram a distância entre os mercados financeiros e a economia real. Assim, esta tese busca fornecer uma melhor compreensão da relação entre dinheiro e poder no século XXI, e o crescente poder dos bancos centrais nesse âmbito. Em particular, os objetivos específicos deste trabalho são revisar a literatura sobre dinheiro e poder no campo da Economia Política Internacional (EPI), de forma que possamos identificar onde esta pesquisa se encaixa; entender as conexões históricas entre políticos e banqueiros, usando o caso dos Estados Unidos como modelo; para entender como os bancos centrais dos Estados Unidos, China e Brasil entraram em colusão contra o homem comum; para entender se os bancos centrais em uma amostra específica de países menos desenvolvidos são ou não diferentes (ou como eles se comportaram de maneira diferente) e para mostrar como o poder do banco central manifestou uma mudança na hierarquia de poder de políticos e nações. Para pesquisar este assunto, esta dissertação primeiro examina a literatura focada em dinheiro e poder, em seguida, ela passa a analisar a natureza histórica do dinheiro e do poder nos Estados Unidos em sua conexão com o setor bancário, e com respeito a como isso diz respeito tanto à influência doméstica como internacional dos EUA durante o século XX. A tese continua esse fio ao longo do século XXI, ao mesmo tempo que muda o foco para as relações entre dinheiro e poder e bancos centrais, especificamente nos Estados Unidos, China e Brasil, e conclui observando a distorção permanente entre a economia real e a financeira mercados que resultaram.

Palavras-chave: Dinheiro. Poder. Banco Central. Estados Unidos. China. Brasil. Mercado de ações.

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1 INTRODUCTION

The inextricable link between money and power has generated a growing economic fragility, that is a direct result of decisions and actions made by people in power as to how and where money flows. This widening void between financial markets and the real economy has been exacerbated by the rising power of central banks during the 21st century and the unlimited capability of major central banks, such as the Federal Reserve, to manufacture money. This very power, in turn, not only increases inequality within and between nations, but it enables private banks and financial speculators to act in riskier ways because of this implicit central bank safety net which leads to the inflation of financial asset bubbles. Overriding central bank power has rendered certain governments less likely to invest in their real economies and citizens and instead focus on their financial markets and the associated capital flows.

Finally, as a result of this new central bank power to create excess money as a substitute for fiscal policy that would grow economies more sustainable, two major global political re-alignments have occurred. The first has been the rise of leaders that preach populism and isolationism. The second has been an international fight between the United States and China for global hegemony, favoring the rise of China. This dissertation will show that these manifestations are a direct result of unprecedented central banks actions, that serve to diminish the strength of the real economy and concentrate power at the top.

As a result of its heightened and external influence on the financial markets and private banking system, the Fed and its allies created a permanently shaky monetary system in the wake of the financial crisis of 2008, destined to collapse without their constant, continual manipulation. Given the dependency with which governments and private banks and corporations have come to rely on their unlimited ability to manifest trillions of dollars' worth of electronically produced money, the moral hazard of future financial bubbles and their negative ramifications on the real economy increased considerably. This was acerbated by political decisions to enact austerity measures that hurt populations.

This dissertation was motivated by the desire to shed light on how these money and power relationships serve to decrease democracy, transparency and equality, and to provide a deeper understanding of how central banks have impacted political, banking and economic events particularly with respect to the United States, China and Brazil, as well as increased the gap between financial markets and the real economy. To research this subject, this dissertation first examines the literature focused on money and power, then it moves on to analyzing the historical nature of money and power in the United States, with respect to and how that

pertained to American domestic and international influence during the twentieth century. The dissertation continues this thread through the twenty-first century, while also shifting focus to the relationships between money and power and central banks specifically in the United States, China and Brazil. The material in the second chapter draws heavily on the author's books, All the Presidents' Bankers, It Takes a Pillage and Other People's Money, whereas the material in the third chapter uses the research and arguments developed by the author in writing her book Collusion. Chapters 4 and 5 carry the ideas and arguments developed in these works to the current period. The author retains all rights to all material contained within her books.

As a consequence, the overarching question to be answered by this research is the following: Have central banks become the new twenty-first century power brokers in response to broadening their influence due to financial crises that inherently destabilize the global economy? Our hypothesis is that central banks have indeed become the new powerful brokers. As we seek to show in this dissertation, the historical connections between private bankers and politicians that drove the rise of American power, gave way to the establishment of the world's most powerful central bank, the US Federal Reserve, during the twentieth century. During much of the twentieth century, the Federal Reserve played a subservient monetary policy role relative to the power of banks and presidents. However, during the twenty-first century, in response to two major crises, the Federal Reserve exceeded its prior role and mandates and became the backbone for the banking system and financial markets, colluding with other central banks in the process, to the detriment of the global economy and, in particular, emerging nation economies. Although it is not the subject of this dissertation, this also led to a shift in political preferences toward isolationism and populism, which gave rise to trade wars, that were also connected to currency wars, and shifted the global hierarchy such as to propel China to achieve more equal status relative to the United States.

Thus, this dissertation seeks to provide a better understanding of the relationship between money and power in the twenty-first century, and the rising power of central banks in that realm. In particular, the specific goals of this work are to revise the literature of money and power in the field International Political Economy (IPE), so that we can identify where this research fits; to understand the historical connections between politicians and bankers, using the United States case as a model; to understand how the central banks of the United States, China, and Brazil have colluded against the common man; to understand whether or not the central banks in a specific sample of less developed countries are different (or how differently they have behaved) and to show how central bank power manifested a shift in the power hierarchy of politicians and nations.

The methodology employed includes reviewing the literature, discussing official documents, and mainly building a panoramic view of the events narrated by the media. Since the EPI literature does not tackle financial markets, and our work reports many recent events that have not been dealt with by the literature so far, we had to rely on the news and certain second-hand data to illustrate our arguments and provide a link to primary sources (see Appendix). They are based on the composite evaluation of these sources mainly as they relate to events that have transpired during the historical periods encompassing the 20th century until the present time for chapters one and two, with an emphasis on the major 21st century financial crises periods for the remaining chapters. The conclusions are also based upon the author's professional experiences in the field of international banking for more than a decade and a half, and as a writer and journalist since 2002.

The work is organized into seven main sections, including this introduction and the conclusion. The second chapter addresses five issues related to the dynamic relationship between money and power. The first element examines how money and power have been considered in the broader literature. The second part discusses these two topics from the standpoint of IPE. The third component discusses broader innovations in the field. The fourth section explores the full integration of money and power into analytical frameworks. The fifth part investigates the role of central banks with regard to money and power.

In the third chapter, we examine the relationship between money, as represented by private bankers and their banks, and power, as wielded in its political form by the United States government. We specifically consider the impact of the relationships between bankers and presidents and Treasury Secretaries on the rise of United States' power through the 20th century, as well as the key economic, domestic, and foreign policy ramifications of these interactions during that century's main crisis periods, from the panic of 1907 and crash of 1929 through the financial crisis of 2008.

The focal point of the fourth chapter is to analyze the new power role that central banks played in the formation of the pre-crisis bubble through the post-financial crisis of 2008 period, or what is called here "Phase I" of central bank expansion. We examine how the global collusion of central bankers took place as they orchestrated the creation and circulation of "conjured or fabricated" money through various methods. This impacted political decisions, economies, and power around the world. Our research suggests that, despite promises that these unprecedented central bank policies would save the real economy, their monetary support to banks and markets increased inequality, magnified debt, ushered in isolationism, and led to a global power

hierarchy shift regarding the two super powers, the United States and China, and the largest, emerging market nation, Brazil, caught in between.

Chapter five will show how the period between the middle of 2019 and the beginning of 2020, or what we refer to as "Phase 2" of central bank power expansion, marked a point of no return for the reliance of banks, markets, and governments on that intervention. It will reveal how what began as an "emergency" rescue mission of the US banks during the financial crisis of 2008 evolved into a lasting international monetary cushion. The hazards of this money creation caused countries to reexamine their relationship with the United States. Non-Western powers like China took the opportunity to reconstitute their global power status. Other nations gravitated toward China for financial refuge and loans, seeking new trade relationships that limited exposure to the US. The chapter will also examine how the start of the coronavirus pandemic intensified existing frictions between nations, as well as economic instability.

The sixth chapter will expand upon the main threads of the research, as they have been catalyzed by the coronavirus pandemic crisis, and meshed together so as to benefit those in power, and work to the detriment of the economic security of average citizens everywhere. Here we also discuss some alternatives to such extreme monetary measures – such as focus on foundational economic development instead of supporting the existing bank and financial market system.

Finally, the conclusion will summarize the vast changes in money and power that the 21st century rise of central bank power triggered. It will also present avenues of future research that should be conducted in order to gain a more thorough understanding of this impact on the real economy and its disconnect from the financial markets.

2 MONEY, POWER, AND CENTRAL BANKS: A LITERATURE REVIEW

The strong ontological relationship between money and power has existed for centuries (Beck et al. 2016; Singh 2018). On the epistemological side, scholarly works about money and power have also a long history. However, most of the time, these two objects have been treated separately as if they come from two completely different realms, with one belonging to the economy and the other to political hierarchy[1]. Yet, the intellectual interest in the link between them, understood as a legitimate intertwined phenomenon, is more recent. This is even more apparent when one considers the international dimensions and implications of this relationship. The field of International Political Economy (IPE) was developed in the 1970s, to a large extent, in order to combine the political and the economic forces that shape the structure and dynamics of the international order (or disorder, depending on how one looks at it) into a single discipline. This ran contrary to the dominant Realist view in international relations at the time, and its approach centered on the behavior of national states.

Indeed, the symbiotic, but nonetheless hierarchical, as Brazil, China, and other developing nations are being constantly taught, connection between money and power was one of the factors behind the rise of IPE, particularly given the context of increased challenges to the Bretton Woods arrangements that had been established in the wake of World War II. Nonetheless, some more recent developments in the functioning and role of the international monetary system and its impact on money and power relationships apparently cannot be properly addressed by the many theoretical approaches developed by IPE scholars over the past four or so decades. For example, the excessively risky practices of large multinational banks, ascension of China and its currency, the shifting geography of multilateral financial institutions, the enduring dependence on the dollar, the increased independence and scope of activities of central banks – that many times run the world without democratic accountability, financialization, and more acute financial and credit crises, among many others. How can one evaluate how appropriate the prevailing approaches are in light of those changes? And to what extent could they be absorbed without substantially changing the theories of monetary power and influence?

Although it is beyond of the scope of this chapter to provide definite answers to these questions, it does aim to identify recent developments in the relationship between money and

[1] This chapter is about IPE, since it deals with power, but economics in general also deals with money, and heterodox scholarship has provided integrated treatments of money, finance, and the real economy, the subject of the next chapters.

power that have not been dealt with properly by the existing approaches but nonetheless need to be taken into account given their critical impact on the world's economies. Another issue missing in most discussions, or treated only tangentially, is the role of central banks and their political, as much as their economic and financial, relationship with banks and other financial institutions, as well as their growing power over financial markets, domestically and abroad. Most works tackle the question of money and power by assuming a direct monetary management by central governments, understood as a homogeneous or monolithic entities. Yet, banks, and therefore central banks, have a complex relationship with central governments, as the next chapters suggest.

This second chapter provides a panoramic literature review about money and power in the field of International Political Economy (IPE). Our intent is to provide scope rather than depth in the exploration of money and power in this light. Instead of focusing on a few seminal works, the goal is to provide a broad overview of the wide variety of existing approaches. The scope of the issues discussed here receives more emphasis than the depth does. Most academic research on money and power in IPE can be classified mainly in terms of broader themes, such as different manifestations of monetary influence. Of course, academic works tend to reflect the prevailing economic, political, financial, social, and cultural conditions of their time, and an inquiry based on a chronological ordering of those contributions would produce a similar outlook as the thematic exposition. This chapter adopts a mixed approach, following a more or less chronological sequence, but one that's interspersed with thematic interventions. A secondary goal of this chapter is to identify, in the more general sense, important gaps and difficulties related to the current body of research that will be carried out in chapters 3-6 of this dissertation.

The discussion below is organized as follows. The first section presents a few important definitions that will be used throughout the rest of the chapter, providing limits when the subject of this research is considered. Section two engages with works that, despite dealing with issues of money and power, often separately or not completely, are not considered part of the IPE tradition. The goal is to sort out the ontological importance of money and power that is reflected in the epistemological construction, but not always clearly. Next, the original IPE contributions and the associated research on money and power is reviewed. The fourth section emphasizes the more recent contributions as the field matured and consolidated itself. Section five approaches the works that underscore the role played by banks and central banks and offers a typology to identify more precisely our contribution to the existing analytical frameworks. The final section concludes by providing a few preliminary remarks.

2.1 MONEY AND POWER: DEFINITIONS AND CORE ISSUES

Money has been defined in many different ways over time. In economics, the definition offered by Hicks (1967) is perhaps the most widely used. He defines money as everything that performs three functions: means or medium of exchange, unit of account or measurement of values, and store of value. In one of the founding approaches to IPE, Cohen (1971, 2013) extends Hicks' definition to the phenomenon of currency internationalization. In the international currency hierarchy, only the most powerful ones are internationalized. In his definition, an international currency must play all the three basic monetary functions not only at home, but also abroad. Less powerful currencies perform only part of those functions.

Another definition that has become popular due to its recent political controversies is the one provided by the so-called Modern Monetary Theory (MMT) or chartalist view (Kelton 2020; Tcherneva 2006; Wray 2015). This approach relies on the seminal work of Georg Friedrich Knapp, The State Theory of Money. In the chartalist view, money is considered a creature of the state, defined by the state in terms of tax collection needs. That is, money is created by the sovereign state when it limits what can be accepted for tax payment by citizens, that is, the very currency it issues. Yet, the MMT discussion delves into the accounting identities of the economy, focusing on the relationship between fiscal and monetary policies against the background of an economy that is prone to unemployment. It doesn't tend to take into account financial markets' behavior or re-action to varying degrees of monetary policy intervention. Interestingly, despite the emphasis on states and governments, power does not figure prominently in the MMT discussions, nor do financial markets. It is argued for example that monetary sovereignty (issuing debt to finance deficits and monetizing it by the central bank using the currency it can create in a monopolistic way) increases the autonomy of governments to promote full-employment against financial market vetoes. But this autonomy is mainly domestic in political terms and doesn't take into account the global nature of equity or credit or other financial asset markets[2]. As it is argued below, the domestic chartal currency can still be subject to the monetary power of other states in international monetary relations, regardless of central government plans.

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[2] MMT focuses on money creation to pay for wages and public works, not to boost financial institutions' balance sheets. Yet, in practice, CBs create money that flows into the markets that do not consider any government targeted purposes, thus creating a wider gap between financial markets and the real economy in the process, and between developed, more powerful countries with more powerful CB's relative to peripheral ones.

The chartalist view has been employed to evaluate currency rivalry (or "wars") in the international monetary system. Fields and Vernengo (2013), for example, argue that it is the chartalist nature of money that explains the hegemony of the U. S. dollar in the international monetary system and the lack of viable contenders like the Euro[3]. On the other hand, the Euro, being a supranational currency, has even more political elements than single-nation territorial currencies. This allows one to define money as a political instrument for achieving non-economic ends. However, an analysis based on the Hicksian definition or on the chartalist view misses the manner in which international power is central to the definition of a monetary relationship. A common currency implies a higher level of interdependence between the issuing countries ,which can in turn cause either strengths or weaknesses depending on that nature of that interdependence. This underscores many key power asymmetries and difficulties, like the German role in managing the common currency. Germain and Schwartz (2014), unlike McNamara (2008), argue that the Euro is not a rival on a leveled ground with the U. S. dollar. And this is due mostly to economic capacity more than political or social reasons. The existence of a causal relationship that underpins monetary power analyses is provided by Henning (2004). The author criticizes the narrow regional focus of most studies about the Euro and argues in favor of a more international power relations approach, since there seems to be a strong interdependence that transcends the European Union. For instance, he shows that European institutional monetary arrangements depend on the behavior of the United States. When the latter behaved in a stabilizing way regarding the international monetary system, Europe backpedaled on its integration process. Yet, when the United States disrupted the system, the regional integration impetus accelerated as a way to hedge against such external tensions. This is the standard (and narrow) monetary relational power analysis, when one agent changes its behavior solely because of its monetary relationship with another agent (this definition is discussed below).

With respect to the examination of how monetary power by private actors can alter the decisions of states and governments, McNamara (1998) argues that the flow of capital, or capital mobility in general, constrains the autonomy of states. In Europe, this meant abandoning autonomous monetary policies. The key reason, she claims, are that the ideas: monetarism, and the German variety of it in particular, won over the Keynesian view of active and autonomous

[3] Comparisons of the relative political and economic strength of a currency, or monetary rivalry, are a favorite topic of research in IPE (Cohen 2015, McNamara 2008). McNamara (2008) suggests that, on economic grounds, the Euro has the potential to rival the U.S. dollar. But it is not sufficiently powerful politically and socially to warrant a more competitive global position. Of course, the rivalry issue has been attracting the attention of writers not belonging to the IPE tradition (Bowden 1979).

monetary policy. Thus, when it comes to monetary power, international financial actors played a more fundamental role, but domestic interests were not as dominant in her account. It seems reasonable to assume that central banks at the time, if not pushing for the monetarist worldview in which changes in money supply impact inflation, and of course excluding the Bundesbank in this regard, just accepted the changes passively. On the other hand, Oatley (2007) argues that domestic interests played a more important role. To achieve political coalition stability, parties adopted a pro-price stability stance, and a defense of central bank independence. Capital mobility was not empirically important.

In the consideration of power, mainly state power, this concept has been the cornerstone of international relations scholarship (Cohen 2015; Finnemore & Goldstein 2013). In the Realist tradition, for instance, it is assumed that power is an attribute of the state. Power is ubiquitous, but, according to Cohen (2015a: 28), "the concept is remarkably underdeveloped in formal theoretical terms". It is context-dependent. A very important distinction between two kinds of power was proposed by Strange (1988)[4]. She classified power either as relational, when, in a bilateral or direct relationship, one agent forces the other agent to behave in a way that she would not do otherwise without that pressure, and structural, when one agent shapes and determines the structure of the global economy where other agents and institutions operate. That is, structural power is the capacity to set or influence the feasible choices of other agents, determining behavior in an indirect way.

Cohen (2016) criticizes Strange's contribution to the definition of power as lacking originality. He also contends that the concept of structural power is ambiguous and incomplete. In his view, the concept of structural power is based only on influence or control. He offers a complement; the capacity to influence without being influenced or, in other words, autonomy. That is, a policy space or independence. State may not influence others but are nonetheless powerful if they cannot be influenced as well. Cohen (2015a) claims that, in observing monetary power, autonomy is all that matters. In this work, power is therefore understood as capacity to influence, control, coerce, and not being subject to the same external forces, to the same degree or to a lesser degree.

Given the above definitions, the challenge of IPE is to understand money and power as intertwined dimensions of international relations. The separate treatment of these two social phenomena has many limitations, not least of which is to isolate them in an increasingly

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[4] Due to her career as a journalist, Susan Strange had the innate ability to present complex economic concepts in a clear manner.

financially globalized world. For instance, the approach of emphasizing that power as a feature of the state (Finnemore & Goldstein 2013), restricts power to activities with political or military ends and excludes financial or economic ones. However, power is also an economic phenomenon, exercised in many transactions as well as the international financial markets, such as buying and selling labor services when the seller has insufficient market power, or enough money, to rival that of the buyer. Employers with money to hire can exert economic power over their workers. Politicians have the political power to regulate businesses, but they can also receive money from those businesses to behave favorable to them. In markets characterized by monopoly or reduced competition, sellers have power over pricing, absent other factors which will be discussed further on in this dissertation.

Money is an instrument for exercising economic power, and those that have more money possess a power advantage, in terms of control, over those that do not. The growing financial dominance discussed by IPE scholars (Cohen 2016) and the consequent increased ruling of political and economic affairs by financial institutions suggest that power is also a feature of economic actors and financial markets that surround them. It cannot be considered an exclusive feature of states. Historically, there have been shifts in terms of power balance between political and economic actors. The evolution is clearly non-linear. For example, Cohan (2016), not Cohen (2016), claims that Goldman Sachs, by controlling money, finance, and governments, is in a position to run the world, at least the western world. But could they have their way without an autonomous (or independent)[5] central bank? Granting autonomy or independence to central banks is a political decision[6]. Yet, money is clearly also political and an element of many political relations between states and within states. As Cohen (2000: 91) claims, "(...) currencies could not be relegated to the "low politics" of technical economics alone. Money is inherently political, an integral part of the "high politics" of diplomacy too".

By the same token, political power can be used as a tool to obtain money or economic power, for instance when one country invades another one by military means to gain control over natural resources. They are intertwined. In the international sphere, the relations are limited to states and transnational organizations. These are the agents of power, exercising it or being subject to it. National frontiers may have become blurred, but nonetheless must be considered.

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[5] An independent (from democratically elected governments) central bank is less accountable to the legitimate political authority. And therefore has full autonomy to define its goals, not only intermediate targets and the appropriate tools. An autonomous central bank can be accountable to democratically elected governments, but retains operational freedom to define its tools and intermediate targets.

[6] Just like Helleiner (1994) argues that the decision to liberalize financial markets was not imposed by market and technological developments, but was the outcome of a chain of political choices, central bank independence shares the same explanation.

This means that governments must be consulted or influenced in most situations of international expansion (political or economic). But that said, the flow of capital, which can sometimes find ways to transcend physical borders, can further fracture those lines, as can monetary policy that "over-produces" capital in some countries vs. others.

2.2 MONEY AND POWER: NON-IPE WORKS

Identifying specific works belonging to an intellectual tradition that deals with a particular subject, following a set of procedures that define that very tradition, is not always simple. For instance, if in a bibliographical search for works tackling a given subject of interest, one considers only the themes researched that are identified by title, keywords, or abstract, these topics might characterize to a large variety of approaches that not identifiable at first. The approach itself is usually not part of the title, and may not be explicit in the abstract. In terms of IPE, a requirement for our purposes is that money and power are treated in an integrated way and in an international setting, as seen in the contributions in Oatley and Winecoff (2014) or in Andrews et al. (2002). Yet, sometimes works that satisfy these conditions may not be fully identifiable and thus difficult to find.

When deliberating the overarching theme of this dissertation, that money and power are inextricably linked, it is worth noticing that long before IPE was created as a specific discipline (or a sub-discipline of International Relations), money and power had already been a topic of intellectual interest, but not always by means of an integrated treatment, nor fully considering the international implications. So, dealing with money and power itself, is not sufficient to define a work as belonging to IPE. The opposite is also true. On the one hand, IPE was developed in response to the economic and political context in the late 1960s and early 1970s– with the political defeat in Vietnam, the emergence of Germany and Japan as economic rivals, OPEC's first oil shock, major private banks seeking regulatory independence – and particularly, the disintegration of the Bretton Woods monetary order and the challenge to the dollar figuring as fundamental challenges to the U.S. hegemony. Yet on the other hand, many important subsequent works in IPE have not dealt with issues involving the juxtaposition of money and power. This is particularly valid when examining important critical IPE authors such as Robert Cox and Stephen Gill, working within a neo-Gramscian perspective, who have not dealt with money and power. Important exceptions in the critical tradition, which reinforces the first point, that is, that money and power interpretations are not necessarily found under the IPE label, are

the works of Arrighi (1994)[7] and Bonefeld and Holloway (1995). That is, adopting an IPE approach is not enough to encompass all economic and political issues pertaining to international relations that are amenable to a unified treatment, and not even necessary to study money and power.

After IPE was consolidated as a specialized field of knowledge, the question of money and power continued to receive attention from non-IPE writers, sometimes even with a more or less articulated approach. This is probably because the keywords 'money' and 'power' are attractive in themselves, constituting two goals of many individuals, groups, institutions, and countries. Therefore, they always create curiosity and have an enormous editorial appeal. Again though, this does not mean that works that seemingly seek to address these connections for a specific historical or geopolitical situation are indeed about international money and power as a unified theme, that is, international monetary relations, or if they are, that they encompass all of the intricate points of inter-dependence of money and power. By the same token, IPE works about a unified treatment of international money and power that do not emphasize these two concepts, might be neglected in a search using such all-encompassing strings. This is important to identify the relevant specialized works for this research in a broader search for subjects that hold vast global interest. The brief discussion below highlights these points, so that we can gain a better perspective of where, both in the broad and in the specific literature, this research fits.

Contemplating the first class of studies, that is, those with keywords in the title, but treated separately or not international in scope, Kindleberger (1970) summarizes the title of his book by two separate chapters. They do not stand out relative to other subjects covered in the work, like trade, aid, migration, imperialism and so on. It is therefore an editorial choice, not an academic one. Thus, this work is not truly about money and power presented as two elements of a complex structure, despite the international setting chosen by the author. Like Kindleberger, Ferguson (2001) also points, in the title of his book, to a central relationship between money and power. But the former has a limited role is his historical account. He tackles the question of money only to criticize money printing by states, associated with debt default and debasing the value of currencies. Thus, we have a second category of work, in which money and power exists only in the title but not in the specific contents. A review of this work cannot even

[7] Central Banks (CB) have become more powerful as a result of crises and their enhanced lender of last resort function, which has precipitated a cycle of ever larger crises requiring ever larger CB support, especially from the Fed, and thus perpetuates CB power to create endless money though not endless wealth or economic stability. However, to the extent that finance replaces the real economy disproportionately in the US, it could lead to a decline of US world hegemony and a subsequent rise of China, with the Fed unconsciously thus driving this power shift. This is similar to Arrighi (2004), but it differs from CB's centralizing political functions (like in feudalism (Wolff 2020)) instead of monetary ones.

advance to the level of inquiring whether or not the subjects are discussed in an articulated manner, since one of them is missing. As it happens with many works that are not part of the IPE scholarship, Ferguson's approach deals more with public debt and therefore the financing of wars – thus, his concept of power is related to war. Although finance always involves money of some sort, the reverse is not true; money can stand alone in an analysis not related to long-term funds. Ferguson proposes a 'square of power' to understand how wars can be won by states. In each of the four corners of the square there is an element pertaining to the state. The first corner is the debt, but not money *per se*. The second corner constitutes a parliament responsible for regulating and creating taxes for servicing the public debt. The third corner is a bureaucracy for the purposes of tax collection, and the fourth has a central bank for managing the market value of the debt and the supply of money. Ferguson argues that this square of power has been highly effective for states to fight and win wars and thus to consolidate their power. He shows how it worked for Britain and for the United States. He further argues that the problems that these powers have faced historically resulted not from imperial overstretch, but an understretch. This notion will be examined further in chapter 3, but expand to the intersection of money and power between private banks and the US government.

A third type of work has no reference to power in the title, but this category is also part of the analytical contents, or at least it can be easily identified as such. Thus, viewing the relationship between debt and state power assessed by Ferguson, but emphasizing monetary aspects, Block (1977) reached a completely different conclusion in his study about the problem of international monetary disorder of the 1970s. He considered how the monetary power of the U. S. imperialism was constrained by the gold-dollar fixed exchange rate mechanism created in Bretton Woods. In his interpretation, the politics of empire found a limit in money markets, since imperial overstretch caused capital flight and balance of payment challenges, threatening the value and the position of the U.S. dollar in the international monetary system. In this account, international monetary disorder is political. The need of U. S. economic and political expansion to back a liberal order with respect to capital movement that would prevent mercantilist or nationalist policies and conflicts in the end caused external payments problems. Thus, in his view, political power affects currency and consequently economic power, not the other way around. The end of Bretton Woods and the gold-dollar fixed exchange rate gave a higher degree of freedom for the U. S. imperialist policies and would enable the growing autonomy of the U.S. central bank, the Federal Reserve, to "create" money and of the U.S. banking system to rely on it as we will discuss. Using the terminology proposed by Cohen (2016), under Bretton

Woods the U. S. could influence other countries, but had no full autonomy to implement its imperialist goals.

Hardie and Maxfield (2016), using a quantitative empirical methodology for a more recent period, reached a similar conclusion. By considering U. S. foreign assets and liabilities, which are not only public, but the authors also show how these stocks of wealth can become a burden on the exercise of unconstrained monetary power. When the authors identify the keywords in the title and articulate them in their analysis, they facilitate the organization of IPE knowledge. Thus, their work is considered part of the IPE scholarship, but Block's is not. This points to the difficulty of defining the boundaries of an approach or intellectual tradition. More important for our purposes, as the chapters 4-6 below suggest, the economic and political ascension of China, which might be somehow reflected in the composition of U. S. foreign assets and liabilities, since the former also accumulates reserves in American greenbacks, reinforces the questions about the capacity of the United States to exert unconstrained monetary power, even longer after the golden fetters were removed.

In the same category as Block, Hudson (2003) has a title that refers to the exercise of economic and political power, but without conceptual precision in general and regarding money and power in particular, despite the intrinsic international content of the analysis. Hudson equally considers the exercise of power in terms of finance more than currency[8]. Whereas Block (1977) and Hardie and Maxfield (2016) suggest that international debt and the ensuing doubts about the value of the U. S. dollar could turn out to be a major constraint on the international exercise of power by the U. S., Hudson's work offers a completely different interpretation. What is typical about the U. S. hegemony is its power as a debtor, not creditor. In his view, superimperialism is reflected in an inverted power relation that is peculiar in financial history. Traditionally creditors could have their way over debtors, influencing behavior and controlling their options. But the Finance-Treasury accord, giving international liquidity on top of risk-free safety to government bonds *a la* neo-chartalism, puts the U. S. on a different footing with respect to its ability to exert international power[9]. In this case debt is considered a weapon against creditors, who have to abide by the whims of the empire[10]. Thus, Hudson's account, by

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[8] There is a gap in the literature which does not separate monetary from financial power, considering them to be the same thing. Yet, the current trend of financialization for example is about the rising financial power, not monetary power. The literature on financialization became important in the 1990s, long after monetary power was considered a subject worth of study.

[9] Chapters 3 and 4 of this dissertation provide a different reading of the Wall Street-Washington nexus.

[10] This seems to be a kind of reversed-entrapment in the theory of monetary power developed by Kirshner (1997). In the latter, in a currency zone, smaller economies depend on the strong currency leader, being

emphasizing long-term finance or public debt, but with features of short-term liquid assets, such as currency, creates another layer of difficulty in defining his contribution to the specialized fields of knowledge. Under superimperialism, a country has power because it owes money, not because it is owed. Of course, in a chartalist perspective the issue is that it owes money in a currency that it can print at will, and a currency power is built-in in sovereign money by definition – sovereignty as synonymous with autonomy. Nonetheless, the same question must be raised: Today, with the United States having a large amount of debt to (or held by) China, and with other current account powerless surplus countries, is the creditor-debtor paradox still valid?

Having made a brief but necessary digression about how to identify and classify works dealing with money and power, effectively or apparently, it is necessary to present the major contributions of IPE to our knowledge about this topic. The discussion above suggests that a comprehensive review is not always feasible, but the seminal works must be identified, following the canons of the field, and put into an appropriate context.

2.3 THE BIRTH OF IPE AND THE QUESTION OF MONEY AND POWER

As argued above, IPE was born in a period when the U. S. dollar was the hegemonic currency, but under pressure from financial markets[11]. The seemingly declining U. S. hegemonic power and the ensuing monetary instability gave impetus to the appearance of the field. Strange (1970) is considered the founding document or manifesto (Cohen 2015b). As it is usually the case, controversies about the origins of an academic specialized area blossom. Leiteritz (2005)[12] claims that Keohane and Nye (1977) is the initial work. And Gilpin (1987) is considered the first textbook in the field. Whichever work is chosen as the genesis of the field, the problem identified above about classifying IPE texts in general and on money and power in particular comes to the fore and creates gray areas. For instance, the fourth edition of Keohane and Nye, published in 2011, has a discussion of money in the same broad part of the book as the oceans.

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entrapped in the zone. In Hudson (2003)'s argument, the U.S. debtors are entrapped in their financial position regarding the U. S.

[11] Before IPE, the connections between the U.S. dollar and power, the exorbitant privilege, were already grasped by politicians like France's Finance Minister Valéry Giscard d'Estaing, but not yet fully developed in a coherent manner. (Eichengreen 2011).

[12] The author also provides a useful discussion about the differences between the British School of IPE and the American School.

Yet, the manifesto of the IPE field has no considerations of either money or power in its title. So, the seminal texts in this new area of knowledge did not fully engage with money and power as an intertwined and complex international relationship. As an irony, Kindleberger (1970) had just been published in the same year. The mutual neglect referred to by Strange was real, but not universal. Strange (1970) discusses money still in the context of a pegged but adjustable exchange rates system of Bretton Woods as was the prevailing monetary system at the time. She considers the growing interdependence and the consequent monetary coordination problems, illustrated by the beginning of what would come to be known as financial globalization with the Eurodollar market. Given the strict limits of a scholarly article, of course, she could not analyze money and power as a development of her thesis. Actually, interdependence among countries is also the concern of other authors identified with the rise of IPE as a distinct field of research. Just like Keohane and Nye (1977) stress the qualification of Realism, for Strange interdependence is key. Examining the issue by focusing on the recent developments involving the international system, if interdependence is stressed, questions about the role played by China in the international political and economic order have to come into play. What are the likely consequences for most currencies and governments of the increased interdependence of most countries with China? Chapters 4-6 will provide preliminary answers.

In a subsequent work, Strange (1976) analyzes the main features of the international monetary system considering the short period between post World War II reconstruction and the end of Bretton Woods. Politics and national interests played a fundamental role in the management of international payments[13]. The advanced capitalist nations, given the wealth and power metrics that justify the qualification of being advanced, assumed the leadership position. She remarks that international monetary relations were highly politicized. This has been justified by Kirshner (2003), who argues that economic theory is ambiguous when monetary decisions have to be made and therefore politics explains the most important choices. We argue that so do the actions based on deploying monetary decisions to accumulate money and power. Strange (op. cit. 358) equally contends that economic interdependence between wealthy nations had accelerated, despite the growing preponderance of the United States, "the most powerful and ruthless member of the affluent alliance". And that the monetary arrangements of Bretton Woods had to be replaced. However, even with the disintegration of the Bretton Woods

[13] National politics keeps playing a fundamental role in monetary management. See specifically chapters 3-5.

agreement vis a vis the gold standard, the United States and its currency (and as we will discuss later) its central bank, remained dominant.

Strange (1971a) represented an earlier effort, clearly a transition in terms of emphasizing economic and political aspects of international phenomena, to understand the role of a currency used domestically and internationally. She argues that the decline of the British pound since the end of World War II, coupled with the increasing centrality of the dollar and the U. S. economy, represented a significant change in the global monetary leadership. But Britain remained attached to the international status of the pound, in particular, its influence over the sterling area, not being able to rapidly adjust and change. This monetary influence is more political than economic, in the sense that the economic linkages had lost most of their strength. More recently, Cohen and DeLong (2010) reason along similar lines, defending that in the Post-World War II the U. S. had replaced the U. K. as the international leader because the former had the money that the latter needed. But history does not stop there. According to them, now China is likely to replace the U. S., despite many caveats presented by the authors, since China has the money and the latter needs it now[14]. As we will discuss, this is one reason behind recent trade wars between the two super power. Plus, China's private banks have replaced US banks as the world's largest.

In order to provide an interpretation of the fall of the Sterling, Strange (op. cit.) develops what is perhaps the most important contribution of her book for the analysis of money and power within the IPE field. Strange proposes a framework of monetary hierarchy that remains useful to understanding the role played by different currencies in the international monetary and economic system. She classifies the currencies into four not mutually exclusive categories or, more appropriate, statuses: Master currency, top currency, negotiated currency, and neutral currency. A master currency is issued by a hegemonic nation, and its use is politically imposed (coercion) on other states. Thus, the pound used to be a master currency in the Sterling area, just like the former French franc mastered the franc zone in Africa. A top currency is 'elected' by participants in international money markets, given its favorable economic attributes (safety, stability, trading networks and so on). Therefore, unlike a master currency, a top one is not imposed politically by states[15]. One can consider that the U. S. dollar in the post-World War II was a top currency. Cohen (2015a) argues that it must remain so in the near future.

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[14] This is also the conclusion of Arrighi (1994), whose work uses a different historical methodology known as systemic cycles of accumulation to explain the rise and fall of hegemonic powers.

[15] Of course, there are overlapping political and economic reasons here, since the desirable economic attributes of a top currency are related to the strength of a central or dominant economy, which by its turn tends to be supported by a strong nation and a powerful state apparatus. For instance, Norloff (2014) claims that the

A negotiated currency is issued by a state that is not very strong politically or economically, and therefore has to bargain for the international use of its currency by providing fringe benefits (political and/or economic). Thus, rather than being imposed, it is smoothly induced. The decline of the Sterling in the Post-World War II period required many negotiations between the British government and the nations of the Sterling area. It seems that the dollar in the 1960s, with the U. S. keeping military personal in West Germany in order to avoid the exchange of dollars for gold, was also negotiated. Last, a neutral currency is used in the international payment system because it is issued by economically important but not hegemonic nations. These nations do not engage in efforts to internationalize their currencies, but play important roles, regional or in the network of banks. The Deutsch Mark and the Swiss Franc in the Post-World War II period are used as examples by Strange. In Strange (1971b), she reaffirms her view that currencies are indeed political. With the increased interdependence between countries, currency issues become inevitably political. This was valid not only for the Sterling pound, but also to the U. S. dollar.

Thus, Strange classification is based on two mostly political features and on two predominantly economic ones, the former involving coercion and bargaining, and the latter involving 'free' choice and bargaining. The above discussion has important implications on how central banks enter the equation of money and power, as it will be made clear later on. Central banks seem to be dependent and subservient to national governments and government power for all four currency statuses. In the case of a master or negotiated currencies, they seem to be completely subject to the government who can impose, bargain over or set limits for the international use of its currency on other states - activities for which central banks in the 21st century have become facilitators, as we will see. In the case of top or neutral currencies, the central bank seems to be subordinated to the private sector, mainly banks, who are in a position to supply monies totally convertible into the top or neutral currencies, something that has also been changing as the central banks usurp some of that private bank power as we will analyze.

Cohen (2015a) elaborates further on this hierarchy and proposes a currency pyramid. It is composed of seven instead of four strata. Following Strange, the author maintained the currency situated at the highest and most narrow position as Top. In the pre-World War I period, Sterling was the Top currency. After World War II, the dollar assumed the position and,

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hegemony of the dollar is based on the American military superiority. By the same token, regarding the master currency, one may ask why a government would want to impose the use of its currency onto other states. On behalf of whose interests? Would it only be a bureaucratic need for seigniorage? Would the distribution of the currency overseas not need a banking network, with private banks also interested in the coerced usage? These questions again point to the difficulty of sorting out politics from economics and vice-versa.

according to Cohen, will remain there for a long time. Next comes the Patrician currencies, which includes neutral, master, and negotiated in Strange's terminology. These ones are popular and widely used but are not dominant. The Euro and the Yen are classified in this stratum. In the third level of the pyramid are the Elite Currencies, with some limited international usage due to economic attractiveness (including Strange's neutral currencies). Cohen includes here the Sterling and a few other regional currencies. The next layer has the Plebeian currencies, presenting still less international appeal, but not being exclusively domestic in their uses. The fifth post is occupied by Permeated currencies. These monies are not competitive even in their original territories, being subject to currency substitution by foreign currencies, mainly in terms of the store of value function. Next, Quasi-currencies suffer competition not only in the store of value function, but also in their unit of account and medium of exchange roles. The lowest rank of the pyramid has the Pseudo-currency. This type of token-money exists only nominally, and the legal tender is a foreign currency. Cohen uses as an example the Balboa of Panama.

Despite the seminal contributions of Strange and Cohen for the IPE of money and power, these themes are not always present in the core of the approach. For instance, another fundamental work, that of Gilpin (1987), considered the first textbook of the field, has a chapter about the international monetary system, but it is mostly historical-descriptive at the system level, without a more analytical treatment of particular relationships amenable to the exercise of power. Yet, Gilpin recognizes that paper money, unlike metallic or specie money, is printed by the state and therefore political. Not only domestically political, but internationally political (Calleo and Strange 1984). The same time, the author argues that in shaping world history, economic and political factors have been equally important, without any primacy. He claims that the change in the nature of money from metallic to paper created more autonomy for governments. But this autonomy, in a context of increased interdependence, has not always been consistent with international monetary stability. Thus, the coordination of monetary policies becomes an important problem. What is relevant here is the argument that the capacity to print money yields power to national governments, although the nature of such power is not always examined. The question is - when does the creation of money lead to the destabilization of the economy for that, or other, nations? We will provide answers to that question in chapters 4-6.

In Gilpin (2001) one finds a more theoretical discussion, focusing on how changes in the international system in the 1990s (end of soviet-style communism, rise of neoliberalism, revolutions in technology and so on), along with changes in economic theories, must be introduced in the IPE. His chapter about the international monetary system addresses questions

associated with exchange rates, the future of national currencies, prescriptive or normative issues involved in the design and reform of the system, and how politics, along with technology, are behind monetary relations. He does not, however, address the issues, or impact, of the markets as active transmitters of monetary policy choices. We will examine this in chapters 4-6.

Summing up, the initial works of IPE and the seminal texts in general, and of IPE of money and power in particular, provided the foundations on which further research was developed. Classical works have been complemented, enlarged and updated. But systematizing a new field of research implies a wide or horizontal scope in terms of problems covered, being the difference with other areas of knowledge epistemological (or methodological in terms of the proper procedures of integrating money into power analyses and vice-versa) more than ontological. If in the seminal works of Strange and Cohen the integration of money and power appeared as specific research topic among many others, and in Keohane and Nye and Gilpin these issues are not coherently articulated at all, mainly when compared to recent scholarship, which have a deeper or vertical approach, there are gaps as we have discussed. Fifty years after the manifesto, the field has evolved and matured. We believe that our contribution will further clarify and enhance its relevancy for the 21st century monetary system paradigm with respect to money and power.

2.4 THE EVOLUTION OF IPE OF MONEY AND POWER: THE NEW APPROACHES

There have been a host of work in the IPE of money and power that have stressed the importance of international monetary relationships as necessary for the exercise of international monetary power. In these approaches currencies are used to coerce other nations in many ways. The favorite example employed by IPE scholars to showcase money as an instrument of power is the Suez Canal crisis of 1956. After Israel, Britain, and France invaded Egypt following the nationalization of the canal by President Nasser, the Sterling pound started plummeting in value. British Prime Minister Anthony Eden requested support from U. S. President Eisenhower. Instead of agreeing to this request or supporting the Sterling with US dollars, Eisenhower vetoed the use of British funds in the IMF, which had the effect of preventing key support levels for the Sterling. As a result, Britain had to withdraw its troops or risk its economic security. The traditional distinction in International Relations between hard power (coercive) and soft power (attractive) considers that the first is essentially a military one. And the second is mostly cultural and/or ideological, but not necessarily monetary or economic. Yet, Kirshner (1997)

shows that security objectives can be achieved by means of a different type of coercion: monetary rather than military.

This example is illustrative of the fact that IPE has historically followed a mostly state-centric approach. This is reflected in the treatment of money. In the seminal works discussed in the previous section, money is considered, although it is not recognized as independent, or independently important, from the state, in its chartalist interpretation. That is, regardless of its functions, it is always manual or state money. But this leaves out the importance of banks and their capacity to create assets that have, ignoring episodes of banking crises when state money or debt becomes the only money considered safe, an exchange rate at par with state money. This approach also neglects to mention the international operations of big banks in increasingly globalized markets, central banks, or the relationships of their respective leaders with each other, or with their governments. Thus, it is not possible to discuss money without discussing banks, and mainly their political connections with state officials. Similarly, it is incomplete to consider the power of money itself, without examining how it pertains to, or is influenced by, long-standing personal alliances between the most influential private bankers with their respective presidents and prime ministers, or heads of central banks and multinational central bank entities such as the World Bank, International Monetary Fund or the Bank for International Settlements. Because of these personal relationships, money provides relational power. Yet, it also has a structural power, stemming from the fact that money shapes and determines much of what happens in society, but we cannot see it. In this chapter, we focus on the relational power of money, since bankers at the time influenced politicians.

As a consequence, by the end of the 1970s, Aronson (1978) raised a major challenge to the perspective that money yields political power, at least to its biggest private holders. Shifting the previous focus on the conflict between territorial currencies and governments, he considers to what extent banks exert influence over monetary policy making. That is, he considered explicitly how banks could exert power on governments and external or foreign monetary policy. We will examine just how personal and institutional alliances between financial and political leaders have interacted to affect domestic and foreign policy, as well as monetary policy, specifically in the United States beginning from the early twentieth century in chapter 3. Thus, Aronson's work represents a methodological turn, in which the channels of influence to be investigated are those between bank executives and central bank officials and the Treasury. More interesting as it pertains to the purposes and methods employed in this dissertation, Aronson also relies on interviews with key players in markets and governments to develop his research. This is challenging in so far as the reported answers are the only data available to

make inferences about banking behavior and its impact on policy making decisions. However, it is also critical in merging practical with theoretical analysis during a time of shifting relationships in the money and power space.

Aronson wants to test whether or not banks exercised pressure on policy makers, forcing them to adopt decisions that they would not otherwise have made, in the period ranging from 1958 to 1977. Thus, the author adopts a relational perspective on power, when the behavior of a weak agent (central bank) changes exclusively because of the relationship with a stronger agent (banks) as was the hierarchy of two agents during the time of his analysis. That is, the former would not change its behavior without the pressure from the latter. In first considering the direct pressures over policy makers, Aronson concludes that they are ineffective. Foreign exchange regulations introduced from 1963 to 1974 were not favorable to banks. The reasons listed for this failure include the fact that bankers were not skillful lobbyists, were divided in terms of their interests (some institutions were more domestically focused, and others were more internationalized), and that banks were usually not trusted by politicians. Thus, he could not find evidence that bankers directly influence governments, being therefore powerless in this specific dimension. We will explore in chapter 3 however, that there were elements of influence on monetary decisions that Aronson did not take into account, most notably banks' pressing for the United States. under President Richard Nixon, to exit the gold standard.

Yet, he discovered that banks yield a more powerful influence indirectly, specifically when their business activities clog potential channels of monetary policy, limiting the choices of policy makers. Thus, they exert indirect or structural power over central banks. For example, when foreign exchange regulations were imposed, the interests of banks were not favored. However, they were able to circumvent this by creating other avenues of trading in the markets, causing adjustments to the legislation (but not repealing it altogether). By the same token, the foreign exchange crises leading to the end of Bretton Woods by the end of the 1960s and beginning of the 1970s, Aronson argues, were affected in their timing and magnitude by the very activities of banks in these markets, molding the policies by their actions that could be pursued by their demands. Their competition in short term markets made it difficult a return to the fixed exchange rates of Bretton Woods in the early 1970s, despite the fact that the reform of the system did not favor their interests – thought it did lead them to seek central bank stimulus in future decades that serve their interests as a result. Finally, regarding the loans to developing countries, although the need of funds made the latter more amenable to banks' interests, profit opportunities and risks had also to be considered. Interdependence limited power in that instance.

In Aronson's work, banks had strong influence only during a short interval between 1973 and 1974 even though they came to have more power in the wake of oil shocks in the late 1970s. Many central banks had decided to let foreign exchanges float free. But speculation by small banks led to the failure, for one example, of a German bank (Bankhaus Herrstat). Central banks were thus obliged to intervene, as it is usually the case when financial crises threaten the monetary or financial system. Of course, Aronson's research was carried out during a period in which the new globalization[16] was still in its first stages, there were pervasive doubts about the role of the U. S. dollar, which would lead to the Volcker' shock in the following years, China was introducing pro-market reforms, and the Euro was still a distant endeavor, among other substantive changes that led to a context in which Cohan (2016) could only exaggerate the power of banks and financial institutions over monetary and government policy, but not by too much. On the other hand, it is doubtful if banks are completely or at least partially powerless, with respect to their direct influence over governments, as suggested by Aronson. We will see this further in chapter 3.

As mentioned before, Aronson's approach is an exception. The IPE of money and power focus mostly on state currencies, and the focus shifts between analyses that emphasize more of the political motivations behind international monetary relations and those that underscore the role of economic interests. The work of Gavin (2004), similar to Block (1977), fits the first class of studies. His account can be seen as a historical illustration of how the U. S. dollar became, in Strange's terminology, a negotiated currency (while being, at the same time, a top currency)[17]. The exercise of military power by the U. S. to contain the former Soviet Union and West Germany at the same time, was being reflected in the value of the dollar[18]. There were fears of an impending speculative attack on the dollar, just like the one waged against the Sterling Pound in 1967. This brought an important American conundrum to light: Defend the dollar or Europe? Gavin shows the diplomatic stress between the US and West Germany derived from the need to sustain the parity between the dollar and gold under the growing fear

[16] The old globalization took place between 1870 and 1914 under the British hegemony. See Hirst and Thompson (1996). The authors question the novelty of the 'new' globalization but notice that the international flows of money have increased since the 1970s. Gilpin (2001) considers the many changes that have occurred in the 1990s, and argues that indeed a globalization exists, despite the fragmentation in the form of regionalism as a response to the former.

[17] To which extend the dollarization of Panama since 1904 makes the U. S. dollar also a master currency is an open question.

[18] Gavin (2004) actually argues that intra-alliance conflicts with West Germany were more important than the Cold War. This interpretation that the Cold War was less important to understand the monetary power dynamics of the dollar than the western political disputes can also help understanding the current tensions with China and the implications for the international monetary relations at large (possible decline of the dollar and possible rise of the renminbi).

caused by mounting external deficits and a flight to gold. The central focus was the burden of keeping six divisions of the U. S. Army in Europe. West Germany, at the same time that it kept its promise of not exchanging its dollars (and U.S. treasury securities) for gold, also bought American military equipment far in excess of its needs. The diplomatic bargaining was thus over these monetary and military issues. Yet, West Germany faced important internal divisions and could not agree to Washington's terms. Even if it could, it was not enough to forestall a balance of payment crisis in the U. S., since restrictive measures had to be implemented at home, including prohibitions of gold remittances, additional foreign investments abroad by firms, and loaning out funds to foreigners by banks. In the end, geopolitics trumped economics, and the solution was to demonetize gold and repeal the fixed exchange rate to sustain the political goals of the country.

The work of Gavin, just like the study of Block before, and the more recent account of Hardie and Maxfield, challenge the view of the Bretton Woods framework as a reflex of U. S. hegemony, negotiating the international use of the dollar. These works suggest that it was a burden or restrictive. But in order to keep the payment system working, central banks had to cooperate with that system. A gold pool was created to defend the dollar. But was this cooperation a result of the interdependence emphasized by liberal IPE scholars, reflecting individual interests in sustaining the monetary order, or was it imposed by the hegemon to slowdown destabilizing speculation? Or was it both of these things? Gavin's account of the bargaining involved suggests that the United States could not handle it alone. And the reason it could not was that the dollar was not a source of power, but, instead, a source of weakness under an international regime based on those rules. Also, according to the theory of hegemonic stability, developed by Kindleberger and Gilpin, if the United States were to play a stabilizing role, it had to bear the costs of such a leadership position. The costs were growing external deficits and a weaker currency. On the other hand, Norloff (2014) links the strength of a currency to the military capabilities of a state. Her thesis is that military power is a source of monetary strength, and therefore there is no currency able to compete with the dollar in the international arena. It would seem the truth is a combination of these ideas. The dollar is related to U.S. military might, but it was also operating in an increasingly globalized monetary and market system where external restrictions on it could have negative ramifications. As we will see, this is something that in particular, the bankers, were concerned about.

Analyzing the theory of hegemonic stability, Walter (1991) provides an important critique. He discusses the relationship between world money and world power, that is, the international role of the money or currency of a hegemonic power, such as the Sterling under

the British hegemony and the U. S. dollar under the American hegemony. The author asks if this theory is relevant for understanding international monetary relations. He develops his arguments around the fact that, for hegemonic countries, similarly aligned political structures and domestic financial structures tend to, historically, shape the international monetary orders. In the current international relations literature, this order is maintained either actively by a hegemon (theory of hegemonic stability) or by a regime (liberal) developed but not actively managed by the hegemon in order to make domestic policies compatible with the international power order. This is because, in the international system, just like in Gavin's and Block's account, instability can be politically originated. This happens when mercantilist or narrow national interest trump the international order. This interpretation comes from the Realist school of International Relations, which does not emphasize the role of interdependence of states or markets. Yet, states do pursue power and national wealth, and these two goals cannot be separated. International order can be achieved only by the coercive power of the hegemon. If this power declines, the system collapses. The neo-Realist school, however, incorporating liberal critiques, claims that any order requires political support at the international level, or a regime. The hegemon provides order that is in the interest of all countries. This means that, once the hegemon enters a decline, the world order can still be maintained. That also means that an international regime, provided by a leading liberal power such as the United States, can induce political stability and therefore market stability. However, as we consider in chapter 4, it can also do the exact opposite.

Walter contends that instability may also have an economic origin in the form of a lack of thick markets, capitals, and liquidity or access to international reserves when crises hit. In this case, instability is due to a lack of economic or monetary leadership by hegemonic powers. Just like in the political case, the theory of hegemonic stability claims that a hegemonic power must provide capital flows actively, by managing the world monetary order and engaging in relational power, just like central banks do in domestic markets. When it fails, the monetary order collapses. The author rejects this explanation and claims that the theory of hegemonic stability does not explain the evolution of international monetary systems. The international monetary disorder by the end of the 1970s was economic. It was caused by financial liberalization promoted by the U. S., the hegemonic power. Liberalization increases interdependence, but, given the lack of effective coordination mechanisms offered by the hegemon, pursuing narrow economic interests clashes with the liberal order. This goes against the view of the U. S. as a stabilizing power, as defended by the hegemonic stability theory as we note above. Thus, it does not provide answers to the questions about the relationship

between the political authority and the development of money and finance, nor about how financial or banking structures give rise to patterns of asymmetry and domination and economic instability. This is important because these patterns allow dominant powers to play a managerial role. The hegemon is relevant, but it is only one variable in a complex evolution that is over-determined and that can rely on other factors that relate to markets and the movements of money.

Therefore, in Walter's historical reading, international monetary stability can demand active management by the hegemon, given its role in the hierarchy of the system. Despite the fact that financial markets are intrinsically unstable, in the theory of hegemonic stability an international monetary disorder appears when the hegemony is challenged. It is therefore political, not economic. If this is indeed the case, one might ask whether or not China today represents such a challenge to the U. S. hegemony. For instance, if Walter's interpretation makes sense, how could China thrive in a monetary order shaped by the U. S. domestic financial structure, relying on patterns such as the ones erected by the financial-treasury accord (Hudson 2003) and the power of the dollar? Also, if there can be only one hegemon according to the theory of hegemonic stability, what is likely to happen to the clash between China and the U. S.? Can the world order have only one winner in terms of an international stabilizing power indeed or can it have two opposing powers that create destabilization? Or is fragmentation along regional lines, an important feature of globalization? An even more relevant issue concerns the colossal international reserves of China, mostly denominated in dollars (Vermeiren 2014). If the U.S. has played the role of international economic hegemon in the sense of Kindleberger, this has allowed China to access markets, funds, and dollars. But, as remarked before, Cohen and DeLong (2010) argue that this very fact creates a potential challenge to the U. S. dominance, since, just like the U. S. did to Britain after the II World War, now China has the money and does not depend on the hegemon, which may lose this status.

By the same token, how are less developed countries like Brazil affected by international monetary stability? Is this stability a feature of the system as a whole, with global benefits, or are parts of it are more prone to frequent episodes of instability in the form of debt and foreign exchange crises, balance of payments problems, and threats of capital flight imposing policies that are not pursued by advanced nations? Are domestic financial structures managed by public-minded central banks really stable and able to project themselves in the international sphere as parts of a harmonic system or are domestic or external central bank actions ultimately politically or economically destabilizing to such countries? Chapters 4-6 seek to provide preliminary answers to these questions. But it is worth pointing out that, since the U. S. dollar is the most important international currency today, the FED would have to assume more responsibilities

over international or systemic monetary stability. But it does not necessarily have such power working alone, so it needs to coordinate with other major nation central banks to achieve that goal as we examine in chapter 4. The Eurodollar market stressed by Strange (1970) is just one past example where the Fed had less power at the time. The IMF ends up filling this gap, reinforcing the liberal perspective about international regimes and international institutions. The Fund would therefore have had to guarantee the international stability as a universal benefit. Yet, its interference with national governments continues to promote hegemonic interests that usually leads the former to adopt austerity measures that tend to destabilize economies and place them in a situation to bargain for IMF financial support, It thus creates a continuous dependence and monetary fragility, with recurrent threats of balance of payments crises.

Cohen (2006) also addresses issues of monetary power in terms of balance of payments. He defines the macrofoundations of monetary power in terms of the distribution of the costs of political adjustment to external imbalances among countries. That is, in terms of the capacity of a country to deflect the transitory costs to others (space) or delay the continuous costs of balance of payment adjustments (time). A preferred policy, to be changed by the exercise of monetary power or to be isolated from pressures by this very power, is to spend more than output can be produced and, as a consequence, increase national and public debt relative to GDP burdens. This can only happen as far as external imbalances reflect the excess of spending over income. Balance of Payments disequilibrium can be sorted out by reverting the policy of spending, since it is faster than output to adjust. But as long as this is a preferred policy, the adjustment entails a cost to the domestic population. This cost, however, can be circumvented or pushed toward the future potentially indefinitely if the country has enough monetary power. First, by imposing a policy reversal to other countries, by restricting their ability to finance their needs by accessing international currencies. They would then have to change their policies and deflate or inflate the economy. Or the costs can be delayed for a long time by means of international credit, which relies on the ability of having access to a powerful currency. In this interpretation, the United States has power because China and other surplus countries have been financing its preferred policies and the interest rates that it pays for borrowing those funds have been rendered near zero percent due to the Fed's prevailing monetary policy. It is thus using its monetary power to delay tangible borrowing costs, or increase its deficit in the meantime.

Perhaps the most well developed theory of monetary power is provided by Kirshner (1997). This is a deep analytical attempt at articulating money and power in international relations. Kirshner innovates in his epistemological and methodological approaches: since money is part of wealth (economic power), and wealth yields also (political) power, it is hard

to extricate them analytically. Power is related to the distribution of wealth. He appeals to a separation of power, considering only political or security outcomes of monetary actions. Kirshner first considers the nature of monetary power. He argues that the exercise of monetary power is only possible when governments engaged in international monetary relations are sensitive to what happens to the currency of their countries[19]. Monetary power is a form of economic diplomacy or statecraft, but more effective than alternative sanctions in terms of aid, trade, and finance. Monetary power can be exercised by means of monetary manipulation, building monetary dependence in a currency zone, or wreaking the monetary system by means of systemic disruption (or threats of). However, as we shall see in chapter 4, monetary power can also be used to address market conditions that have nothing to do with political strength.

Manipulation of a currency can be negative (intervention in foreign exchange markets for changing the value) or positive (support for keeping the value) and assumes that some degree of stability is desirable, with either a sudden appreciation or depreciation being considered negative. Of course, it depends fundamentally on the exchange rate regime, with a fixed arrangement being more susceptible to manipulation. Thus, manipulation basically affects the value of the currency, and that has economic, political, and even psychological implications. Monetary dependence is nurtured when a strong state forms a formal or informal currency zone or area with weaker states. The benefits are asymmetrical, since the strong state contributes more resources but has mainly political gains, whereas weak states have economic gains in the form of currency stability and insulation against external shocks, access to pooled reserves, capitals, and markets, without contributing a lot to the pool. Yet, in periods of economic instability, or financial crisis, these assumed guarantees can disappear, as we shall see in chapters 4 and 5. Power is exercised by the leader within the zone, both directly (mobilization of resources, punishment, and threat of expulsion, given the new vulnerability that dependence creates – exit is costly) and indirectly (transforming the interests of weaker states in line with those of the leader). Finally, systemic disruption is the action or threat of undermining a monetary system. The vested interests in the arrangement will have to make concessions, since the rupture has many costs, and defending the arrangement is also costly. This is even more so the case when considering the financial system as dependent on the monetary one, or when the monetary system is focused on stabilizing the financial system as its primary goal as we shall consider in chapter 4.

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[19] Kirshner remarks that, in the United States, the FBI is responsible for the life of the President and also for the integrity of the greenback.

Next, the author evaluates the viability of monetary power. He compares it with other forms of economic sanctions (aid, trade, and financial). This comparison allows one to understand the limits and usefulness of monetary power. He first considers who are the agents of power and who are the targets, and the corresponding requirements in terms of size and external vulnerability or dependence. Just like financial diplomacy, monetary power is particularly dependent on size, being restricted to large economies and their strong currencies. It is less so for aid and trade. But vulnerability is more equally distributed, since all economies are monetized in a globalized financial and monetary system. The second issue is related to the degree of integration in the international economy and with its financial markets. It is again necessary for financial diplomacy and to a lesser extent to monetary diplomacy and trade. Aid as an instrument of power is less dependent on a global economy.

After analyzing the viability of monetary power, Kirshner considers the limits of each one of the previous four types of economic sanctions. His work encompasses feedback effects, capacity to deflect, and ability to defend. Thus, sanctions in terms of aid have many limits, like trade. Financial diplomacy faces fewer limits, and monetary power has no concrete limits, and therefore is very effective. The author also approaches the issue of the efficiency of sanctions. They are efficient as long as the central government is independent of other branches to choose the instruments of economic diplomacy, there is no publicity of the actions (secrecy), and the focus lies precisely on the target and there are no spillovers. Trade sanctions are inefficient in meeting all three criteria. Aid and finance are relatively efficient. Monetary power is the most efficient of the three. Considering all the above criteria, the coercive nature of money is the most powerful one, although it is rare and not widely available to most less powerful states.

The most important issue for the viability of monetary power is the role played by market forces. Currency manipulation is viable, mainly when the exchange rate is fixed. However, a floating exchange rate does not insulate a government from manipulation. Markets or specific actors in them, can combine forces and support a currency attack by a government, although they can also neutralize actions targeted at changing the value of currencies. By the same token, when a state is expelled from a monetary zone or has problems, market forces may see an opportunity to attack a fragile currency, reinforcing the effect and the power of the leader. Finally, systemic rupture is also viable, because monetary systems are created to regulate market forces. There are many instruments to undermine a system, or even to sustain it when market forces are the ones pressing for rupture or help.

Andrews (2006) brings an important innovation to the field. He suggests a distinction between monetary power (a potential relation, an influence, close to the concept of structural

power) and monetary statecraft (an effective relationship with a conscious use of money as a tool of power). He differentiates between the macro level, where states have monetary power and exercise monetary statecraft, and micro level, where monetary power is exerted between national states and private actors. The macro level discussion draws on the work of Cohen (2006). It is worth noticing that, unlike Kirshner (1997) for whom only political or national security goals are fundamental, the goal of the state for Andrews, similar to Cohen, is only about economic (costs of Balance of Payments adjustments in terms of income, employment, and inflation.)

One important issue that has not been addressed so far are the effects of monetary power on less developed countries, except for the brief reference to the role of the IMF as a potential stabilizing force in a liberal monetary order. This reflects the fact the IPE has been constructed in developed countries, mainly the Anglo-Saxon world. But there are applications of the IPE of money and power to less developed countries. For example, Kirshner (2006) updates his 1997 work, and brings forth interesting examples of currency manipulation against peripheral states. Coherently associating the exercise of monetary power with a security goal, for instance, he shows how the CIA counterfeited a foreign currency, the Iraqi dinar, to topple a government by introducing fake notes into circulation. He also points to the entry of many former central command economies in the global capitalist economy, and the increased number of currencies to enter the power game.

Kirshner (2003) also considers issues of monetary power in the periphery, such as requiring the liberalizing of capital flows by the IMF. He argues that economic theory is ambiguous when it comes to the choices available to policy makers, despite mainstream economists' arguments. Economic theory can, at most, eliminate unfeasible choices in technical terms. Yet, the set of equivalent choices in terms of outcomes is too large to have a single one selected. Thus, politics (distribution of power) decides.

Grabel (2003) evaluates the rise of independent monetary institutions in the periphery, in a context of weak states and powerless currencies low on the international monetary hierarchy discussed by Strange and Cohen. She emphasizes the power of ideology in promoting these institutions, mainly the idea that money management in the periphery is ineffective due to government interference with markets[20]. Central banks in the periphery simply adopt ideas formulated in the center, such as monetary authority independence and inflation targeting,

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[20] Odell (1982) equally brings forth the role of ideas, along with power and markets, for the changes in monetary policy in the United States.

which ends up reinforcing the position of the rich countries in the international system. We will explore this further in chapter 4. Mettenheim (2016: 2), dealing with a long period of monetary statecraft, equally affirms that, in Brazil, monetary policy is all about elite politics, the result of "(...) adapting ideas from abroad". Thus, according to hard money ideology, independent institutions would best manage the currencies of less developed countries, or even replace them, as in the case of currency boards and dollarization experiences.

Of course, there are important differences among emerging economies. Considering two countries, China and Brazil, as they relate to each other and to the United States is the object of research in chapters 4-6 below. It is clear that the former can defend its economy and currency, that is, it has the monetary power to do so, backed by its huge reserves (Helleiner and Kirshner 2014). Brazil, on the other hand, has a somewhat substantial volume of reserves, but nonetheless cannot defend itself nor its currency and monetary institutions. What is the reason for that? Only the absence of independent monetary institutions in China? Brazil being less impervious to hard money ideology than China? Maxfield (1997) examines the experience with central bank independence in Brazil and in other three developing countries. Rather than monetary mismanagement and inflationary bias, the relevant issue is actually the real costs of anti-inflationary policies in terms of loss of long-term economic growth. This, too, is considered in chapters 4-6.

2.5 MONEY AND POWER AND CENTRAL BANKS

In the IPE approach, central banks are not independent or autonomous, but rather political instruments of national states to implement international monetary policy on their behalf. With a few exceptions discussed below, there is no connection between the state/central bank and domestic interests, political or economic. Transnational links between central banks and their leaders are also missing. This is relevant for many reasons. For example, one interesting question derived from Andrews' (2006) approach is the role of central banks in the exercise of both monetary power and monetary statecraft. As long as state money is managed by central banks, monetary statecraft cannot be employed unless central banks are fully subordinated to the whims of the state in pursuing its economic goals. This is also valid for Kirshner (1997), for whom money as a power resource is a device to achieve a political goal (removal or weakening of a political adversary or enemy). There is no role for autonomous central banks in all different types of currency manipulation in these works.

A more relevant ontological challenge, perhaps, is not the role of central banks, but the astonishing rise of finance and big banks and as a result, the subsequent rise of the power of central banks. In its previous work Kirshner (1997) stressed the fundamental role of financial markets in sustaining or undermining government efforts at exerting monetary power over other states, and therefore questioning the viability of monetary power. On the other hand, if we assume that Cohan (2016) has a valid point, the irresistible rise of finance and big banks represents still a further defiance to the view centered on the state as actor and on state money as the tool. If big financial firms and banks rule the world, or at least influence it in a meaningful way, contrary to what Aronson (1978) found four decades ago, this completely reverses the perspective of democratic governance of domestic and international affairs. Money and power would be no longer separated into different entities, banks/central banks and states. Banks would have the money and the power. Of course, banks cannot wage wars or promote military invasions. But it would be necessary to question if these hard power tools are still needed to achieve political or economic goals by the states. However, it is also true, as has been the case since the financial crisis of 2008 through the present time, that central banks have had a resurgence in their powers, particularly in the major countries, as it pertains to sustaining their banking systems, their financial markets, and ultimately, their status in the global power hierarchy as a result of this and of the imbalances between central bank power for major developed, vs. emerging countries. This is a pivotal point of chapters 4 and 5, in particular.

Henning (1994) provides an important study in terms of research methodology on money and power. His approach is a comparative one, considering variations in external monetary policy since the end of World War II of the most important economies at the time, that is, those able to affect the international monetary system: U. S., Germany, Japan, and, to a lesser degree, France and the UK. Of course, the Euro introduction in 1999 would add important ontological challenges to his work, since monetary policy in Germany and mainly in France would have a completely different institutional setting. The rising importance of China, rivaling the role of Japan in Asia, would constitute another relevant questioning of his findings. Yet, in terms of analytical effort, his work is important in the IPE of money and power. He rejects the explanations of the variations in external monetary policy, regarding the intensity and frequency of active management, including foreign exchange interventions, taxes, and capital controls, in terms of the statuses of the countries in the global hierarchy of economic power, their degree of openness, or the relative autonomy of the state and domestic private interests. Yet, external monetary policy has become more critical in the twenty-first century as we explore in chapters 4-6, as it relates to domestic banking and international markets, which are inter-dependent.

In his approach, central banks are fundamental for international monetary relations or external monetary policy, mainly in terms not of their external peers, but of their connections with the domestic financial sector and with banks in particular. His findings are therefore at odds with the results of Aronson (1978), though more in line with the world today. The productive sector, mainly the one exporting goods, enters the equation in terms of their interests relative to the exchange rate and their connections with banks. Thus, whereas in Germany the central bank is independent, but has indirect ties to industry given that banks are involved in the financing and management of companies, and hence they are concerned about their competitiveness. As a consequence, foreign monetary policy will favor currency stability to avoid inflation. On the other hand, in Japan, despite the fact that the financial structure changed a lot during the period considered by Henning, the central bank is not independent, but has also strong relationships with the industry through banks. Foreign exchange policy is also favorable to those interests, and depreciation is not avoided at all costs. In the U. S., with a financial system based more on capital markets than on banks, the central bank is independent. Yet it supports the banks, and thus indirectly, corporate interests through the credit and equity markets, but with fewer strong explicit connections with the industrialists. Therefore, the FED implements external monetary policy without any consideration about the exchange rate or the interests of exporters and their workers. This would explain the Volcker' shock in the end of the 1970s and beginning of the 1980s, with the dollar appreciating and Asian-based imports gaining market share from domestic industry. It also explains the Fed's cutting interest rates to zero percent in the wake of the financial crisis of 2008 and through the early 2020s, to supplement bank liquidity.

The study of Henning suggests that it is not realistic enough to consider international monetary relations without paying enough attention to the role of central banks and even more to the domestic distributive conflicts within the private sector reflected in their choices. Although the effective decisions over exchange rates are political, as in Kirshner (2003), monetary power or statecraft reflects a complex net of agents, monetary and financial structures, market and securities instruments, and economic and political interests. It cannot be subsumed under a monolithic state in which not even the role of an important institution such as a central bank seems to matter.

Helleiner (1994) explains the financial liberalization that took place in the world from the 1970s to the early 1990s, and therefore does not focus on central banks. But he considers their attitudes toward financial liberalization in a world still full of trade restrictions. What is more relevant to this dissertation is the fact that the author deploys the concept of transnational

epistemic communities, drawing on the work of Peter Hass. By his turn, the latter author develops the concept based on the study of Russell about central bank cooperation in the 1960s. Helleiner equally points to Fred Hirsch's idea of central banks as pertaining to an 'international fraternity'. According to Helleiner, this was important to the creation of he calls the Bank for International Settlements (BIS) regime of central bank cooperation which has adapted to the interpersonal and power relationships of central bankers since its 1930s inception. Yet, it seems that, more than an epistemic community who shares a 'set of principled and causal beliefs' in terms of financial stability and the need of cooperation in international financial affairs, or 'notions of validity' (p. 199), central bankers have engaged in a kind of colluding behavior. Is the central bank epistemic community rigging the world? Or has there been a change in their episteme, moving from monetarism to plutonomy and neglecting its important management and stabilizing functions? And if so, which countries benefit from this collusion and which are left behind and what are the ramifications of this on the world order? We examine these questions in depth in chapter 4 of this dissertation.

Helleiner continues: "Almost invariably, common policy projects among central bankers have been prompted by a major financial crisis." (ibidem). This assumes that financial crises are triggered without any role played by central banks themselves, and they just need to provide lender of last resort functions and supervision of financial systems for stabilizing the system. Indeed, Walter (1991) claims that central banks came into existence to help finance governments and their wars. But, once fully established, acquired a mandate to manage monetary affairs, including the provision of liquidity to private banks in times of crises. Monetary stability requires a domestic monetary hierarchy, with the central banks at the top. Walter's argument is not that instability or crises cannot happen when central banks exist. It is that central banks, if they perform their duties, make instability and their consequences less likely to precipitate financial and monetary collapses. Yet, they cannot control the supply of money or direct its flow via monetary base, as assumed by monetarists. Banks create means of payments (deposits) based on calculations of risks and profits. They also create risks in certain types of financial securities that because of their implicit central bank support, can create new crises. On the other hand, more than stabilizing markets on the domestic realm, central banks of hegemonic powers (UK and the US) played a destabilizing role in international money markets.

If Walter (1991) is pessimist about the stabilizing role of hegemonic central banks, the destabilizing behavior being likely to prevail, Bott (2013) claims that the Bank of England acted as a gold market maker many times in the nineteenth century. Thus, it performed a stabilizing

function. But it could well be the fact that central banks had indeed a different role at that time. Their behavior today could be best depicted by the work of Christopher Lash *The Revolt of the Elites*. It is not only a lack of serving the common good, but serving private interests that go totally against the common good, as shown in the next chapters. This raises a fundamental question: are central banks really interested in financial stability as an end in itself? Or somehow have they, as argued above, lost faith in their public or common good commitment at some point in the past decades, working more for their bureaucracies and their constituents in the financial industry? And finally, has the rise of central bank power permanently distorted global financial markets, banking system and the world economic order?

Next chapters engage with these questions. But before we move on to the specific discussions, it may be useful to consider a synthesis of the role of central banks, considering the discussion in this and the previous sections. Table 1 provides an organized presentation about how central banks have been treated in the IPE of money and power. The identified types are not mutually exclusive, and central banks could assume more than one at once.

Table 1 – The Role of Central Banking in a Money and Power Framework: A Basic Typology

Types of Central Bank	**Roles**	**Literature**
Active managers of money and liquidity for the sake of growth and price stability	Setting interest rates or the money supply; regulators of banks and foreign exchange	Economics (MMT; Keynesianism; Monetarism); McNamara (1998)
Passive manager of money for political, security and economic goals (or subservient to the state); passive agent of monetary hierarchies	Manipulating currencies; managing monetary areas to build dependence; watching systemic disruption; deflecting or delaying the costs of Balance of Payments adjustments	Kirshner (1997, 2006); Block (1977); Andrews (2006); Cohen (1971, 1977, 2000, 2006, 2013, 2015a, 2015b, 2016); Strange (1970, 1971a, 1971b, 1976, 1988); Norloff (2014); Brown (1979)
Indifferent to banks and industry	Regulation of foreign exchange markets	Aronson (1978); Henning (1994) (US)
Subservient to banks and industry	Regulation of foreign exchange markets	Oatley (2007); Henning (1994) (Germany and Japan);
Subservient to international institutions and ideas	Adopting an independent institutional setting	Kirshner (2003); Grabel (2003); Mettenheim (2016); Maxfield (1997); Hudson (2003)
Stabilizing money markets	Providing lending of last resort	Gilpin (1987); Walter (1991)
Destabilizing money markets	Financial liberalization	Walter (1991)
Cooperative	Pooling reserves (gold pool); providing loans to other central banks; making and supporting markets	Gilpin (1987); Gavin (2004); Bott (2013)
Collusive	Epistemic Community; Colluding behavior, perpetuating crisis.	Helleiner (1994); Prins (this dissertation)

Source: Elaborated by the author.

2.6 CONCLUDING REMARKS

This chapter addressed five issues related to the dynamic relationship between money and power. First, it considered the different treatments that money and power have received in the literature. In economics, money can be defined in terms of its economic functions, ignoring its political underpinnings. The chartalist approach brings the state back in, but only to discuss the origins of money, not its role in political conflicts such as currency rivalry in the international system. The discussion of power, besides ignoring, with a few exceptions, money as a potential source of influence and autonomy, focuses too much on the state and ignores the existence of power in civil society and mainly in banks and economic organizations. The challenge of IPE of money and power is to combine these two phenomena in an articulated manner.

Second, money and power can be understood through many lenses. There is a vast literature on these two subjects. However, many times, the works proposing an analysis are deceiving. If they all share the common feature of lacking an integrated framework, sometimes this is because one of the two elements is not fully incorporated. Or it was misrepresented. This points to the strength of the IPE approach. The third topic presented is the analytical innovation in the field of international relations. The profound transformations that the world system underwent in the 1960s and 1970s showed the necessity of incorporating political power into economics, and economic power into politics. Money and power, given their ontological importance, as shown by the need of having them considered even in works that do not tackle them properly, gained also epistemological prominence. The original IPE approaches to money and power emphasized the political nature of money, and the importance of analyzing the international monetary relations. Power hierarchies, creating hegemonic dominance, were reflected onto monetary hierarchies or pyramids. If economic features explained the international position or statuses of many currencies, political determinants could no longer be ignored.

The fourth element is the full integration of money and power into analytical frameworks. IPE matured and became more specialized. Money and power were no longer understood as elements of a broader system, but constituted a subsystem of its own. Theories were developed considering the specificity of this connection. Currency coercion, currency rivalry, currency power and so on needed a deeper knowledge, just as the power elements present in international credit, debt, market and financial relations did. The centrality of money led the field to consider that banks exert power in different ways. Political ends could be

achieved by means of monetary relations rather than, or in conjunction with, military engagements or diplomacy. Monetary policy cannot be seen as a simply technical matter. If policy matters, monetary decisions are about distribution, and therefore are eminently political. Thus, money could not escape the ubiquity of power politics. And power is not only material, but also ideological.

The fifth and final issue is the role of central banks. By implementing monetary policy, they provide a strong linkage between money and power. However, most IPE works have neglected this fundamental institution. Central banks can assume a large number of roles and functions in international monetary relations. It seems inappropriate to conflate central banks and central government. If governments have political strategies that must mobilize monetary power, central banks cannot be ignored. The same is true about private interests. Central banks manage monetary systems because banks are fundamental to capitalist economies. And banks are fundamental because they create money on demand and they also act in financial markets which themselves require greater central bank intervention, particularly during times of crisis. Of course, international monetary relations many times require coordination and cooperation among central banks. And the policies and arrangements developed in the advanced economies are reflected in the monetary policies and institutions built in the less developed countries. Central banks may well form a specific epistemic community. It remains the question of what system commands their actions and behaviors and how it has been altered. In the next chapters, the relationship between money, represented by banks and central banks, and power, represented in its political form of appearance by means of states and governments, and economic ramifications are considered, taking into account the current events that were reflected in many questions raised in this chapter.

3 MONEY AND POWER IN THE UNITED STATES DURING THE TWENTIETH AND TWENTY-FIRST CENTURY FINANCIAL CRISES

The purpose of this chapter is to chronical and expose the intersections of money and power, particularly as it pertains to the world's largest super power, the United States. We will show how the impact of the relationships between the United States government and private bankers shaped major domestic and foreign policy decisions. To start, we will examine how power relationships were established from the end of the 19th century through the beginning of the 21st century in the United States.

In the first section after this introduction, the "Big Six" banking families and their institutions is discussed in the backdrop of financial panic. Next, we argue that the banking power was consolidated with the creation of the Federal Reserve in 1913. The Great Depression represented a major watershed, and global expansion was one of the outcomes. The fourth section examines how these events shaped the rest of the twentieth century, highlighting how the relationship between money and power established the framework and platform for future crises. The final section concludes with an examination of the first major crisis of the twenty-first century.

3.1 THE POWER OF THE "BIG SIX" BANKING FAMILIES AND THEIR BANKS FROM THE 1907 PANIC

As discussed in the previous chapter, Aronson (1978) and Henning (1994) found no evidence of banking power over monetary policy, and therefore over the Federal Reserve, in the United States. The first author considered banks' influence on policies related to foreign exchange markets and found no evidence. Banks' role was an indirect one, by blocking alternative actions in those markets. On the other hand, Henning (1994) compared the external monetary policy of the US, Japan, and Germany. In the US, he argues, the Fed is independent. And to the extent that banks are not connected to industry, foreign monetary policy never takes the latter's interest into account. Yet, as this chapter shows, both the monetary history of the US and the more recent financial events suggest otherwise. Banks are very powerful institutions, mainly because of their political connections with Washington.

By the late nineteenth century, the titans of the banking system were replacing the barons of industry as the beacons of economic supremacy in the United States. Some of the men who epitomized this transformation straddled both industry and banking, as in the German

case studied by Henning (1994). Others relied exclusively on their position within the financial arena to propel their wealth and influence. It was also the beginning of the slow decline of the industrialized economy and the start of the disconnect between the capital markets and the real economy.

This shift would have a profound and irrevocable impact on America's future. New sources of power would be established, both within the country and beyond its borders. The modern age of financial capitalism had begun. In this new paradigm, the White House would find itself operating in a more integrated manner with the most powerful bankers, and in response to the bankers' demands. This was not just about acquiescence to the banks – but to the legacy of family firms and the power dynamics behind them. Bankers understood that a president might be in office for 4 or 8 years – however, they could technically rule the White House (and the world) for much longer.

Though the twentieth century is dubbed "The American Century" (United States of America, Department of State, n.d.)— reflecting the nation's political and economic dominance, and marked by its two-decade-long Progressive Era (Schambra, 2007) of social reforms and constitutional amendments—its early years unleashed an epoch of enhanced political- financial alliances between Washington and Wall Street. Co-dependencies and tensions between these two spheres of power would define not only the nation's domestic agenda but also its identity as an emerging global superpower (Prins, 2015). The domestic power game emanated from the oil and railways - industries cultivated by the country's richest barons. Meanwhile, the banking sector was evolving from a business predicated on lending for production and expansion purposes to one predicated on the consolidation, distribution, and packaging of capital for its own sake. As making money became more important than making products, control of America's economic direction shifted to a smaller group of elite financiers.

Thus, with control, power. America started this global shift. They were the "new world" relative to "old Europe" and the rest of the world's countries would either fall in line – or get run over. These early twentieth-century bankers were not simply focused on creating wealth, either; they were also interested in manufacturing "influence capital." The manner in which they dictated the behavior of money rivaled the way the government directed the country. Late 1890s economic crises had revealed that the Morgan Bank (J. P. Morgan & Company) held more money and gold than the US Treasury Department (Strouse 2014). As the need for money became more critical, the men who controlled it became more powerful. (The Morgan Bank eventually morphed into JPMorgan Chase, the US's largest bank today.) Money was about

belief as much as it was about substance derived from being backed by something. The psychological power of money was real.

J.P. Morgan controlled nearly 70 % of the steel industry and one-fifth of all corporations trading on the New York Stock Exchange (Kessner 2003, p. 208). His power intensified when the railroad industry began to crumble due to too much speculation at the turn of the twentieth century. Another rising major financial player was billionaire John D. Rockefeller. From 1886 to 1899, annual profits in Rockefeller's Standard Oil Company, one of the world's preeminent industrial companies, tripled from $15 million to $45 million. Such a gush of cash required a new mechanism from which to spawn greater wealth, which could translate into greater levels of influence. As Josephson wrote in his classic book *The Robber Barons*, "It became inevitable that the Standard Oil men make reinvestments regularly and extensively in new enterprises, which were to be carried on under their absentee ownership... [as] John D. Rockefeller announced his 'retirement' from active business." (Josephson 1962, p. 394) Rockefeller was pioneering the pivot to capital accumulation for its own sake to remain competitive in America's power circles.

In conjunction with James Stillman, president of the National City Bank of New York (the largest US bank in terms of assets, referred to as "The American Bank" and which has since morphed into Citigroup),[1] Rockefeller began investing in banks, insurance companies, copper, steel, railroads, and public utilities (Josephson, op. cit., p. 397). The Rockefeller brothers saw the business of capital production as a means to enhance their power and status. The Rockefellers would dominate growth of another major bank, the Chase National Bank (which would later morph into JPMorgan Chase).

Solidifying the Stillman-Rockefeller business union, William's son, William Goodsell Rockefeller, married Stillman's daughter, Elsie Stillman, in 1902. The couple produced the future National City Bank chairman, James Stillman Rockefeller.[2] The social and matrimonial elements of family partnerships in the early part of the twentieth century fortified the industrial families' evolution into the investment banking realm. Banks began cultivating the accumulation of citizens' deposits to capitalize investments for wealthy customers, corporations and themselves.

In his pathbreaking study of financial oligarchy in America, *Other People's Money*, preeminent Boston lawyer and future Supreme Court Justice Louis Brandeis noted that "the

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[1] James Stillman was president of National City Bank until 1906, whereupon he shifted to the post of chairman and Frank Vanderlip took his slot as president.

[2] James Stillman Rockefeller became chair of National City Bank in 1959.

power of the investment banker over other people's money is often more direct and effective than that exerted through controlled banks and trust companies. This is accomplished by the simple device of becoming the bank of deposits of the controlled corporations." (Brandeis, 1933, p. 15) In other words, the more money a bank controls, the more power it wields. The above facts were not isolated. For much of the twentieth century, United States financial policy was controlled by a small circle of families and their close associates. The nation's three largest banks were dominated by three families, who, in turn, had close personal ties to every president. With so much power in the hands of a few families, America was never a true democracy, nor a Republic, but more a plutocracy or an aristocracy.

A select group of bankers, that formed the core of a powerful Wall Street fraternity dubbed the "Big Six" by Forbes Magazine founder B. C. Forbes (Forbes, 1929), would eventually pool their banks' money to save the markets—and themselves—from their own recklessness during the Crash of 1929. But these men and their institutions transcended that period, dominating money before and after it. Today, the "Big Six" United States banks are largely derivations of the same Big Six banks run by these families during the Panic of 1907, the Crash of 1929, World War I, World War II, and all the crises throughout the 20th and 21st centuries (Forbes, 1929). Leaders of these banks have collaborated with presidents to run America from behind the scenes. They have had significant influence on its financial and political path. In many cases, they have had more power than presidents.

By early 1907, the United States economy faced a recession born of a sell-off in the railroad industry and an outflow of gold to Europe. That financial panic that struck in October had been brewing through-out the year. But the climax was ignited by the failed attempt by "copper king" F. Augustus Heinze and notorious speculator Charles Morse to make a killing by cornering the copper market (King, 2012). It could have been an isolated incident, except for one thing. Heinze and Morse were associates of the president of the Knickerbocker Trust Bank, Charles T. Barney, who became tainted as a result.

Moreover, as in all times of financial uncertainty, money ceased flowing. Scared investors dumped stock into the declining market to muster up cash to pay their debts to banks. In desperation, the president of the stock exchange appealed to Wall Street's most powerful banker, J.P. Morgan, to halt the financial bloodshed. Morgan formed a pool of banks to supply the markets with $20 million. Stock prices recovered (Collins, 2014, p. 37). The world seemed momentarily at ease. But it was the calm before the storm. By Monday, October 21, depositors were drawing large sums of money from the New York City based Knickerbocker Trust Company, the city's second-largest trust. But, this time, despite assurances from the more

powerful bankers and another $10 million guarantee from Morgan, the run accelerated (New York Evening Telegram, 1907). Until Morgan stepped in again as he had done in the panic of 1893. That pattern showed the power Morgan had to control the banking landscape, but it was a risky game for him in case something occurred he couldn't contain.

Within a few weeks the panic appeared to be over. A 1907 New York Times headline declared "John Pierpont Morgan a Bank in Human Form (New York Times, 1907)." Yet, Morgan had not saved the day with his money or his compatriots' money, nor had he saved the economy. Instead, he had used the government's money to assist the banks most important to him. The entire incident of panic, thus, was not just a crisis of confidence for depositors, but of opportunity for certain powerful bankers. As was later divulged in congressional testimony during the Pujo Committee investigation of the money trusts in 1912, the Treasury Department had deposited $39 million in the National Bank of New York at the beginning of the panic week for Morgan to use as he saw fit (Link, 1966).

The scarcity of money and absence of credit had lasting effects on the economy. Banks in small towns had to limit the money depositors could withdraw. Manufacturing centers such as Pittsburgh had difficulty paying employees. The West had unmet demands for money to pay for crops. Across the country, manufacturing, wholesaling, and retailing were affected by the lack of money flows (Colby, 1980, p. 262). The bank panic and tightening of money by the major New York banks had precipitated a national economic depression. And as Fed historian William Greider later observed, "Morgan and his allies not only failed to contain the panic of 1907, but were compelled to seek help from Washington." (Greider, 1987, p. 273)

From a power perspective, the 1907 panic revealed the weakness in the Morgan-dominated banking system. It relied too heavily on the maneuvers and money of an elite group of men that wielded increasing control over the country. But it also provided a reason for them to press for an emergency lending or capital source. The bankers feared that too many emergencies could put them in danger of losing their preeminent position over United States finance.

3.2 CONSOLIDATION OF BANKING POWER THROUGH CREATION OF THE FEDERAL RESERVE

Thus, the matter of creating a central banking mechanism that bankers and politicians could agree upon, and that would support America's rise to a position of global power, would take center stage in political discourse. The related alliances between presidents and bankers

would come to define not just America, but its position in the world. The Federal Reserve would ultimately provide monetary support along the way.

From its inception, the Fed was crafted as institution to serve Wall Street, not Main Street. The blueprint for the Fed was drafted by an elite group of financiers and a senior senator and other Washington official, at the exclusive Jekyll Island Club, off the coast of Georgia, in November 1910. Though the Jekyll Island Club has since become a public resort, at the time, access to it required membership. J.P. Morgan, head of the Morgan Bank, was a member. And as such, he enabled the designers of the initial blueprint for the Federal Reserve to convene there, with him as their sponsor.

Jekyll Island, the smallest of Georgia's barrier islands, was a place where the unelected leaders of the country convened to enjoy leisure time and discuss their business affairs in an isolated retreat with all the comforts of home. On Jekyll Island, the country's ultra-select luxuriated in a six-to-one servant-to-guest ratio. They usually visited during the winter season.[3] No one on the team accompanying Aldrich to Jekyll Island, including Aldrich himself, was a member of the club at the time. They could only enter the exclusive locale if a member sponsored them. That member, who had ties to each person in the group, was J. P. Morgan. He made arrangements for all of them to be his guests, or "strangers," as visitors were called in the Jekyll Island guest book. In attendance were Aldrich; his personal secretary, Arthur Shelton; assistant secretary of the Treasury A. Piatt Andrew; Frank Vanderlip; Henry Davison; Benjamin Strong, head of J. P. Morgan Bankers Trust Company; and Paul Warburg, a partner at Kuhn, Loeb & Company. They spent ten days in seclusion on Jekyll Island.[4] They were hatching something bigger than themselves. They were formulating a blueprint for banking in America and for American banking power around the world.

Their plan called for the establishment of a National Reserve Association. The men agreed upon a central structure, with fifteen quasi-independent branches whose policies would be coordinated through a central national committee. It would have the power to create one standard currency, the dollar, backed by the full faith of the United States government (and at the time, gold) that would be more powerful than multiple banks issuing their own promissory notes for currency purposes.[5] A unified currency would support the country and the big banks in times of emergency.

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[3] Author interview with Jekyll Island Museum historical director John Hunter, February 7, 2013.

[4] Author Interview with John Hunter. In the hotel where the clubhouse once stood, there are two meeting rooms by the dining room hallway: One Is marked "Aldrich," and the other Is marked "Federal Reserve Room."

[5] Federal Reserve Act, Section 16. "1. Issuance of Federal Reserve notes; nature of obligation; where redeemable: Federal Reserve notes, to be issued at the discretion of the Board of Governors of the Federal

Their idea was that the Fed would back banks in times of stress like the Panic of 1907. Yet, there was more to it. It would help catapult America to superpower status. The needs of the White House and Wall Street aligned behind the notion that the more power the United States had domestically, through strong big banks, the greater the mark of global dominance, politically and economically.

3.2.1 Conception of The Federal Reserve

After the Panic of 1907, bankers and politicians sought a more stable banking system that could withstand crises. Despite J. P. Morgan's ability to harness backing from the Treasury Department when he needed it (and vice versa), he desired a more permanent solution to financial emergencies. The rest of the big bankers concurred. In Washington, certain Republicans and Democrats concluded that excessive reliance on bankers to stabilize the financial system in times of turbulence was too high a risk to their own influence over the country. Yet with the economy struggling, such a position had possible political implications and had to be navigated accordingly. The leadership in Washington would not want to fight the bankers if it meant losing ground financially for themselves, or their constituents.

Republican candidate for President, William Howard Taft, was largely warm toward the financiers (Taft, 2009, p. 106). But he knew the population blamed the bankers for the recession and that the Democrats would capitalize on this if he didn't balance his support for business interests with empathy for the public. The tactic worked. In the presidential election of 1908, Taft won handily over populist Democrat William Jennings Bryan. Under his guidance, Congress established the bipartisan National Monetary Commission, to develop a banking reform proposal and study the problems underlying the panic and alternative foreign central banking systems. The commission was headed by Senator Nelson Aldrich, one of the most influential leaders in the Senate. During the summer of 1908, Aldrich and some subcommittee members journeyed to Europe (The New York Times, 1908). Their official mandate was to study the operations of European central banks for background information with which to fashion a central bank for the United States.

Reserve System for the purpose of making advances to Federal reserve banks through the Federal Reserve agents as hereinafter set forth and for no other purpose, are hereby authorized. The said notes shall be obligations of the United States and shall be receivable by all national and member banks and Federal Reserve banks and for all taxes, customs, and other public dues. They shall be redeemed in lawful money on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal Reserve bank." This description is close to the definition of money in the MMT (see chapter 2.)

The world stood at a financial crossroads: the most powerful and capital-rich United States bankers could realistically consider the possibility of competing with European bankers for the first time, just as the United States could now consider competing with Europe. Even Alexander Hamilton, the first Treasury Secretary of the United States, had studied the composition of the Bank of England, when he concluded that the United States would be served well by having a central bank.[6] It would be advantageous for the United States government and for Wall Street to establish a strong central bank that would strengthen the United States currency to aid both factions in that quest for international power.

In the summer of 1910 Aldrich selected National City Bank president James Stillman to accompany him on another fact-finding mission to Europe (New York Times, 1910). Central banks in Europe were key to establishing national superpower status in world trade through the issuance of centralized bank notes and loans to banks to finance it. If the United States was going to compete on a global playing field, it would need a unified currency backed by one centralized entity. This would render the dollar, and hence the United States, stronger politically and financially. The challenge was convincing the political elite and United States population that a strong central bank and currency meant a strong America. As such, the Federal Reserve plan would be penned clandestinely.

On January 16, 1911, Aldrich formally delivered the "Suggested Plan for Monetary Legislation" to the National Monetary Commission, otherwise known as the Aldrich plan (New York Times, 1911). President Taft was convinced that a powerful United States required a powerful currency and that passing a solid plan for a United States central bank under a Republican White House could give him leverage in the upcoming elections. He offered advice to ensure its passage in the Democratic-controlled Congress.

In a January 29, 1911, letter to Aldrich, Taft wrote,

> If you formulate your scheme into a definite bill backed by the Commission, I can recommend it and present it with the arguments in its behalf to a Democratic Congress and in this way perhaps prepare the way for its being adopted as a plank of the next Republican platform. So that if we are successful in the next election we can put it on its passage in a Republican Congress as the performance of a platform pledge and promise." (McCulley, 2012, p. 228)

In the early 1910s, America was not yet the global financial superpower that it would become by that decade's end. Two key elements would propel it to such a height. The first was the creation of the Federal Reserve System (the Fed), which provided bankers backup in case

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[6] Federal Reserve History, Alexander Hamilton, https://www.federalreservehistory.org/people/alexander_hamilton

of financial emergencies (lender of last resort function). The second was the Great War. World War I reshaped the landscape of international business and political power.

3.2.2 Deploying the Federal Reserve to Create Money And Propel Power Into the Great War

President Wilson signed the Federal Reserve Act into law on December 23, 1913, establishing the twelve-bank Federal Reserve System and its powerful Wall Street–centric arm, the New York Fed[7]. The name connoted “public” and “of the government.” And yet its members were the private banks who would use the Fed to back their businesses when necessary, in the ultimate public-private partnership. Publicly, Wilson claimed the Fed would ensure that credit be available to the broad population in times of trouble and thus, reduce Wall Street’s power over it. Privately, he was concerned with keeping his banker friends, who had been his election supporters, happy. He did this by endorsing a Wall Street aligned arm of the Fed, the New York Fed.

As mentioned, the Federal Reserve was created in response to the Panic of 1907 and earlier ones. But its main purpose was to elevate the stature of the United States in global financial activities relative to European central banks, and, as a result, to strengthen American bankers’ dominance domestically and internationally. According to the Federal Reserve Act of 1913, the Federal Reserve System was originally created “to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.”[8] In practice, it served the dual role of perpetuating the power of the president and that of the bankers, and as such, served the alliance of the two. (In 1977, the Federal Reserve Reform Act would expand the Fed’s role definition to have the official dual mandate to “promote maximum employment, production, and price stability.”)[9]

The role of running the New York Fed, the entity in the 12-reserve bank Federal Reserve System closest physically and empathetically to Wall Street, and in charge of the implementation of the Fed’s monetary policy, fell to one of the original Jekyll Island authors of the predecessor Aldrich plan, Bankers Trust’s head Benjamin Strong (New York Times,

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[7] Wilson Signed the Measure at 6:02 P.m. in the Oval Office before an Audience Including Members of His Family and the Cabinet, Democratic Leaders, and Newspapermen.

[8] Federal Reserve Act : Public Law 63-43, 63d Congress, H.R. 7837

[9] GovTrack.us. (2020). H.R. 9710 — 95th Congress: Federal Reserve Reform Act. Retrieved from https://www.govtrack.us/congress/bills/95/hr9710

1914a). As Ron Chernow wrote in The House of Morgan**, "**The New York Fed and the [Morgan] bank would share a sense of purpose such that the House of Morgan would be known on Wall Street as the Fed bank." (Chernow, 2010, p. 182)

Though the Fed's decisions were technically "independent," the body would serve the bankers first, by keeping them flush with money and by acting as their lender of last resort. National banks were automatically members of the system, as are more than one-third of all United States banks, including the biggest ones, today. As Greider observed, "the Fed may have actually preserved the financial power of those very bankers who the public thought were at last being brought under control." (Greider, 1989, p. 270). Indeed, the Fed operation was designed to serve the big bankers the most, and always would.

The Morgan Bank would lead World War I-related financings, both for America's armament efforts and for those of the Allied countries. In his role leading the bank, Jack Morgan (son of J. P. Morgan) would dictate how credit was extended to battered nations during the war and through postwar peace. One Morgan partner in particular, Thomas Lamont, became the close ally of President Wilson during wartime, and also served as advisor to a mission of the Allied forces. The two Ivy League educated men would combine efforts and whims to forge the postwar Treaty of Versailles and League of Nations (Horn, 2005). The attempt would fail due to domestic political power plays and rising isolationism. This would in turn, crush Wilson and the Democrats. The bankers would find other ways to render Wall Street the global center of financial capitalism.

3.2.3 Bankers and The Great War

On June 28, 1914, the WWI battle lines were drawn. Military mobilization orders traversed Europe. The national and private finances that had capitalized the building of shipping and weapons arsenals in the late nineteenth and early twentieth century would spill into deadly battle. If, as Kirshner (1997) argues, state money can be used to achieve security goals, private money is hardly separated from defense expenditures. Sensing he would need the bankers' help in the days ahead, President Woodrow Wilson invited Jack Morgan to a luncheon at the White House. At 12:30 on the afternoon of July 2, 1914, Morgan emerged. Wilson's needs and Morgan's intentions would soon become clear. For on July 28, Austria formally declared war against Serbia (New York Times, 1914b).

The Central Powers (Germany, the Austro-Hungarian Empire, the Ottoman Empire, and Bulgaria) were at war with the Triple Entente (France, Britain, and Russia). Another financial

panic seemed a distinct possibility. Wilson had to both assuage the markets and prepare the country's finances for any outcome of the European battles. Wilson and Morgan kicked their power alliance into gear. At the request of high-ranking State Department officials, Morgan immersed himself in war financing issues. On August 19, 1914, President Wilson urged Americans to remain neutral.[10] But Morgan and his partners never embraced the policy of impartiality. As Morgan partner Thomas Lamont wrote, "From the very start, we did everything we could to contribute to the cause of the Allies." (Lamont, 1994, p. 68) That position would also serve them well after the Great War was over.

3.3 THE CRASH OF 1929, GREAT DEPRESSION, AND MID-CENTURY GLOBAL POWER EXPANSION

Post-WWI American isolationism was embraced by the 1920s presidents, Warren G. Harding and Calvin Coolidge. As such, financiers pivoted so as to enhance their domestic power, primarily by expanding upon the influence they already had, but also demanding fewer Washington-imposed restrictions on their activities (Trani, 2017). President Warren G. Harding saw his job as calming a nation, balancing a postwar budget, and leaving bankers and businessmen alone. Whereas Wilson had wanted the United States to be more integrated with other nations, reflecting the political landscape of the times, Harding shunned Wilson's foreign policy ambitions during his campaign, reflecting the country's disenchantment with internationalism, peace treaties, and debate over whether America should join the League of Nations. The population and leading politicians became increasingly disengaged from the preceding Progressive Era and cultivated a strident sense of individualism, particularly as it pertained to personal economics and protectionist trade tariffs.

His successor, President Coolidge represented more of the same. Coolidge kept most of Harding's cabinet, including Treasury Secretary Andrew Mellon and Secretary of Commerce Herbert Hoover. Given his international experience under Wilson as the head of the American Relief Administration, Hoover might have done more to press for an internationalist doctrine. But his term as president was marred by an epic financial disaster and all the bankers had done to instigate it.[11]

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[10] Woodrow Wilson, "Message to Congress," 63rd Congress, Second Session, Senate Document No. 566 (Washington, 1914), 3–4.
[11] "Years of Compassion 1914-1923." National Archives and Records Administration, Herbert Hoover Presidential Library, hoover.archives.gov/exhibits/years-compassion-1914-1923.

For the most part, the philosophy of these three Republican presidents was simple. They believed the role of government should be to facilitate, rather than regulate, the growth of business and finance, and that such an approach would strengthen America's power from within. They embodied the "laissez-faire" doctrine. Isolationism became a form of internal denial. That left room for the bankers to expand their control over the country's economy—and to take greater financial risks domestically and globally.

Political isolationism worked well for the bankers, too, as long as it did not interfere with their global expansion goals. Charles "Sunshine Charley" Mitchell, president of National City Bank—the largest bank in terms of assets in the United States, with the most extensive network of overseas branches—solidified his position by standing outside the fray of postwar financial diplomacy as much as possible. This he did while his bank lavished loans on emerging market countries that ultimately couldn't afford them and sold the related bonds to the American public (King, 2011).

Meanwhile, the Morgan Bank, under the daily direction of Thomas Lamont (with oversight from Jack Morgan), continued to influence foreign policy by collaborating with the New York Federal Reserve Bank to assist in the European recovery through more targeted loan extensions, particularly to the Bank of England. The firm maintained its role of indispensability to the presidents regarding war debt and reparations discussions. If in Ferguson's square of power money is a corner, private banking is the entire area connecting all corners. However, unstable economic conditions in Europe—and, to a lesser extent, in Latin America—contributed significantly to the more subtle power plays between the White House and major bankers. Lamont believed a stronger Europe would catapult American dominance forward faster, expanding the Morgan Bank's footprint in the process. But he and the presidents had differing views on the degree and nature of United States participation in European reconstruction and debt forgiveness.

The chess game amongst the main financiers for supremacy on Wall Street intensified significantly during the 1920s. The isolationist policy position spurred fractious relationships between the key bankers, who had once been bound by side agreements to work together for a common purpose. The Morgan Bank, National City Bank, and the First National Bank, for example, had shared stakes in businesses at the turn of the century. Relationships among the former heads of these banks had manifested through decades of intimate collaboration and Jekyll Island–type gatherings. Now, it was becoming every bank for itself—until the next crisis. The Great War had invoked a spirit of cooperating on behalf of the combined good of the country, the world, and their firms. That was gone now. The fact that the government itself now

deployed a hands-off policy relative to the bankers meant that aggressive speculative ventures and big bank mergers would forge ahead. A war for sovereignty, of sorts, had moved into the financial realm.

The United States had become the world's biggest creditor after WWI, while its private bankers relentlessly scoured the world in search of more borrowers. The postwar recession that engulfed the globe in the early 1920s made war debt repayment, and thus the ability of banks to extend even more credit, extremely difficult. Britain, the former power center or hegemon of European and global business and finance, was staggering under its huge war debt and the costs of maintaining its overseas empire. Once fighting ended, the UK abandoned the gold standard in order to inflate its currency to help finance the war. As a result, the US dollar began to surpass the British pound in international transactions and emerged as the global reserve currency (Eichengreen & Flandreau, 2008). That was a major shift of global financial power. At that point, the US dollar was backed by gold. As the wealthiest families owned such a disproportionate physical and paper stockpile of money, they were backing the dollar, too. This is why their institutions were so interconnected with the emergence of America's power as a nation, and of the dollar as the dominant global currency.

After the war, the Morgan Bank solidified its status as the leading world bank by organizing huge loans to foreign governments for reconstruction and development. It acted almost as a branch of government, yet operated in the private sector. In 1927, the Morgan Bank became the leading syndicate manager of bonds, (it had that role for $500 million worth of them.) Postwar foreign bond issues comprised a third of the Morgan managed offerings (Chernow, 2010). National City Bank and Kuhn, Loeb followed close behind.

The rush to extend foreign loans and sell foreign bonds to American investors would prove disastrous. In a talk before the International Chamber of Commerce in Washington on May 2, 1927, Mitchell's rival Lamont warned investors of what he saw as a potentially ugly situation, though he was also concerned that Morgan was losing its standing as the leading international bond house: "American bankers and firms [are] competing on an almost violent scale for the purpose of obtaining loans in various foreign money markets overseas. That sort of competition tends to insecurity and unsound practice" (Lewis & Schlotterbeck, 1938, p. 380). Still, the bankers' reckless underwriting of loans would implode at the public's expense. Losses on the Latin American bonds would take a toll on the American economy, as would the stock market crash. By the fall of 1929, Chase had acquired six major New York banks, in its push to be the second largest private bank in the world, next to Mitchell's National City. Their rivalry would last decades.

Personifying the modern banker-titan, Mitchell aggressively pursued investors as if they were prey. In 1928 and 1929, he, who became chairman in 1929, earned $1.2 million in total compensation, two hundred times the average American's salary of $6,000 (Gomme and Rupert, 2004). In early 1929, Mitchell, a consummate salesman, pushed his employees to sell nearly 2 million shares of National City stock to the public for $650 million to raise capital for his rise (Time, 1933).

But when the market wobbled in early March 1929, he got scared. He tried and failed to convince the New York Fed to dump funds into the market to save, among other things, his shares. So, he took matters into his own hands. On March 26 he announced that he would provide $25 million from his bank, and an additional $5 million if necessary, to keep the escalating call money rate that banks charge on loans to brokers—who, in turn, lend the money to their clients to help them purchase stock—stable at 15 %. Fears were that it would reach 20 %, without intervention, which the Fed had denied. That would create a credit crunch. His actions failed, but he was routinely touted by the press. "Mitchell is the ideal modern bank executive," wrote Carlton A. Shively, Financial Editor of the New York Sun in May 1929**.**

3.3.1 1929: The Crash and Big-Six Response

The markets began stumbling in September, 1929. On Thursday, October 24, or "Black Thursday", share prices plummeted in a frenzy of trading. It was a sign of the lax hand that former President Coolidge, who had presided over much of the 1920s boom, had over the bankers' speculative activities. It was also a major power challenge for recently elected President Herbert Hoover, who had emphasized in campaign advertisements that "the slogan of progress is changing from the full dinner pail to the full garage."[12] The market dove massively beginning the following week. Mitchell had frantically, and secretly, borrowed millions of dollars from his own bank to support its share price. But National City stock still lost 50 % of its value on Black Tuesday, October 29, 1929, as the market crashed amidst frenzied selling.

It was a day of reckoning for the "Big Six" bankers, determined to preserve their power and influence at the epicenter of society. They gathered at 23 Wall Street—the House of Morgan. Mitchell was the first man to enter. (He had the most to lose. In November 1929, U.S. Senator Carter Glass would say, "Mitchell more than any 50 men is responsible for this stock crash

[12] "Frequently Asked Questions," Herbert Hoover Presidential Library and Museum, at Http://Hoover.archives.gov/Info/Faq.html#Chicken.

(Time, 1933). Also in attendance were Al Wiggin, Chairman of the Chase National Bank, William Potter, president of the Guaranty Trust Company, and Seward Prosser, chairman of the Bankers Trust Company (New York Times, 1929b).

A day earlier, the stock market had experienced its largest single-day drop ever. The ideal of shared prosperity was shattered. As Galbraith later put it, “By the summer of 1929 the market not only dominated the news. It also dominated the culture.” (Galbraith, 1954, 74) Its subsequent plunge was thus a decline of greater than financial ramifications. Not everyone was in the market, but the mood of those speculating in stocks (fewer than 1 % of the population) had dictated the story of the economy’s endless possibility.

It didn’t take long for the Big Six to reach an agreement. Money had to be poured into the market. Each man would use his customers’ deposit money to bolster the stocks the group was most concerned about. In such times of strife, their best solution was socialistic in nature. This also put the public more at risk for the sake of private gains. The manifestation of gushes of capital—in whatever form —was the grease that would keep the wheels of the market turning. Or so it seemed. Separately, bond prices rose on the rumor that “the Federal Reserve Bank would be forced to purchase government securities instead of bankers’ acceptances.” With the Fed would swooping in to buy Treasury bonds in high volume, which would mean bond prices “would turn upward sharply.” (New York Times, 1929a).

These bankers understood that inflated stock and bond prices were the result of their actions. They took comfort in knowing that the institutions they represented were deeply interlocked with board memberships and stock ownerships and had to now work together to retain their money and power. They had been schooled at the finest institutions, were members of the most elite clubs, and intermarried into the bluest lines of American aristocracy. They represented the heart of finance; their client companies, the arteries. They were power. These men personified the phrase “too big to fail.” Indeed, none of their banks would fail. Instead, they would morph into the biggest banks of the twentieth and twenty-first centuries. Their hierarchy would shift through mergers, deaths, and changes in leadership, but their overall influence would remain intact.

As a result of the combined actions of the bankers and the Fed, conditions appeared even better. The Fed’s actions in buying securities to boost prices also helped promote the illusion of financial health. The market stabilized somewhat over the following six months.

3.3.2 Early 1930s: Tenuous Times, Tax-Evading Titans

The 1930s began on the false note of economic security with which the political-financial alliance had capped off the 1920s. After the hysteria around the Crash subsided, President Hoover caught his breath. The Big Six were relieved that their collaboration to save the markets, buoyed by the staunch support of the White House and Treasury Department, and abetted by the Federal Reserve, in its first major post World War 1 demonstration of its power. If one simply considered the invigorated behavior of the stock market, that conclusion was almost believable. For it was enjoying a brief resurgence from its Black Tuesday depths. Dipping to a low of 199 on November 13, 1929, the market was on its way up to 294, a 50 % increase, by April 17, 1930.[13]

But those delusional days were short-lived. The economy had suffered a severe blow not just because of the Crash, but because of the preceding years of excess and borrowing to support that excess, yet its weakness was masked by the vibrant stock market. The injection of post-Crash speculative money in the market couldn't negate systemic problems. There were too many bonds defaulting, too many businesses closing, and too many people losing their jobs. The money funneled into the market to fuel financial speculation was not the kind of long-term capital upon which true economic growth could be sustained. Paper profits had shriveled faster than they had once increased. This could, and would, happen again.

Yet President Hoover, on May Day 1930, declared to the nation, "We have now passed the worst and with continued unity of effort we shall rapidly recover."[14] His statement foreshadowed a nearly two-year market dive to a low of 41 on July 8, 1932, and a Great Depression that brought the America to its knees. Were it not for parallel and connected crises unfolding globally, the Great Depression would have dampened America's international power. But since the rest of the world was suffering, America would retain and even extend its dominant position throughout the 1930s. By the decade's end, the Great Depression would become the backdrop for another world war, and a war effort that would unite most of the same banks as the first one had.

The first wave of deepening Depression, in the fall of 1930, coincided with the first of three major episodes of bank closings and mini panics. It began in the Midwest, where banks

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[13] "Dow Jones Industrial Average Index Chart," Yahoo Finance, at Http://Finance.yahoo.com /Echarts?s=^Dji Interactive.

[14] Herbert Hoover, "Address to the Chamber of Commerce of the United States," American Presidency Project, www.presidency.ucsb.edu/Ws/?Pid=22185.

had been starved for credit since the Crash. The Fed showed little empathy for the general credit condition of the country, focusing instead on how the big banks were faring. The population wasn't experiencing a recovery at all, especially not in the poorest areas. As the Fed reported, "The growth of deposits has not been felt by rural communities. At the present time their level is lower than at any time in recent years." (Federal Reserve Board, 1930)

It wasn't surprising that there was no growth in deposits; the public couldn't manufacture money out of thin air. Yet the Fed board remained focused on the fortunes of its elite members. Thus, it concluded in October 1930: "The exceptionally strong position of commercial banks and of the reserve banks, the prevailing ease in credit conditions, the low level of money rates, and the attitude of the federal reserve system" meant "the country's credit resources will be available to facilitate in every possible way the orderly movement of agricultural commodities from the producer through the channels of trade to the ultimate consumer." (Ibid, p. 615) By the end of 1930, a new group on Wall Street, comprising most of the same banks as in the early 1900s, but with new faces at their helms, was selecting which companies would live or die based on who had the strongest relationships with the Morgan Bank, National City Bank, and Chase.

Banking system failures throughout Austria and Germany were followed by Britain's abandoning the gold standard on September 21, 1931.[15] The global Great Depression was in full swing. In the United States, hundreds of other banks closed their doors. Home foreclosures spiked. Construction and other jobs disappeared. Meanwhile, banks were in self-preservation mode. Hoover did establish the Reconstruction Finance Corporation in 1932. The government bailout program was tasked with lending $1.5 billion to ailing banks and industries, but its funds were channeled disproportionately to the bigger banks (TIME, 1950). The action was reactive, not preventative.

The massive bond-buying program that the Fed initiated in May 1932, in which it agreed to buy $26 million worth of bonds a week from its member banks, reached a total of $1.82 billion in Treasury securities holdings (New York Times, 1932). The idea was that banks would sell their Treasuries and use the money to pay their debts. After that, they would use the remaining cash to lend out or buy corporate bonds to help the greater economy. This was in addition to getting the benefit of low rates on their own loans from the Fed's discount window. But only half of that plan happened. The banks did sell the Fed their government bonds to raise

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[15] "September 22, 1931: Message on the Gold Standard." Miller Center, University of Virginia, 23 Feb. 2017, millercenter.org/the-presidency/presidential-speeches/september-22-1931-message-gold-standard.

more capital. But they did not lend the money back out. (This tactic would be repeated after the 2008 crisis and the 2020 coronavirus pandemic crisis, as shown in chapters 4 and 5) Discount rates were eventually lowered to 2.5 % in 1934, 2 % in 1935, and 1.5 % in September 1937. But this didn't inspire an outpouring of lending either. In that way, the entire exercise was more for psychological effect - to elicit market confidence than direct economic impact.

On March 4, 1933, Hoover rode with president elected Franklin Delano Roosevelt (FDR) to the Capitol. During FDR's inaugural address, he famously pronounced, "The only thing we have to fear is fear itself." There were fourteen million people out of work; nine million had lost their savings. It had been a rough few years. In 1930, 1,350 banks had failed, followed by 2,293 in 1931 and 1,453 in 1932.[16] The smaller banks fared the worst. Even the great Morgan Bank had seen its assets decline from $118.7 million in 1929 to $53.2 million by 1933, though in general the big New York banks did better than others. Things got worse as 1933 opened, with 273 banks closing in January alone, bringing another rush of citizens extracting any deposits they had left, fearing the worst.

By 1934, the US appeared to be slowly emerging from the Great Depression. Unemployment was still near 22 %, but the national mood was lifting thanks to confidence in FDR's New Deal programs, coupled with the rising trust in the banking system that he carefully engineered through regulating it. The very structure of the US banking system had been dramatically altered under the Glass-Steagall Act of 1933 that separated commercial from investment banking, which had previously both been contained within the same bank.[17] During the mid-1930s, it was the financiers that were focused on commercial banking that pushed the FDR administration forward with banking regulations. New York Assistant District Attorney Ferdinand Pecora's commission investigation and report was one major reason that Wall Street's crimes were highlighted publicly at the time, and that led to the Glass-Steagall Act. The relationship between bankers and FDR played a big role, as well. Bankers wanted regulations after the Crash of 1929 and during the Great Depression, so as to regain confidence from their depositors and customers[18]. (Prins, 2014).

When the WWII broke out due to the rise of global nationalism on the back of the Great Depression, these same bankers would position themselves for military-financial victory. There

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[16] "Federal Deposit Insurance Corporation." FDIC, www.fdic.gov/bank/historical/managing/chronological/pre-fdic.html.

[17] Maues, Julia. "Banking Act of 1933 (Glass-Steagall)." Federal Reserve History, www.federalreservehistory.org/essays/glass_steagall_act.

[18] Today, as we discuss in our research, the rise of CB power and their unprecedented external support for banks ensures confidence in bank liquidity during crisis, as well.

was also a sense of patriotic duty and putting the country above business interest for a time. This would, in turn, launch a major period of expansion of American power. The United States would rise as a superpower through the ashes of war, a Cold War, and a major manufacturing boom. Then, it would be faced with rising tensions in the oil supply chain, a Latin American Debt crisis, and bankers pressing for fewer restrictions on their activities.

3.3.3 The 1960s and 1970s Expanding Of Global Finance

In the aftermath of World War II and the dawn of the Cold War 1950s, a new set of bankers and politicians emerged, as American re-positioned itself for a new escalation of its global financial power predicated on an economic boom. During the 1960s, one force drove the disparate realms of United States politics, pop culture, and banking: youth. By the mid-1960s, 65 % of Wall Street bankers were under the age of thirty-five. They had no Great Depression memories and were ready to own the world. Following a slow start to the decade, an air of financial immortality born of booming corporate profits, rising wages, and easy credit buoyed the stock market again.[19]

JFK would preside over thirty-three months of solid economic growth.[20] But he would fail to execute many of his economic goals; perhaps because he didn't have enough time, but also because the most influential bankers and businessmen didn't support many of his policies, particularly his idea of sharing prosperity with his Latin American neighbors (Townsend, 2011). As Lyndon B. Johnson assumed the presidency upon JFK's assassination, the United States was still in an economic boom. Industrial production hit new highs. Steel attained its highest output level in six years (Hudson, 1969). By late 1963, the economy was a few months away from its longest peacetime recovery since World War II (TIME, 1963).

On the foreign policy front, Johnson escalated the war in Vietnam, a war which Wall Street would come to oppose. However, he and the bankers were in agreement over where America should wield its power: both wanted to infuse more United States private enterprise into Latin and Central America. Not much had changed in that regard since Eisenhower, despite a diversion by Kennedy to want to provide aid based on economic need not strict ideological assurances. Kennedy had been sympathetic to leaders of Latin America and its people. However,

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[19] "Debt Growth by Sector," Federal Reserve Board, at Www.federalreserve.gov/Releases /z1/19960912/z1r-2.Pdf.

[20] "Gross Domestic Product," US Department of Commerce Bureau of Economic Analysis, at Www.bea.gov/Index.htm.

under Johnson, the Alliance for Progress once again served neocolonialist goals, encouraging bankers to infiltrate the region for their own private gain (Gibson 2018). This movement would pave the way for infusing debt into the region, and profits for the bankers in the process that took advantage of it.

During the 1970s, the United States financial throne belonged to the two most powerful bankers: Walter Wriston, chairman of First National City Bank, and David Rockefeller, chairman of the Chase Manhattan Bank. The banking industry had continued a shift that had begun in the 1960s, back to the 1920s-style pursuit of strictly private gain vs. attention to public service or the public good, but soon it would come to focus on infusing Latin America with debt. Bankers saw more opportunity in international pursuits—even if it meant diverging from United States foreign policy initiatives. They pressed President Richard Nixon to abandon the Bretton Woods agreements, which had pegged the dollar to gold.

The Bretton Woods system of monetary management had established the ground rules for financial relations among the United States, Canada, Western European countries, Australia, and Japan. It followed the 1944 Bretton Woods Agreement, adopted at the international conference that took place in New Hampshire. The Bretton Woods system was thus heavily skewed toward the major powers. It thus created the roots of currency and monetary disparity between more developed nations and less developed ones. It also contributed to lending disparities as they pertained to the creation of the International Monetary Fund (and the International Bank of Reconstruction and Development or IBRD [21]) at Bretton Woods.[22]

One major component of the Bretton Woods system was for each country to adopt a monetary policy that maintained its exchange rate within a 1 percent band based on the US dollar, by tying its currency to it (the US dollar was pegged to the gold)[23], as well as to the IMF's ability to bridge temporary imbalances of payments.

Nixon, as a result of being pressured behind the scenes by the bankers and chastising "international money speculators" took the United States off the gold standard on August, 15, 1971.[24] For United States bankers, such restrictions as physical assets backing the dollar were no longer palatable. They wanted more freedom for the creation of money and thus their own

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[21] The IBRD is wrongly referred to as the World Bank.

[22] These less developed countries had many times to create surrogates to remain in the monetary power hierarchy, including the capacity to issue debt and borrow from the IMF. The Brazilian institution created as a result of accommodating IMF lending requirements was the SUMOC (Supervisor of Money and Credit).

[23] For more on the Bretton Woods Agreement establishment of the gold standard and US dollar as the world currency, IMF and the World Bank, see: https://www.federalreservehistory.org/essays/bretton-woods-created

[24] Nixon, Richard, "Address to The Nation Outlining a New Economic Policy, August 15, 1971 http://www.presidency.ucsb.edu/ws/index.php?pid=3115#axzz1xglSWGWB

designs on financial globalization. By extension, the Fed would be less constrained by the same gold standard and thus in a better position to help the banks as and when they needed it.

The Middle East oil crisis in 1973 made this divergence more apparent. Over the two years when domestic inflation soared and oil prices quadrupled, the population suffered. But the bankers were able to use price spikes to book massive petrodollar profits. "So great was the activity that American banks have been thrust into the role of major suppliers of money to the world." (Cooper, 2012) Though the United States was a superpower, it couldn't control the oil prices upon which it was increasingly dependent. In 1973, Rockefeller established the Trilateral Commission, an elite organization that gave the influential private-sector men of North America, Asia, and Europe opportunities to discuss ways to retain their global power. Within its ranks were heads of major banks, corporate law firm partners, elected government leaders and influential academics (Chomsky & Peregrín, 1981).

Its creation coincided with the growing fear among bankers that if United States economic and political power became less dominant relative to Western Europe and Japan, then the unelected leaders of the private sector would lose their ability to dictate the path of global affairs. It was also a period of political activism and shift in attitude from WWII related faith in government to skepticism of it. The organization was designed to ensure that, if the goals of the bankers and the White House diverged, a body outside the political system would seek to protect open trade and capital flows.

Rockefeller's sights were set on a grand prize, one with worldwide implications. He sought to end the Cold War that had begun in the wake of WWII (Hoffman, 1971). He was an internationalist and saw political borders as impediments to the accumulation of money and power. As such he made his mark in that regard by opening the first United States bank in Moscow since the 1920s, and the first in Beijing since the 1949 Maoist revolution. Augmenting their domestic and international expansion plans, Rockefeller and Wriston and their banks prospered from the emerging and extremely lucrative business of recycling petrodollars, or oil profits, from the Middle East into third world countries (Raw, 1981).

By acting as the middlemen—capturing oil revenues and transforming them into high-interest-rate loans, to Latin America in particular—bankers accentuated disparities in global wealth.[25] They dumped loans into developing countries and made huge profits in the process. By funneling profits into debts, they caused extreme pain in the debtor countries, especially

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[25] Sims, Jocelyn, and Jessie Romero. "Latin American Debt Crisis of the 1980s." Federal Reserve History, Federal Reserve Bank of Richmond, 22 Nov. 2013, www.federalreservehistory.org/essays/latin_american_debt_crisis.

when the oil-producing nations began to raise their prices. This raised the cost of energy and provoked a wave of inflation that further oppressed these third world nations, the United States population, and other economies throughout the world. It was also a time when the IMF was heavily involved in Latin America, thereby operating as another branch of DC-based power and the Wall Street elite.

In July 1973, Rockefeller steered Chase to become the first United States correspondent to the Bank of China since the 1949 Chinese Revolution (Wall Street Journal, 1973). In early 1973 the Nixon administration had established the National Council on United States-China Trade, a “public-private group” whose goal was to increase trading opportunities with China. (The council would later become known as the United States Business Council.) Rockefeller was appointed its vice chairman, and he attended its first conference in Washington in May of that year (Theroux, 2002). With that political credential, he made his first visit to China, becoming the first American bank executive to enter China since the 1949 revolution. Chase was subsequently invited to become the first United States bank in China, thus expanding its power footprint.

One night in late June 1973, Rockefeller and his entourage waited at the Great Hall of the People in Beijing. “Zhou Enlai... stood at the top of the steps to greet us,” he later wrote, noting it was an unusual gesture, and “he did not extend such a welcome to Nixon or Kissinger.” (Rockefeller, 2003, p. 257) Rockefeller considered this meeting critical for all future United States-China relations. “I felt our new connection was supporting of broader American interests as well,” he wrote. “The diplomatic opening achieved by Nixon and Kissinger had enormous significance... [but] contact with the PRC at the private as well as at the government level would be necessary.” Soon after his visit, Chase made its first loan to China. Subsequently, the Chase World Information Corporation, a Chase subsidiary focused on Eastern Europe, the Soviet Union, the Middle East, and China, began introducing American businesses to investment opportunities in China (ibid).

3.3.4 The 1980s: Free-Market Rules, Debt Problems, Bankers Competition

The beginning of the 1980s saw Ronald Reagan win the White House, but other than that, not much had changed from the economic crunch that had proceeded his victory. Inflation

hovered above 14 % and the unemployment rate persisted at 7.5 %.[26] United States economic power was being compromised by the growing strength of Europe and, increasingly, Japan, which was competing for superpower status. Though Reagan would focus on the United States economy and ideological dominance, the financial muscle of the United States bankers would be integral to retaining international control in the face of that competition. Ensuring bankers' ability to compete on the global stage would become United States foreign policy for presidents of both parties from that point onward.

Alliances between the powerful bankers and Presidents' Reagan and Bush would continue, but the relationships would be more perfunctory and less personal than in the past. They would contain an implicit understanding that the pursuit of free-market capitalism suited both Reagan's political doctrine and the bankers' expansionary agenda. They would be fortified by a growing group of well-paid lobbyists and lawyers working to deregulate policy to suit the bankers' ambitions. Global competition, cited as the reason to spread financial capitalism in riskier manners, was also a means to persuade Washington to back bankers in preparing for the post-Cold War international arena. The country with the greatest financial arsenal (a nation of depositors and a government with parallel ideologies to the bankers) would dominate the global scene. It had also just won the cold war and was sporting the strongest military power in the world.

On the international front, developing countries were treading water beneath waves of bank debt. By 1982, the nine largest United States money-center banks held Latin American debt amounting to 176 % of their capital; their total LDC debt was nearly 290 % of capital (Sachs, 1988). When, in August 1982, Mexico informed the Fed, United States Treasury Department and IMF that it would not be able to continue servicing its $80 billion debt, other Latin American countries did the same, sparking a crisis. Sixteen Latin American countries rescheduled their debts, as did eleven other LDCs (FDIC, 1987). Ultimately, United States bankers would force a government and multinational-entity-backed bailout of their third world loans. The deal, which brought harsh austerity measures in return for extra financial aid to the regions affected, would save the bankers billions of dollars.

Domestically, a burgeoning S&L bank crisis, born of deregulation, fraud, and moves by Wall Street banks eager to dump toxic securities into thrifts, threatened to crush the national economy. From an international perspective, private bankers remained reluctant to clean up

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[26] Bryan, Michael. "The Great Inflation." Federal Reserve History, Federal Reserve Bank of Atlanta, www.federalreservehistory.org/essays/great_inflation.

their mess in the third world, which was mired in debt (Zettelmeyer et al., 2003). They had adopted an isolationist view of responsibility that left no room for what they perceived as throwing good money after bad. Even though they had overburdened these countries with loans to begin with, they wanted other entities to deal with the fallout while they sought to mitigate their own losses.

The situation was dire. By October 1983, 27 countries owing $239 billion had rescheduled their debts or were trying to, sixteen of which were from Latin America (FDIC, op. cit.). On May 29, 1984, the United States government announced it would provide a loan guarantee to Argentina indefinitely. To mitigate the appearance of it being a backhanded bank bailout, Regan explained, “The loans to Argentina have no time limit. The United States comes into play only when the Argentines get their International Monetary Fund agreement.” (Albert, 1984, 47) The loan guarantee was part of a $500 million aid package extended on March 30, when Argentina’s first-quarter interest payment came due.

This move put commercial banks in the driver’s seat. The IMF controlled less of the world’s money than they did, but it would subsume a disproportionate amount of the risk they had created. Third world leaders had dealt with the bankers, who didn’t ask many questions and just lent them money during the 1970s. But now private bankers and their speculator clients opportunistically entered and exited financing deals quickly, leaving the political and economic fallout to governments and multinationals—and their general populations.

From the summer of 1982 through mid-1983, many of the Least Developed Countries —particularly in Latin America — grew less solvent. The major United States banks pressed the Reagan administration to ask Congress for a sizable increase of United States support for the IMF, which would, in turn, support them. Reagan said, “We view with concern the international financial situation and especially the debt burdens of many developing countries. We will seek increases in resources for the International Monetary Fund and the general arrangements to borrow.”[27]

The bankers had won. They had garnered the financial help they needed from nonprivate sources to sustain their flailing lending activities. A reckless precedent had been approved, whether wittingly or not, to use the power of the presidency to feed the power of the private bankers as they left financial landmines around the world. Contrary to the findings of Aronson

[27] Joint Statement by the Participants at the Williamsburg Economic Summit, May 30, 1983, WHORM, Press Releases, Box 058, 4465, Reagan Library.

(1978), the revolving wheel between Washington and Wall Street knew no boundaries and no borders.

Despite these structural fault lines emerging in the global financial system, the United States stock market marched on. The Dow hit a record 2,700 by August, 1987. On October 15, Reagan's Council of Economic Advisers prepared a briefing titled "Record-Breaking Peacetime Expansion."[28] It noted that October 1987 marked the fifty-ninth month of the longest peacetime expansion in United States economic history (ibid).[29] Between mid-1982 and the fall of 1987, the United States stock market experienced its longest and sharpest bull market in fifty years.

But the party was about to end. On "Black Monday," October 19, 1987, the Dow plunged almost 23 %. Greenspan issued a career-defining statement before the markets opened the next morning. "The Federal Reserve, consistent with its responsibility as the nation's central bank, affirmed today its readiness to serve as a source of liquidity to support the economic and financial system." (Zaretsky, 1986) In other words, the Fed stood ready to bail out banks of tremendous size. Banks and other companies began buying their own stock at the lower prices to bolster them up. At 1 p.m. the major market Index futures staged the largest rally in history (Woodward, 2005). The extreme volatility of the move overshadowed anything that the bankers had done in past crash periods. The Fed's backstopping the risk that had contributed to that volatility pushed its power forward.

The world's largest banks had dumped about $1 trillion in aggressively extended "recycled" loans into mostly Latin American countries (Palmer, 1991). They now faced a tipping point. Since 1982, Latin American countries had transferred $184 billion to creditor countries and private banks, severely crippling them economically, not least because of the associated interest payments. By 1989, the region's GDP per capita was 8 % lower than it had been in 1980.

Financial conditions bore a striking resemblance to the period between World War I and World War II, when United States bankers stressed the need for some forgiveness, or at least restructuring, of Germany's debt at the hands of the United States government. Now the same banks were repeating the demands, pressing the White House to forgive government loans to the third world so that private loans could remain outstanding – and be repaid. At an internal

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[28] Economic Briefing for the President, "Record-Breaking Peacetime Expansion: A Summary of Economic Accomplishments," October 15, 1987, BE Business-Economics (50000–533999), Case No. 527983SS, Reagan Library.

[29] Ibid.

March 7, 1989, White House policy meeting on international debt, Treasury Secretary Nicholas Brady stated that the United States Treasury Department would "attempt to create new incentives for commercial banks and debtor countries to negotiate voluntary debt reduction."[30]

The stipulations, as usual, favored private bankers. The Brady plan would induce banks to voluntarily forgive a portion of the debt for third world loans (Unal et al., 1992). Banks would have the "obligation" to exchange their outstanding developing-country debt with new bonds at a discount, or to lend new money, or both. In return, banks would receive less risky bonds secured by United States Treasury bonds. The action would increase national debt in the process. Thus, the plan would subsidize private banks using the IMF and the World Bank channels that, in turn, were supplied by an increase in federal debt. Like many bank bailouts, it was a way for Wall Street to cook its books rather than provide for debt forgiveness or less costly debt reconstruction for developing countries. Instead, they found themselves paying more in interest for the rescheduled debt. (Rowen, 1989) However, with this crisis sorted for the big banks, the markets again resumed their march upward, on a backdrop of intensified greed on Wall Street matched by more government deregulation (The Economist, 2002).

Yet with the Cold War over, America lacked a great external enemy against which to assume its power position. There was no major national distraction to divert the tide of the global dispersion of United States financial power, no public interest to protect against outside enemies in reality, or in rhetoric. There were no restraints on the drive for accumulation in the name of American competitiveness. President Ronald Reagan had laid the groundwork for this, by spurring on a new era of American imperial desire, internally and externally.

The conundrum now facing United States bankers in their quest for money and power, was that Europe's banks had reemerged as true challengers due to the global expansion of firms like UBS in Switzerland, Deutsche Bank in Germany, and Barclays in Britain. Fearful of losing their position of global financial influence, United States bankers demanded domestic deregulation with increasing intensity—while embracing riskier practices. The assumption was that "democratic capitalism," the ideology that merged United States political goals with financial ones, had successfully defeated more "socialistic" international commerce, trade, and business doctrines. They had used social means for private benefits. Now, they could control both. The reality was increasingly evident in the extreme divergence of United States CEO pay versus that of average American workers and their global counterparts (United for a Fair

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[30] Farrar, Stephen P., The Reagan Library. Debt File via Brady Plan. White House Office of Policy Development. March 7, 1989. https://www.reaganlibrary.gov/sites/default/files/archives/textual/smof/farrar.pdf.

Economy/Institute for Policy Studies, 1999). In this war of international opportunism, the American government remained keen to aid and invest. The banking lobby was the most powerful in Washington, and saw a great opportunity to flex its muscle.

3.3.5 The 1990s: Currency Crises and Glass-Steagall Demise

During the second half of the 1990s, the financial, telecom, and energy industries accumulated $4 trillion in bond and loan debt, eight times the amount of the first half of the decade. Debt issuance from 1998 to 2000, the height of the stock bubble, was four times what it had been from 1990 to 1998, and six times more for the energy and telecom sectors.[31] The financial sector issued $1.7 trillion in loans to itself (Prins, 2004).

This frenzy of consolidating and speculation pushed the stock market to greater heights. On October 14, 1996, the Dow Jones closed above 6,000 for the first time (McGee, 1996). The United States economy appeared to be healthy. No one looked beneath the surface at the debt accumulated to subsidize it all. As the decade drew to a close, Clinton's power grew as he basked in the glow of a lofty stock market, budget surplus, and the passage of banking deregulation. However, when Clinton left office, the gap between rich and poor was greater than when he arrived. As Saez and Piketty (2003) reported, the incomes of the wealthiest 1 % of Americans increased by 98.7 %, while the bottom 99 % grew by only 20.3 %.

The power of the bankers increased dramatically as well in the wake of the repeal of the Glass-Steagall Act in 1999. Eviscerating the intent of the Glass-Steagall Act of 1933, which had separated commercial banking from investment or more speculative banking, allowed big banks, as they had argued, to compete against Europe. They could thus embark upon more acquisitions, greater speculation, riskier products, and more power relative to the government. Bankers used hefty trading profits to increase lobbying funds and campaign donations, creating an endless circle of influence and mutual reinforcement of boundary-less speculation, endorsed by the White House (Schroeder, 1999). Every bank accelerated its hunt for acquisitions and deposits to amass global influence while creating, trading, and distributing increasingly convoluted securities and derivatives. These practices would foster the kind of shaky, interconnected, and nontransparent environment that provided the backdrop and conditions leading up to the financial crisis of 2008.

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[31] Based on Information Compiled from Thomson Financial Data.

3.4 MONEY AND POWER ALIGNMENTS: THE FIRST TWO CRISES OF THE TWENTY-FIRST CENTURY

As mentioned, at the dawn of the twentieth century, the powerful "Big Six" bankers had used a major bank panic to help make the case for the establishment of the Federal Reserve, to back them in future panics. During World War I, their alignment with Woodrow Wilson unleashed the current era of American financial and military dominance. This superpower position was solidified not just through America's prowess in two world wars, but also through the intricate synergies between White House policies and Wall Street voracity.

Over the decades, the faces at the helm of America's two most powerful political parties, (Democrats and Republicans) would change, but the aspirations of the unelected financial leaders coalesced – as would the elected leaders in Washington. While the changes in power structures would benefit some of the US population, but often to its detriment, Wall Street was a particular breed of accumulation and expansionary capitalism that would not lose.

In the new millennium, the most powerful banks were mostly permutations of the original "Big Six." Chase, J. P. Morgan, and Morgan Guaranty became JPMorgan Chase and Morgan Stanley; the National City Bank of New York and First National Bank became Citigroup. Goldman Sachs's entry into the New Big Six stemmed from the close relationship between FDR and former Goldman senior partner, Sidney Weinberg. Rounding out the New Big Six were San Francisco-based Bank of America and Wells Fargo, which had broken into the East Coast clan over the years.

But the chief bankers of the twenty-first century were more powerful than their ancestors by virtue of the sheer volume of global capital and derivatives they controlled. Plus, the world was now more connected than ever. One could place faster trades, fly from city to city in a flash and communicate with global offices with little delay. The internet was a great equalizer for some – and a greater opportunity for others, especially in the financial realm. As the power of the president receded relative to that of the bankers during the post-Nixon period, the financial sphere became more complex. The risk to the global economy from banker practices became practically limitless. The crises that followed in 21st century were manifestations of the power bankers had captured by design, enabled by presidents unwilling to thwart or challenge it.

3.5.1 Post 9-11 Corporate Corruption Recessions

In late 2001, President George W. Bush entered the White House. As bankers bulked up their balance sheets with customer deposits in the post-Glass-Steagall period, they were able to secure more investment banking business in return for extending more credit. They also helped corporate clients mask their true debt levels through various means of cooking the books. Texas-based energy company, Enron, became the poster child for this financial fraud in the early 2000s (Barrionuevo, 2006). Enron used the unregulated derivatives markets—and colluded with bankers—to create a slew of colorfully named offshore entities (or "special purpose vehicles," in Wall Street jargon) where the company piled up debt, shirked taxes, and hid losses (Schroeder, 2002). Many other corporations did the same, and as a result of lack of confidence in the integrity of their books, caused a mini-recession. This fostered some new regulations on corporate activity, but not enough to keep bankers from pressing onto more innovative ways to speculate with people's deposits (Tew, 2004). Meanwhile, Bush downplayed the corporate fraud and focused both public attention and national focus on launching a second war with Iraq and throughout the Middle East region.

By the end of 2003, bankers began amassing funds for W. Bush's 2004 reelection campaign (Heller, 2003). Wall Street Republicans, including Hank Paulson, Bear Stearns CEO James Cayne, and Goldman Sachs executive George Herbert Walker (the president's second cousin) fell under the category of Bush's "Pioneers," raising at least $100,000 each (White, 2004). The top seven financial firms raised nearly $3 million for his campaign, choosing to plow more money into the Republican party's choice for re-election to the presidency rather than dividing it between the two major candidates. Investment bank Merrill Lynch was his second biggest corporate contributor (after Morgan Stanley), providing more than $586,254.[32] That support had its own history. In 1900, George Herbert Walker had founded the investment bank G. H. Walker and Company, which employed various members of the Bush family over the following decades, until becoming part of Merrill Lynch in 1978 (Kawa, 2012). If they do not have political power, as argued by Aronson (1978), why would they waste money making such donations?

The bankers' help might have tipped the scales in Bush's favor. On November 3, 2004, Bush won his second term in a tight election, capturing 51 % of the popular vote and 274

[32] Center for Responsive Politics, "George W. Bush: Top Contributors," at Www.opensecrets .Org/pres04/Contrib.php?Cycle=2004&Cid=N00008072.

electoral votes against Democrat John Kerry's 252.[33] From a power perspective, Goldman Sachs bankers now saturated Washington. New Jersey Democrat Jon Corzine, a former Goldman CEO, was on the Senate Banking Committee. Joshua Bolten, a former executive director at the Goldman Sachs office in London, was director of the Office of Management and Budget. And Stephen Friedman was Bush's economic adviser (US Banker, 2004). None expressed concern about the housing market or the growing leverage at the nation's investment banks. Under Geithner, the New York Fed issued a report refuting the risks of a potential housing bubble (NY FED, 2004).

While political machinations ran their course in Washington, on Wall Street, bankers were figuring out how to increase profits through the use of more risky forms of assets. Whereas in the 1980s Wall Street created corporate junk bonds it now began minting something more dangerous - toxic securities stuffed subprime loans wrapped up in complex derivatives. From 2002 to 2007, the biggest United States banks created nearly 80 % of the approximately $14 trillion worth of global mortgage-backed securities (MBS), asset-backed securities (ABS), collateralized debt obligations (CDOs), and other concoctions of packaged assets. International banks created the other 20 % (Prins, 2011, pp. 44-45). All of these forms of engineered securities were risky mechanisms by which banks could hide the true value of poorly performing loans or bonds by mixing them with better performing, or higher quality ones. However, the danger was that this financial cover-up could become destructive to the entire financial system, and by extension, the economy.

Subprime loan packages were the fastest-growing segment of the MBS market. This meant that the financial products exhibiting the most growth were the ones containing the most risk. In that interim, Bush picked Ben Bernanke to replace Alan Greenspan as chairman of the Federal Reserve. Bernanke made it immediately clear where his loyalties lay, stating, "My first priority will be to maintain continuity with the policies and policy strategies during the Greenspan years."(New York Times, 2005) What that meant was: lax oversight of banking activity and approvals big banks merging into ever-larger entities that could inflict more damage on the main economy as a result.

On February 1, 2006, Bernanke was appointed Fed chair.[34] President Bush selected Hank Paulson as his third Treasury secretary as the seeds of the financial crisis of 2008 were

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[33] Congressional Record, Senate, S 6969, June 17, 2004.

[34] "Ben S. Bernanke Formally Sworn in to Second Term as Chairman of the Board of Governors of the Federal Reserve System." *Board of Governors of the Federal Reserve System*, 3 Feb. 2010, www.federalreserve.gov/newsevents/pressreleases/other20100203a.htm.

being sown. Under the trio of Bush, Paulson, and Bernanke, the banking sector would buckle and take the global economy down with it. Its nearly $14 trillion pyramid of super-leveraged toxic assets was built on the back of $1.4 trillion of United States subprime loans, and dispersed throughout the world. By mid-2007, bankers were scrambling to dump whatever complex securities they could. The whole industry was concocting and leveraging securities, and passing them around like hot potatoes. So, it was only a matter of time before some insider got scalded. And if one major insider failed to pay for the loans, or leverage, they took out to purchase or create these securities, or the securities lost value, or both, the fallout could extend to the entire financial system.

The first major problem arising from these practices occurred at Bear Stearns. Two Bear Stearns funds had been created in 2003 and 2006 to buy and leverage triple-A and double-A assets, mostly CDO securities ranked as high credit quality by the rating agencies. To raise money to buy these securities, they, like many other such funds, borrowed from eager big-bank suppliers. Thus, the big banks created junk and lent money to buyers to purchase it, creating a modern Ponzi scheme. By early 2007, the Bear funds were imploding. By the time they collapsed in June 2007, investors had lost around $1.8 billion (SEC 2008c).

The chain reaction unleashed by the collapse of Bear's funds echoed that of the interconnected trust collapses in the late 1920s and during the Panic of 1907. But much more money was involved this time and more power was at stake. This power of the major institutions was important because it created a sense of belief in their practices and securities, and amongst each other. But when that belief was called into question, the house of cards around it was also. At Citigroup, due to its own hemorrhaging positions, on November 4, 2007, at an emergency board meeting, its CEO Charles Prince resigned. Geithner's relationships with Citigroup's elite were particularly tight and long-standing. Aside from having worked in the Treasury Department for Robert Rubin under President Clinton, he was also close to former chairman Sandy Weill. (Becker & Morgenson, 2009) At one point, Weill had approached Geithner about taking over Prince's CEO spot. But Geithner had more power overseeing the New York Fed (Becker & Morgenson, 2009). Robert Rubin was named acting chairman (New York Times, 2007). Earlier that week, Merrill Lynch CEO Stan O'Neal had also been booted out for similar reasons (Sidel, 2007). He was replaced by former Goldman Sachs co-president John Thain (Bartiromo, 2007). Thus, former Goldman leaders briefly sat atop three of the largest United States financial firms, as well as the Treasury Department, the National Economic Council, and the Office of Management and Budget.

3.5.2 Global Financial Crisis Of 2008-2009

The prelude to the global financial crisis that began in 2008 was similar to that of the Crash of 1929. The men and their instruments of financial destruction were different only in certain specifics paralleling the complexity and technology of the times. Again, six main bankers steered the process. They represented the corporate lineage of the bankers from October 1929. However, unlike during the Crash of 1929, it was the federal government and the Federal Reserve that bailed out the top bankers in epic ways.

There were six primary factors that lead to the 2008 financial crisis. Each one was predicated on, and more dangerous than the former:

a) risky loans extended in such a way as to benefit lenders over borrowers
b) layered securities comprised of various combinations of those loans
c) the immense amount of borrowing, or leverage, taken on by the financial system using those loans and securities as collateral
d) the greed for money and positioning that propelled Wall Street titans to extract immense bonuses as they bent the ears and pockets of politician to extort rules that enabled the creation of institutions deemed too big to fail
e) and deregulation, or the lack of a safely structured financial system (covering all types of banks, insurance companies, private equity and hedge funds) with appropriate oversight to monitor and contain the risk it manufactures.

The financial hysteria that began in 2008 was ignited by the collapse of the United States housing market, and the barrage of foreclosures that followed. But, before the fall came the rise. Once former Federal Reserve Chairman Alan Greenspan finished his 2001-2003 cycle of cutting rates from 6.50% to 1.25%, money was so cheap that the natural inclination of Wall Street was to find a way to exploit this to their own advantage (United States, 2003). If one can borrow at 1% and loan that money out at 6% or much more, making money is easy. Thus, it was basically a subsidy benefitting Wall Street.

Homeowners provided a means to that end. The more Wall Street could package the loans Americans took out, the more loans could be extended, and the more banks profited from reselling the packages of those to investors. The reason lenders started lending *a lot* to anyone, was that Wall Street wizards could spin those loans, good or bad, into new packages that were pronounced completely safe by the rating agencies. Firms borrowed heavily against these loan packages, using them as collateral, to buy more and more of them. They then pawned them off to investors ranging from understaffed state pensions to savvy hedge funds to European insurers,

who borrowed more money against them to pile up. In that manner, though Wall Street may have crafted the problem – the spread and subsequent fallout became a global issue. As banks had become increasingly globalized, the entire world was at risk from their practices gone wrong. That insatiable demand required further supply, which spurred mortgage brokers to push loans to buy homes, which couldn't be built fast enough to satisfy all the borrowers, nor could all borrowers afford. As a result, national average home prices skyrocketed (OFHEO, 2006). But it was leverage pushing them up, not better foundations of the economy.

The reckoning that followed started in 2006, when the housing boom slowed. (OFHEO, 2007). The Fed had begun raising rates to combat inflation due in large part, to rising oil prices (San Francisco Fed, 2006). Rates had risen from 2.28 to 5.24 from early 2005 to the end of 2006.[35] Banks started to feel the pressure from these hikes, so they tried to increase their production of asset backed securities instead. That meant a frenzy of packaging deteriorating loans into "toxic assets."

The economy only functions if people and institutions can borrow money; usually against some form of collateral. During the housing boom, the regulations for the types of securities that could be concocted using anything as collateral, which during the 2002-2006 period, was subprime and other risky home loans, were non-existent. So, the Fed's policy had unintended consequences. As rates rose, so did reset values on adjustable rate mortgages, meaning people had to cough up more money for their monthly mortgage payments. That meant borrowing money was no longer as cheap. Rates on loans for citizens, as well as between Wall Street firms, started rising. Credit ceased to flow as freely. There was no slack in the system to make up for the devaluating of the assets used as collateral for credit. Eventually, the system came to a halt. There was no way to repay the borrowed money that had gone to trillions of dollars of toxic assets. Wall Street banks did not even trust each other – and thus stopped lending to each other as well.

However, the Dow reached all-time highs of 14,164.53 on October 9, 2007. This was on news that the Fed would begin to cut rates to alleviate the credit tension it had created (Twin, 2007). In fact, bonuses for Wall Street for 2007 were very good, it was the second-best year ever for the street, after 2006 (Office of New York State Comptroller, 2008). But as we know from physics, what goes up, must come down. Just eighteen months later, indices had taken a

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[35] Board of Governors of the Federal Reserve System, Federal Funds Effective Rate, http://www.federalreserve.gov/releases/h15/data/Monthly/H15_FF_O.txt.

dive to 12-year lows, with the Dow having dropped to 6,763.29 a record 52% from those highs by March 3, 2009 (McKay, 2009).

The Fed flexed its power muscles under the auspices of trying to avert a full-fledged financial crisis. By the spring of 2008, the Fed was blazing through uncharted territory relative to its official role of keeping credit flowing through the economy. It became not just a bank of last resort for the banks, but the biggest, most powerful hedge fund manager in the world. During the summer of 2008, the United States home mortgage market was coming apart. Foreclosure rates nationwide were up 55 % in August 2008 compared to July 2007 and over that year there were more than 3 million foreclosure filings, an 81 % increase relative to 2007 (Ritholtz, 2008). Credit also stopped flowing, as mortgage lenders realized their existing loans might not be paid and it wouldn't be the best idea to take on more debtors.

By the fall of 2008, the notion that integral financial institutions should be allowed to fail outright without injections of government cash was thrown out the window. The Fed was opening more facilities, lending money in return for different kinds of assets as collateral, left and right. Its intent was to enhance market liquidity in the face of a dead credit market. In other words, because lenders were holding their money tight, the Fed had to change the rules and started new programs to help increase the free flow of money (Bernanke, 2008). They created a self-perpetuating cycle, created means to maintain liquidity whenever it was needed, creating a dependence in the process.

By the summer of 2008, 158-year-old Lehman Brothers was staggering. On September 10, it announced a $3.9 billion loss for the third quarter, the worst result in its history. The firm filed for bankruptcy on September 15, 2008 (SEC, 2008a). Goldman Sachs and Morgan Stanley avoided the same fate by getting $10 billions of bailout money each. It was all part of a multi-trillion-dollar bank bailout and subsidization plan, in which the 'winners and loser' were specifically chosen on the basis of power relationships.

Insurance goliath AIG stood at the epicenter of an increasingly interconnected financial world deluged with junky subprime assets wrapped up with derivatives. Its financial products department had insured nearly half a trillion dollars of them for the big banks (Pittman, 2008). The firm would not only fail, Paulson warned Bush, but "it would bring down major financial institutions and international investors with it." Paulson's fearmongering convinced President Bush, who later wrote in his memoirs: "There was only one way to keep the firm alive: the federal government would have to step in." (Bush, 2010)

The New York Fed authorized a loan of up to $85 billion to AIG in return for a 79.9 % equity interest, essentially nationalizing it. Total AIG subsidies hit $182 billion.[36] The main United States recipients of AIG's bailout were the most powerful banks: Goldman Sachs with $12.9 billion, Merrill Lynch with $6.8 billion, Bank of America with $5.2 billion, and Citigroup with $2.3 billion. Some foreign banks that had trading relationships with them, including Société Générale and Deustchebank, got about $12 billion each. Barclays got $8.5 billion, and UBS got $5 billion (Walsh, 2009).

The financial crisis of 2008 demolished two of five major investment banks: the 85-year old Bear Stearns in March, 2008 and the 158–year old Lehman Brothers, six months later (SEC, 2008b). Merrill and AIG were saved because of their political clout, Merrill through legacy and AIG because the most powerful bankers needed it to survive to avoid losing money themselves, and used their positions of access and power to achieve that result.

In 2007, the Fed had held $770 billion worth of non-risky Treasury Bonds on its books.[37] As national lender of last resort, financial institutions could get cash from the Fed in the form of short-term loans, and in return, post secure assets, like Treasury bonds, as collateral. That low-risk practice went out the window as the bailout unfolded, the complexity of the Fed's books increased in tandem with its appetite for risky asset and mortgage-backed securities. Banks began posting all sorts of junk as collateral, and receiving low-cost loans in return. On September 14, 2008, Bernanke announced that the collateral that could be pledged at the Primary Dealer Credit Facility (PDCF) would now include non-investment grade securities (Jelveh, 2008). The PDCF was extended in February 2009 until October 30, 2009 (Federal Reserve, 2009).[38]And so, the Fed continued its transformation into a hedge fund of last resort, relaxing its collateral posting rules, and lending trillions of dollars to Wall Street. Where once banks had to pony up secure assets like Treasury bonds to get loans from the FED, they could now post far more risky assets in return for very favorable loan conditions (Federal Reserve, 2008).

Allan Meltzer, author of *A History of the Federal Reserve* (Meltzer, 2003), told *The New York Times*, "This is unique, and the Fed has never done something like this before."(Andrews, 2008) On September 29, 2008, the Fed threw more money at the crisis, announcing, "several

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[36] "Actions Related to AIG." Timeline, Federal Reserve Bank of New York, www.newyorkfed.org/aboutthefed/aig.

[37] Board of Governors of the Federal Reserve System, H.4.1 Factors Affecting Reserve Balances, Federal Reserve Statistical Release, December 20, 2007, http://www.federalreserve.gov/releases/h41/20071220/.

[38] Board of Governors of the Federal Reserve System, Federal Reserve Announces Extension Through October 30, 2009, of its existing Liquidity Programs That Were Scheduled to Expire on April 30, 2009, Press Release, February 3, 2009, http://www.federalreserve.gov/newsevents/press/monetary/20090203a.htm.

initiatives to support financial stability and to maintain a stable flow of credit to the economy during this period of significant strain in global markets." (FED, 2008)

The Big Six banks were thus subsidized by a strategy designed by Bernanke, Paulson, and Geithner. The trio deemed the bailout and bank subsidization as a matter of public interest, as essential steps to divert a Great Depression. But the main recipients were the big bankers, not every day Americans. An initial rejection of the government's bailout package provoked a 778-point drop in the Dow on September 29, 2008. Paulson had dramatically gotten down on one knee three days earlier to beg Democratic house speaker Nancy Pelosi to get her party, the Democrats, to pass the bailout. Congress finally bowed to this chief banker and approved a $700 billion congressional bank bailout package. The Troubled Asset Relief Program, (or TARP), was part of the Emergency Economic Stability Act of 2008, signed into law by President Bush on October 3.[39] Yet it comprised just 3 % of the full bank bailout and subsidization program. The rest was offered by the Fed (Goldman, 2009).

The market rose after the congressional intervention was announced, as it had temporarily done in October 1929. It shot up 936 points, the largest one-day rise in stock market history. The euphoria would be equally illusory and temporary. As during the Great Depression period, the bankers' unruliness had spilled over into the real economy. By October 30, 2008, United States real GDP fell at a 0.3 % annual rate, the second negative quarter in a row (Econbrowser, 2008). Over the year, the Dow lost nearly half its value. At the height of the bailout period, $19.3 trillion of subsidies were made available to keep (mostly) United States bankers going (Prins & Ugrin 2010). While the media was focused on the $700 billion Treasury bailout package, known as TARP, the Fed was a staunch silent accomplice to subsidizing the world's most powerful banks, offering trillions of dollars of various assistance and money (Felkerson, 2011).

The scope of their providing loans for lemons was unprecedented. Even before the Emergency Economic Stabilization Act of 2008, which included the TARP, was passed on October 3, 2008, the Fed was doing its own bailing.[40] Yet, there was no Congressional furor about the trillions of dollars of Fed facility programs. There was minimal public discourse and scant media attention given. Wall Street understood the dynamics that Washington was willing to provide – and the trillions in funds went largely unquestioned. That's power.

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[39] "H.R. 1424—110th Congress: Emergency Economic Stabilization Act of 2008," GovTrack.us, www.govtrack.us/Congress/Bills/110/hr1424.

[40] GovTrack.us, H.R. 1424: Emergency Economic Stabilization Act of 2008, "n. d.," https://www.govtrack.us/congress/bills/110/hr1424 (accessed 13 September 2020).

The Fed went on to create a whole bunch of these facilities to provide cheap loans to banks in return for a variety of toxic assets, without disclosing so much as a word of concern about whether they'd ever get paid back, what their risks were, or which banks were getting the cheapest loans for the worst assets.[41]

By the spring of 2009, the price tag for the federal government's bailout of the banks (including all federal loans, capital injections, and government loan guarantees) stood at $12.7 trillion (Prins & Ugrin, 2010). Meanwhile, $50 trillion in global wealth was erased between September 2007 and March 2009, including $7 trillion in the United States stock market, and $6 trillion in the United States housing market.[42] Job losses skyrocketed. Between January 2008 and April 2009, the number of unemployed Americans rose from 7.5 to 13.7 million. The unemployment rate shot from 4.8 to 8.9 % (US Department of Labor, 2009). The number of underemployed Americans didn't come into that figure, or it would have been higher. The biggest banks suffered the most. The banking industry posted a $32.1 billion quarterly loss at the end of 2008, the most since the S&L crisis. But it also had an unprecedented amount of help from the Fed to get through the crisis.[43] [44]

As the banking system continued exhibiting a propensity to inhale money from the Fed, the true cost of keeping it functional seemed almost too big to comprehend. Scary media headlines went from pegging the bailout cost at $2 trillion (24/7 Wall Street, 2008) in late October 2008, to more than $4 trillion by mid-November (Goldman, 2008), to $7 trillion (Barr, 2008) by December 2008. The full bailout and subsidization of the banking system, which started as an emergency reaction to a crisis, continued into the next crisis.

Throughout the period, Washington promised that if citizens bailed out the banks, they would be rewarded with looser credit, and perhaps a more stable economy. But that was a myth, one that deflected deeper inspection of the nature of those bailouts – the transfer of power. By April 2009 – the media was calling an end of the economic crisis because the DOW and bank

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[41] "Federal Reserve: Opportunities Exist to Strengthen Policies and Processes for Managing Emergency Assistance." Report to Congressional Addressees - Sen. Sanders Audit, United States Government Accountability Office 11-696, July 2011, www.sanders.senate.gov/imo/media/doc/GAO Fed Investigation.pdf.

[42] The White House, Press Office: Remarks of Lawrence H. Summers, Director of the National Economic Council, at Brookings Institution, Washington, DC, March 13, 2009, http://www.whitehouse.gov/the_press_office/Remarks-of-Lawrence-Summers-Director-of-the-National-Economic-Council-at-the-Brook/.

[43] "Federal Reserve: Opportunities Exist to Strengthen Policies and Processes for Managing Emergency Assistance." Report to Congressional Addressees - Sen. Sanders Audit, United States Government Accountability Office 11-696, July 2011, www.sanders.senate.gov/imo/media/doc/GAO Fed Investigation.pdf.

[44] "The 2009 Economic Landscape: How the Recession Is Unfolding across Four U.S. Regions ." FDIC, Quarterly Banking Profile: Fourth Quarter 2008, 2009, www.fdic.gov/bank/analytical/quarterly/2009-vol3-1/quarterly-vol3no1-entire-issue-final.pdf.

stocks rallying. Even White House chief economic adviser Lawrence Summers chimed in, voicing confidence that what he called the "free-fall" in the economy would end soon (Lawder, 2009). But there were no signs of significant job growth, or foreclosures stalling, or small businesses opening.

3.5.3 Ramifications of The Financial Crisis Of 2008

In the wake of 2008 financial crisis, it was common for the Washington elite to claim that the danger of "too big to fail" banks was over (Powell, 2013). But the "living wills" required by the Dodd-Frank Act of 2010 passed in reaction to their behavior (and more than $160 billion in fines for fraud they were required to pay over time) did not prevent the possibility of another systemic crisis. Nothing in the act made these banks smaller or less complex – or less powerful (Mindock, 2016).

The real beneficiaries of the post financial crisis Fed policies were the Big Six banks (JPM Chase, Bank of America, Citigroup, Wells Fargo, Goldman Sachs and Morgan Stanley.) They either grew bigger in terms of deposits or assets, or were sustained through cheap funding sources and Fed assistance. They consolidated their power as a result of their own economy-crippling actions. No matter how many articles or bureaucrats lauded the Fed for keeping rates at zero and buying trillions of dollars of securities to "help" the economy, the Fed's support helped bankers and the financial markets the most.

This financial crisis of 2008, like the Great Depression, embodied a perfect storm, but not a random one. After all, it happened before. Too much leverage. Too risky assets. Too much wealth concentrated in the hands of very few. Too little oversight. Each contributory factor was man-made, and avoidable. The deluge of money pouring from Washington into the banks gave tacit approval to the backwards culture of banking – a world based on crazy compensation, counterproductive competition, and reckless practices. All of this was paid-for by a select group of Wall Street power-players, who move back and forth between the United States Capitol and the gilded realm of finance. The same execs that orchestrated the financial system's failures were the ones hob-knobbing with the political leaders of both the Bush and the Obama administrations. In fact, Obama called an early spring meeting in 2009 with Wall Street's heads to ask for *their* commitment and their accepting responsibility for helping the crisis they had caused (Dash, 2009).

Bankers believed Democratic candidate Barack Obama would help them more than his opponent, John McCain—particularly those from Goldman Sachs, Obama's largest corporate

contributor for the 2008 election. They bet on Obama with their lobbying and campaign dollars, or perhaps their bet made all the difference. In November 2008, Barack Obama won the presidency decisively in the midst of a major financial crisis. On December 16, 2008, the Federal Reserve cut rates to an all-time low of 0 %, thereby initiating Bernanke's zero-interest rate policy (ZIRP). No American catastrophe since the Fed was created had evoked such a policy. Until the Coronavirus Pandemic discussed in Chapter 5. Obama selected NY Fed President, Tim Geithner, the man who helped orchestrate the mega-bank bailout and subsidization for the Wall Street banks to run his Treasury Department.

As Obama entered his second year in office, the United States economy remained a mess. Standing at 7.9 % when he took office, the unemployment rate shot to 10 % (US Department of Labor, 2011). Meanwhile, the new Big Six consumed the Fed's cheap capital, parlaying it into buying back their own shares and derivatives as opposed to deploying it to restructure the population's debt or issue small business loans to stimulate the economy (Federal Reserve, 2010). The most powerful bankers left the repercussions of their irresponsible and fraudulent practices behind them, save for some fines (Prins & Ugrin, 2010).

In the absence of true reform, an abundance of national debt was issued to bolster the banking system. From the beginning of 2009 through the end of 2011, Geithner added $2.4 trillion of United States debt, with more to come (Standard & Poors, 2011; Prins & Ugrin, 2010). The United States debt-to-GDP ratio rose to nearly 100 % and would surpass 104 % by 2012 (Chantrill, n.d.). The United States lost its triple-A debt rating in August 2011 amid painful equivocation on Capitol Hill on whether to extend the United States debt ceiling. Their concerns did not address how much of that debt was created by the Treasury, punted through the banks, and landed on the Fed's books to aid its member banks. Congress capitulated on the debt cap.

The country's economic future and borrowing power was compromised by the bankers' actions with the advocacy of the White House. Blame fell on the "weak economy," and individuals having borrowed too much, and not the role of bankers in exploiting the situation. By 2011, JPMorgan Chase surpassed Bank of America as the largest United States bank, with $4 trillion in assets. (Son, 2011) Its CEO, Jamie Dimon, placed on Time's list of the hundred most influential people in 2006, 2008, 2009, and 2011 (Ferguson, 2011). Bankers' 2012 bonuses rose $20 billion, up 8 % from 2011 (Office of the New York State Comptroller, 2013).

By October 2013, the United States government hit the debt cap of $16.49 trillion. The weakness of the United States political system relative to the financial one was demonstrated by a government shutdown over budget and ego squabbles. The Fed's balance sheet hit a record

of $3.7 trillion on October 2013.[45] The size of the Fed's books had increased by 50 % since July 2009. It stood at ten times the amount it had been in July 2008. All that debt was held as a means to prop up bond prices so the bankers could maintain higher values on their books of the associated securities. The Fed kept rates at zero until December 2015, so money remained cheap. This was under the guise of aiding the broad economy, but the banks and stock markets fared much better than the rest of the economy.[46]

The cycle of banker–White House power alliances persisted. The Senate confirmed Obama's choice of Jack Lew to succeed Tim Geithner as Treasury secretary on February 27, 2013.[47] Lew had served in the Clinton White House with Robert Rubin, and with Summers during the Glass-Steagall repeal days.[48] Like his mentor, Robert Rubin, Lew had also worked at Citigroup, as chief operating officer of the alternative investments unit (Mahanta, 2012).

The bailout was never meant to help consumers, but to solidify Wall Street during the crisis. The acquisition of power comes through the consolidation of money on Wall Street. The solution to thwarting the banks' overwhelming power and economic influence in the 1930s was the New Deal. That didn't just found problems; it found solutions. FDR's creation of the FDIC to insure customer deposits staved off a national bank run, though for years, banks lobbied to reduce insurance payments to the FDIC. In contrast, in a November 2009 interview with London's Sunday Times, Lloyd Blankfein, was asked about the size of his firm's staff bonuses. He claimed that he was just a banker doing "God's work." (Thomson Reuters, 2009) His words echoed false against the backdrop of a deflated public and struggling economy that all manners of media slammed them. But there was also a kind of truth to what he said.

There have been times when the biggest bankers shattered public trust and times when the public believed that bankers' interests somewhat aligned with their own. The Great Depression provoked a climate of social responsibility. Related bank regulation lasted for decades. During World War II, many Americans even equated bankers with patriotism. Today, no such attitude prevails. Never before had the government and the Federal Reserve

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[45] Federal Reserve Bank: H.4.1 Release--Factors Affecting Reserve Balances, Federal Reserve Statistical Release, www.federalreserve.gov/releases/h41/Current/.

[46] For Marx (1867), the concept of fictitious capital is a form of abstract wealth that gets bigger by means other than real economic activity. For him, stocks are a type of fictitious capital. Similarly, our research considers that stocks are rising because CBs are boosting them with fresh money, but the real economy is suffering (in other words, that additional value is coming from financial gains, not profits and revenues).

[47] "Statement from the President on the Confirmation of Jack Lew as Secretary of Treasury." The White House: Office of the Press Secretary, National Archives and Records Administration, 27 Feb. 2013, obamawhitehouse.archives.gov/the-press-office/2013/02/27/statement-president-confirmation-jack-lew-secretary-treasury.

[48] The White House, "Former Chief of Staff Jack Lew," at Www.whitehouse.gov /Administration/Staff/Jack-Lew.

collaborated so extensively by propping up the banking system to the detriment of the population. Never had the world been so quick to push austerity on countries whose only crime was standing in the way of banker speculation.

When money has no cost, the consequences of using it irresponsibly have no cost either. The bankers' bets and actions crushed the global economy before, and they will again. The most powerful ones emerged unscathed. They had proven to be as influential, if not more so, than their political alliances. The nature of twenty-first-century political-financial alliances will rein and fortify the bankers' power. Financial crises stood poised to deepen and spread to Latin America, the Middle East, and Asia, as the mechanisms of global finance become more destructive. It would only take another spark to set off a massive, new crisis, worse than the financial crisis of 2008.

Echoing the contribution of Walter (1990), United States hegemony and the strength of Wall Street have been closely aligned for more than a century, during which certain private bankers have achieved a position of greater power than the presidency. The crises of the past decade were a manifestation of what happens when United States bankers operate beyond the control of government, often enabled by that very government. America operates on the implicit belief that if its biggest banks are strong, the nation will be, too. The political and financial alliances between bankers and presidents and their cabinets defined, and continue to define, the policies and laws that drive the US, and by extension, the world economy. The revolving doors between public and private service are in the fabric of the United States.

In that respect, America is a story of relationships between powerful men. By extension, America's bankers shaped America's position as a superpower, through the 21st century. No other country is driven by such a critical symbiotic and costly relationship. This is why United States hegemony, from a financial superpower perspective, is not in decline.[49] The most elite United States bankers and government officials know their positions are mutually reinforcing. The United States bank heads retain more influence over global capital than any government, and their unique alignment with the presidency continues to fortify America's power, at the expense of populations the world over.

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[49] As previously noted in footnote 7, CB power has accelerated dependency on ever expansive money creation help from CB's, especially the Fed, during crisis, thereby creating every larger crisis in the aftermath and a related finance-crash-liquidity cycle *a la* Minsky-Kindleberger. The result for the US, where that money goes disproportionately to financial markets vs. the real economy, is a loss of world hegemony compared to China. This is a shift due to monetary and not political power, marked by shorter periods between crises (Wolff 2020) or perpetual crisis periods, impacting financial hegemony.

3.5 CONCLUDING REMARKS

In this chapter, we examined the historic relationship between the most powerful private bankers and their institutions, and the presidents and their cabinets, in the United States from the 20th century through the early 21st century. We highlighted how financial crisis periods in particular, triggered a stronger symbiosis between these arbiters of money and power, and drove related domestic and foreign policy directives. We also discussed how this combined element of money and power active within its borders, also elevated American power in the world.

For the next chapter, we will delve into the global ramifications of the financial crisis of 2008 as they relate to the leadership and power role of the United States Fed relative to other major central banks. We will also explore the power shifts in the world hierarchy as other governments and central banks reacted to the crisis and to the associated unprecedented monetary policy initiatives the Fed deployed in its wake to save the United States financial and banking system.

4 THE RISE OF CENTRAL BANK POWER AND COLLUSION POST 2008 FINANCIAL CRISIS: PHASE I

The purpose of the research for this chapter is to analyze the backdrop of geopolitics and geo-economics that serves to illuminate the historically powerful role that national central banks played in the formation of the pre-crisis bubble through the post-financial crisis of 2008 period. A global collusion of major central bankers took place as they orchestrated the creation and circulation of what can be called "artisanal, conjured or fabricated" money through quantitative easing (QE) and other methods, reminding of epistemic communities of Helleiner (1994). This had a profound impact on political decisions, as the framework proposed by Kirshner (1997, 2006) would signal, and economies in countries such as Mexico, Brazil, China, Japan, as well as the European Union. As this chapter will show, despite promises, and prevailing acceptances of the premise that it would save the Main Street economy, the unprecedented monetary support from the world's main central banks to the bank and markets increased inequality, magnified debt, ushered in isolationism, and disproportionally elevated the wealthy and powerful, destabilizing the international economy along the lines argued by Walter (1991). This was Phase I of Central Bank Collusion.

This chapter has five sections besides this introduction and the conclusion. The first section discusses the global monetary collusion among central banks to garner an unseen power in the aftermath of the financial crisis of 2008, or what we refer to in this dissertation as Phase I of their power ascension. The second section the impact on international relations, in particular in a triangle between two great power, United States and China, and a middle power, Brazil. The third section evaluates the role of national politics on central banking and then of the latter on international relations, focusing on Brazil. Next, China's response to the previous developments is investigated. Finally, the fifth sections bring the discussion to present day United States capitalism, emphasizing the specific impact of Trumponomics.

4.1 GLOBAL MONETARY COLLUSION AND THE BIG POWER SHIFT

The United States Federal Reserve System (the "Fed") and to a lesser extent, the International Monetary Fund (IMF), were the leading artisans and intermediaries of what we call "conjured" extra money. The IMF, as previously mentioned, was created to, among other things, balance the international monetary system, and help developing nations temporarily balance international payments through the provision of loans to members that meet IMF

requirements. But, in the wake of the financial crisis of 2008, the IMF significantly expanded its lending powers and central bank coordination role, which elevated its power on the world stage, but in particular, for the United States. (Prins, 2018).

The Fed and IMF were the chief architects of the collusion between central bankers, associated governments, and multinational institutions. Not a single central bank official was elected. Not a single one is chosen by the public, despite their outsize impact on the public. Independence is their moto, but their closer association to governments, including their location in national capital cities, relative to people shows a bias.

Certain countries were key pillars or levers of the world's post-crisis political-financial power shifts. Considering developing nations, Mexico was caught between its tight relationship with the United States and its growing desire for independence; Brazil, the largest Latin American economy, was deepening its associations with China but grappling with its United States–centric tendencies. China used the financial crisis to elevate its diplomatic and trade hegemony, globally. It was also exporting infrastructure projects and associated funding to places from Brazil to the Bahamas and even Sudan to the Philippines. Regarding developed countries, Japan was caught in the cross-hairs of its old United States alliance and fresh opportunities with Europe and its former foe, China. For Europe and the United Kingdom, certain elite leaders embraced United States monetary policy, although internal political-economic turmoil would eventually tear apart the structure the EU / UK relationship.

Personal relationships behind powerful institutions and international organizations shifted power during the financial crisis of 2008, and bolstered central bank influence. For instance, in Brazil, former head of BankBoston/FleetBoston Henrique Meirelles' professional and political connections from his time as lead central banker in President Lula da Silva's administration through his time as Finance Minister in Michel Temer's government had an extreme, yet relatively unexamined impact on the new power order of Brazil, and its relationships with other nations.

Meanwhile, China expanded its global power base against the backdrop of Washington's protectionist agenda. Another element of its rise as a superpower was that the People's Bank of China (PBOC) routinely criticized Fed practices, on an increasingly public level. The central bank maneuvered the yuan to counterbalance the United States dollar and begin to serve as a basis for bilateral transactions with the Russian ruble, Brazilian real, and other currencies.

The 2008 financial crisis was the consequence of a loosely regulated United States banking system in which power was concentrated in the hands of elite bankers and financial

speculators. Since that crisis, G7 central banks pumped conjured money into private banks and financial markets through an unconventional monetary policy process called quantitative easing (QE). QE entails a central bank manufacturing electronic money and then injecting it into banks, and onward to markets, in return for purchasing securities (usually bonds or stocks). While versions of QE were used before by the Federal Reserve during the Great Depression and the Bank of Japan in the late 1990s and early 2000s, those past applications were much smaller (Bordo & Sinha, 2016; Andolfatto & Li, 2014).

In the wake of the financial crisis of 2008, the goal of QE was to lift the money supply within the financial system, reduce long-term interest rates (or the cost of borrowing money, disproportionately in favor of the bigger banks and corporations), and boost the value of QE-targeted securities and similar ones. This codependent cycle is akin to a "conjured-money" Ponzi scheme (Mackenzie, 2010). Central bankers fueled asset (and also debt and equity) bubbles through this artificial stimulation of banks and markets. This augmented the symbiotic power relationship between central banks that rely on banks and markets as one avenue through which to move money around, and banks and markets that rely on central bank power to subsidize their activities. When these massive bubbles pop, fragile financial systems and their underlying economies are thrown into panic, crisis, recession or depression, as theorized by Minsky. That's why central banks were desperate to collude to magnify their reach, to avoid that possibility, and to preserve their power.[1]

As discussed in the previous chapter, enabling certain large United States banks to become "too big to fail" was the catastrophic mistake of the very organization responsible to keep this from happening, the Federal Reserve, the arbiter of bank mergers. Legislation to prevent "too big to fail" risks had come into existence in 1933. In the wake of the Great Crash of 1929, a popular bipartisan act called the Glass-Steagall Act of 1933 restricted United States banks from using customer deposits as collateral for large-scale speculation and asset creation.[2] The Act was repealed by the Clinton administration in 1999. That's why the subprime mortgage problem morphed into the first major financial crisis of the twenty-first century. Big banks

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[1] Minsky wrote that a new Great Depression could not happen again because of the stabilization ability of CB's to avoid that possibility (Minsky 1982). He also wrote in 1986 (Minsky 1986) that the CB is the big bank that stabilizes the economy. Yet, this was before the vast expanse of CB power which renders CB's giant banks that contribute to the permanent distortion between the financial markets and the real economy, as we discuss in this research. He also favored financial regulation (Kregel, 2014). Post financial-crisis regulations, such as the Dodd-Frank Act, did not fully return the banking system to the safer Glass-Steagall Act of 1933 environment as we noted.

[2] Maues, Julia. "Banking Act of 1933 (Glass-Steagall)." Federal Reserve History, Federal Reserve Bank of St. Louis, Nov. 2013, www.federalreservehistory.org/essays/glass_steagall_act.

could buy up mortgages, convert them into more complex securities, and either sell them to global customers, including pension funds, or lend substantive money to investment banks and hedge funds that would then engage in buying and trading those securities. The Fed provided the fuel and implicitly, the mechanism, for this to happen.

In the big banks' moment of peril, the Fed unleashed a zero percent interest rate (ZIRP) policy and injected fabricated money into the domestic and, by extension, the worldwide financial system. This flood of cheap money that simply crafted enabled the subsequent issuance of trillions of dollars of debt, pushing the global level of debt to $217 trillion by 2017 (Rabouin, 2017). By 2019, the total assets held by the G3 central banks — the United States Fed, the European Central Bank (ECB), and the Bank of Japan (BOJ) — through their QE programs hit $13.5 trillion (Celik et al., 2020). That figure corresponded to a global debt-to-GDP ratio for 2019 of 322% (Tappe, 2020).

To garner support for their QE strategies, the G3 central bankers in particular, with the Fed leading, peddled the notion that they were required to help stabilize the general economy. However, there was no direct channel and no requirement that the Fed's cheap money be diverted to people or the real economy. To be effective, central bankers had to collude in order spread their impact globally. Yet, after the monetary system faces the sober reality of a real shock, it may never truly return to its prior state. The system will morph into something new. In effect, this is what happened due to the 2008 financial crisis. Critically, major central banks established a system that rendered markets reliant on them. At the onset of the financial crisis of 2008, the Fed colluded with other central banks to decrease the cost of money. It did so by exercising its emergency powers under the Federal Reserve Act of 1913 to do whatever it deemed "necessary" to contain the crisis. By late 2008, the Fed had carved out a new role as America's sub-superpower. It adopted an imperial position in the global central bank hierarchy. Major G7 central banks followed the Fed for two reasons: geo-politics and fear of a more prolonged liquidity crisis if they didn't. Power shifted to central banks.

4.2 NATIONAL POLITICS, CENTRAL BANKING, AND DEVELOPING NATIONS DIVIDED ALLEGIANCE

The two World Wars of the twentieth century spawned a United States-led monetary structure that came to dominate markets and geopolitics (Walter, 1991, Hudson, 2003). In 1944, elite financial leaders convened at Bretton Woods to craft a monetary system centered on United States and European currencies and interests (United States Department of State, n. d.). While

Europe rebuilt its war-torn cities, the United States capitalized on its superpower status, and developing countries were overshadowed.

On the surface, the International Monetary Fund (IMF) was established in order to prevent post World War II balance of payment crises.[3] But, in practice, both the IMF and the International Bank for Reconstruction and Development (commonly referred to as the World Bank) fortified the economic and thus, political power of the core United States-Europe alliance and by extension, their allies – by offering loans or grants to provide liquidity and to finance development projects - with strings attached (Bretton Woods Project, 2019). The power of the IMF increased after the financial crisis of 2008, as did its growing embrace of emerging or "transitioning" economies, including China, as we will explore later.

Meanwhile, developed country central bank leaders embarked upon a paradigm shift of their own. They were able to fabricate more money to suit the financial needs of their countries than institutionally-constrained emerging market central banks could. Thus, the twenty-first century gave rise to a financial world war. By institutionalizing money flow with no limitations, central bankers superseded governments and implicitly financed them, by setting the cost of money close to zero and supplementing or even supporting financial market activities. Central banks were no longer just in the business of producing and distribution money and credit. They were superseding money markets themselves.

The world came to be divided between nations that depended on Fed policies and those harmed by them. Foreign capital slithered around the world like a snake. Speculation and central bank stimulus lifted financial markets while destabilizing underlying economies through the resulting increase of public and corporate debt that had to be paid or considered before devoting funds to sustainable economic growth and wages. Developed governments implicitly forced austerity on weaker countries by virtue of the latter's debt accumulation. Developing countries advocated austerity for their own populations.

The Fed's rising influence and power to create money — but not generalized economic prosperity — prompted major shifts in voter preferences. Large-scale moves toward nationalism were met with bitter battles to maintain globalism around the world. Meanwhile, superpower realignments and fresh alliances were activated with a zeal not seen since the wake of World War II.

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[3] Ghizoni, Sandra Kollen. "Creation of the Bretton Woods System." Federal Reserve History, www.federalreservehistory.org/essays/bretton_woods_created.

The scope of these activities and level of international coordination to accomplish them was unthinkable before 2008. Thus, a handful of unelected officials control the fates of billions of people. In the case of the United States Fed, they also tend to be well-connected and part of the establishment, or part of high politics in the sense of Cohen (2000). The rise of the Fed's power, and of its allies or epistemic communities (Helleiner, 1994), catalyzed irrevocable changes. They also spawned an increase in non-G7 central bank power, which saw the rise in influence of the People's Bank of China. Whereas instability resulted in emerging market nations like Mexico and Brazil, which were forced to choose polices that were not always in their best national interest. This is an outcome in line with Cohen (2006).

From 2009 on, central bank leaders in developing countries, from Brazil to China, warned the public about the false sense of security that government debt creation and central bank debt purchasing provided. Multilateral organizations did as well. The Bank for International Settlements (BIS) was created in the Hague in 1930 during the Great Depression and would be headquartered in Basel, Switzerland (LeBor, 2014). The BIS was to sit above the world's central banks and monitor their global behavior to thwart crises and stimulate necessary coordination periodically. In practice, it became more of a central bank "club" for its elite members, than a monitor. Still, even the BIS in its 2015 annual report, became critical of zero interest rate policy as an economic cure-all. In its words, "Global financial markets remain dependent on central banks." (BIS, 2015) The power behind that statement is immense and a new feature of the world financial and economic order – the biggest central banks had *become* the markets.

In contrast, central banks in emerging or developing nations didn't have the same power to control markets or influence other central bank policy in response. As a result, countries like Brazil were forced to counter balance domestic monetary and economic policy against the actions and ramifications of them, deployed by major central banks. This provided both opportunities as well as necessary defensive reactions. At the onset of the financial crisis, Brazil burst onto the international stage with fresh verve. The nation led the charge for Latin America to adopt an alternative to the prevailing financial and monetary system that centered around the United States dollar. (Rathbone and Wheatley, 2010). Brazil's post-financial crisis of 2008 trajectory reflects the ramifications of the Fed's policy on a country that had relatively little impact on the international stage from a monetary policy perspective. In the global struggle for supremacy between the United States and China, however, Brazil became a financial battleground.

Yet Brazil's complex economic and political woes required a more precarious balancing act when responding to the rise of the Fed and the People's Bank of China (PBOC) power. The role of defining that path, largely revolved around one key player, Henrique Meirelles. He worked for multiple presidents and had world status. On January 1, 2003, President Luiz Inácio Lula da Silva (or "Lula") upon taking office had appointed hawkish, Harvard-attendee, Henrique Meirelles to run the Banco Central do Brasil or Brazilian Central Bank.[4] Before his appointment, Meirelles built an international financial career at United States bank FleetBoston (formerly BankBoston). He also had solid ties to Washington, DC, and President George W. Bush's Treasury Secretary Hank Paulson (Cooke, 2011). Later minister of finance, Meirelles was Brazil's most dominant monetary and economic policy architect of the early twenty-first century. He maintained a powerful position at the epicenter of Brazil's political and monetary saga, even as he spread his international influence through positions like being on the board of Lloyd's of London and on the Latin America Conservation Council of former United States Treasury Secretary Hank Paulson's Charitable Foundation, the Nature Conservancy.

For decades, Brazil had been a monetary policy maverick compared to the rest of the world. Since the military dictatorship of the 1960s to 1980s, Brazil stood out in Latin America due to its monetary policies being tied to the economy (Afonso et al., 2016). Levels of exchange rates were used as tools to calm public criticism and insulate the country from currency fluctuations, in an insular fashion. However, Brazil was of acute interest to the Western (United States and European) financial establishment and to the rising Chinese-led Eastern bloc. The BRICS nations, when they informally came together in 2006 as a geo-economic bloc, aggregated regional powers for economic and diplomatic purposes to counterbalance United States hegemony. Brazil had strategically positioned itself between the United States and China. Policies were dependent on who was in charge of Brazil, and what seemed most politically expedient at the time.

4.2.1 Outside the Vortex Of The U.S. Financial Crisis

At first, during the financial crisis of 2008, Meirelles did not follow the Fed's money-conjuring policies. Instead, he was forced by circumstances to balance domestic requirements against those of external monetary doves espousing cheap money as an antidote

[4] "Galeria De Ex-Presidentes Do Banco Central Do Brasil." Galeria De Ex-Presidentes, Banco Central Do Brasil, www.bcb.gov.br/pre/GaleriadosPresidentes/default-p.asp?frame=1.

for all economic woes. The strain surrounding these political-monetary conflicts pitted Brazilian central bankers against finance ministers in a series of domestic squabbles. Monetary policy decisions also had the effect of swaying Brazil from one end of global alliances to another and back again as the post-financial crisis years unfolded.

Prying territories and markets open for investment purposes was a key United States financial policy since the early twentieth century. At an August 9, 2006, meeting with United States ambassador Clifford Sobel, Meirelles promised to use his leverage "behind the scenes" to foster a "more welcoming investment climate" for United States business interests in Brazil in return for United States support for his central bank power base (Cooke et al., 2011). In addition, according to WikiLeaks documents, Meirelles argued that United States Treasury secretary Henry Paulson "in particular would be able credibly to make that point" to Lula and his finance minister Guido Mantega. In 2012, Meirelles became a board member of the environmental organization Paulson co-chaired, the Latin America Conservation Council (LACC), a self-described think-tank of global elite.[5]

In the two years following that conversation, indeed United States business interests discovered Brazil. the focus of foreign bankers on Brazil skyrocketed. Major United States banks, notably Paulson's old firm, Goldman Sachs, scrambled to hire staff in Brazil to boost their ground operations there and influence Brazil's markets and economy (Basar, 2008). That foreign attention was rewarded. On April 30, 2008, United States rating agency Standard & Poor's bestowed an investment-grade rating on Brazil (Lesova, 2008). This enabled United States pension funds, previously confined to investment-grade limits, to allocate money to buy Brazilian securities directly. (Smith, 2008) Private equity and hedge funds plied money into Brazilian markets and enterprises. United States broker presence in Brazil grew by 60% in the prelude to the financial crisis, from 2006 to 2008 (Bintliff, 2008).

However, United States subprime crisis clouds were forming: liquidity in the United States credit markets dried up because of the Bear Stearns collapse in March 2008. Global contagion appeared imminent. Yet in April 2008, President Lula brushed off the impact of that brewing storm, characterizing it as a tsunami in the United States, but a small wave in Brazil (Galhardo, 2008). In contrast to directives from Fed chairman Ben Bernanke, before the July 25, 2008, Monetary Policy Committee (Copom) meeting of the BCB board of directors in Brasília, Lula urged Meirelles to accelerate the pace of *raising rates* to keep foreign capital

[5] "Who We Are." The Nature Conservancy, Latin America Conservation Council, www.nature.org/en-us/about-us/where-we-work/latin-america/latin-america-conservation-council/who-we-are/.

flows in Brazil. Rate hikes sent two messages: first, that the BCB preferred inflation control to economic growth stimulation through cheaper money; and second, the BCB wanted to continue to accommodate foreign capital inflows seeking higher returns. That balance became less stable as the crisis grew.

Less than two months later, the financial world crumbled. Lehman Brothers went belly up on September 15 (Skeel, 2018). The Fed fashioned an historic bailout program that invoked zero interest rate policy (ZIRP), initiated a prolonged strategy of quantitative easing, and created massive lending programs (or "facilities") for banks. The Fed coerced other central banks to adopt similar strategies. The G7 central banks opted in; some G20 central banks, like the BCB, at first, did not.

The combination of the crisis and the response of central banks provoked a power paradigm shift based on market reactions to money fabrication. In Brazil, this shift to markets being more supported by central bank money than national budgets or the greater population, prompted a level of popular discontent that spawned a political move to the right. This happened in developed nations, such as the United Kingdom and the United States, as well.

During the fall of 2008, the Brazilian stock market (Bovespa, now B3) bounced up and down on each external central bank intervention, though its banking system weathered the crisis better than the United States or European banking systems did. After falling on Lehman's collapse, it spiked on September 19 amid rumors of a United States bailout. It then rose on news of a United States bailout capital injection of $20 billion for Citigroup, a bank with strong historic ties to Brazil, Mexico, and throughout Latin America (Reuters, 2008). But these were interim spikes. The index lost 25%, its biggest slump in a decade**,** as foreign capital fled to home countries, hurting local markets, people, and firms in its wake (Godt, 2008).

Major central banks took advantage of the financial crisis to fabricate money and support key private banks under the guise of helping their mainstream economies. Peripheral financial agents rushed to determine which countries would be the recipients of this resulting "hot money." The BRICS countries proved enticing to Western speculators because they had not been as hammered by the subprime crisis as had the United States and Europe. China offered a large domestic consumer base and cheap labor force but political disparities. Brazil offered a wide interest rate differential given its high rates and, it seemed at first, its solid affinity with the West. Meanwhile, the United States financial crisis spread like cancer. Thus, on December 3, 2008, Lula reversed course and pressed Meirelles for rate reductions (in keeping with United States policy) (Alencar, 2008). The BCB, unlike the Fed, did not operate under even the veneer of formal independence from the government.

On December 16, the United States Fed cut rates to zero (Corcoran, 2015). Still, credit crunches hampered markets. As a result, Brazil suffered a small recession in 2009 (with GDP at –0.2%). Lula was facing the demise of his rosy economy and power base at the hands of United States bankers and the Fed. Meirelles promised to reduce the SELIC (the Special System for Settlement and Custody of Securities) key policy rate at the January 20, 2009, meeting, though he dismissed claims that he caved to the whims of Lula.

The "balance of power" battle between fiscal and monetary policy advocates raged on. To commemorate the first anniversary of the successful management of the financial crisis in September 2009, Brazilian newspaper *Folha de São Paulo* asked Meirelles about the stability of Brazil's banks in the "aftermath" of the crisis. Meirelles assured the press that the dangers of another systemic crisis that could harm Brazilian companies with United States dollar and derivatives exposure had passed. He also defended his decision to wait until January 12, 2009 to cut rates in contrast to other central banks' moves: "A rate cut would only generate more volatility and insecurity." (Folha de São Paulo, 2009) But, with growing pressure on his actions in light of oncoming recession, Meirelles had to switch gears. He subsequently cut rates from 13.75% to 8.75% between January and July 2009 (Plummer, 2010).

4.2.2 Currency Wars and Movement Toward Economic Recovery

Whether because of those rates cuts, expansion of credit for the middle and lower classes, or freezing of some industry taxes, Brazil's economy did recover and grow. For a while, Mantega and Meirelles jockeyed for power over policy, each blaming the other for Brazil's problems of high public debt, low wages, and a fiscal deficit. Still, Brazil enjoyed 7.5% GDP growth in 2010, a key factor in giving Lula 80% of the popular support (Grudgings, 2010).

Meirelles became more hawkish as the economy grew. When the BCB raised the SELIC to 9.5% on April 27, 2010, the Brazilian stock market reacted favorably.[6] Rates returned to historic highs in 2010, even though inflation stayed within the BCB's target band of 2.5–6.5% during the preceding period. These comparatively high rates attracted foreign favor and capital flows seeking greater returns.

Until the autumn of 2010, the BCB refrained from intervening in the local currency market because public sentiment about the economy itself was positive. But by September 2010,

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[6] "Minutes of the 150th Meeting of the Monetary Policy Committee (Copom)," Banco Central Do Brasil, April 27, 2010, www4.Bcb.gov.br/Pec/Gci/Ingl/COPOM/ COPOM20090430-150th Copom Minutes.pdf.

as both became shakier, the BCB quietly intervened by injecting an average of $1 billion a day for two weeks—ten times its prior daily average—into the system, to contain the new problem of overvaluation of the real resulting from excessive foreign capital flows and speculation (Wheatley & Garnham, 2010).

Mantega famously coined the term "currency war" to describe how central banks were lowering or manipulating rates to give their own economies a trade advantage through rendering their exports comparatively cheaper. On September 27, 2010, he proclaimed, "We're in the midst of an international currency war... this threatens us because it takes away our competitiveness." (Ibid). In truth, it took away power. As Brazil's currency appreciated, its exports got more expensive. This contributed to Brazil leveraging its position as the world's biggest exporter of commodities such as sugar, coffee and orange juice when negotiation trade with China and the U.S (Leahy, 2011). The positive result was a rising stock market. Mantega positioned himself and the government to take credit for that.

Brazil's October 31, 2010, presidential election took place amid the Brazilian economy's recovery from the United States financial crisis and early 2009 recession. Brazil's private equity and hedge fund industry garnered solid international interest (The Economist, 2011). Brazil's hedge funds grew by 23% in 2010 compared to 2009 (Araújo, 2017). The Fed promoted the notion that the crisis was over. Yet, conjured-money remained policy and propelled more capital into Brazil and other emerging markets. The National Bank of Economic and Social Development (BNDES), Brazil's development bank, plowed $1 billion into local private equity funds (Inderst & Stewart, 2014). As a result, in 2010, private equity funds reflected a higher proportion of GDP for Brazil than they did in most other emerging markets.

In a November 13, 2010, interview at the Seoul G20 Summit, shortly after Dilma Rousseff, the protégé and former Chief of Staff of Lula (she later returned the favor), was elected president, Mantega confirmed the BCB would cut the SELIC in 2011 (Bristow & Soliani, 2010). He highlighted Rousseff's plans to reduce federal spending and subsidies to the state development bank, as part of a deal with the BCB for lower rates in return for potentially punishing austerity measures (Bristow & Soliani, 2010).

Her vice president was Michel Temer, head of the Brazilian Democratic Movement Party (PMDB, now only MDB). She fired inflation hawk Henrique Meirelles from the BCB. The dove Alexandre Tombini became chairman on January 1, 2011, upon Rousseff taking

office.[7] He was a former senior adviser to the executive board at the Brazilian office of the International Monetary Fund and respected by those in the financial markets. He too had domestic and international pedigree, having earned a degree in economics from the University of Brasília (UnB) and a PhD in economics from the University of Illinois.[8]

The ideological battle around interest rates was now waged over the issue of how to treat foreign money flows. For Brazil, as in many developing states, inflation often reared its head, pitting politicians and central bankers against each other and hurting real people caught in the middle. Rousseff's choice signified that Brazil would follow the United States and embrace lower interest rates (Plummer, 2010). Meirelles had been accused of keeping Brazil's interest rates too high for too long. It seemed the BCB would act in concert with other major central G7 banks. But what worked for them wouldn't necessarily work for Brazil. The effects would eventually diminish Brazil's power and influence.

4.2.3 Capital Controls, Inflation and Currency Problems

In early 2011, the flow of speculative foreign capital that was searching for a place to gain higher returns, since rates at home had been rendered so low as a result of the central banks' cheap money concerned Mantega. He wanted to limit capital flow volatility. But neither the IMF nor any other major developed country agreed. To the United States, especially, loose financial borders meant a country was on the path to becoming "developed." It was a policy of neoliberalism on steroids.

As foreign speculators stormed Brazil in pursuit of quick returns, at first Tombini greeted them with loose regulations. American private equity (PE) funds bought large chunks of Brazilian ones. The BCB cut rates in October 2012 down to a record low of 7.25% (Fick 2012). However, the global panorama of zero interest rate policy (ZIRP) and later negative interest rate policy (NIRP) presented a conundrum to countries that didn't or couldn't pursue the same policies as the major developed ones. Emergent "safe" markets with relatively high interest rates were required to protect the wealth of the core rentier class in developed countries. Places like Brazil became increasingly reliant on foreign capital which provided foreign

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[7] From a domestic political power perspective, Meirelles was more powerful, having been a Congressman elected in 2002, while Tombini, in comparison, was a central bank employee.

[8] "Legacy of Alexandre Antonio Tombini." Banco Central Do Brasil, www.bcb.gov.br/en/legacy?url=www.bcb.gov.br/pre/quemequem/ingl/tombini-i.asp?idpai=diretoria.

investors and their respective central banks with more influence over Brazil's economy. As rates were lowered, some of this capital left. It was a power catch-22.

The Brazilian government and BCB's battle with the private financial system over providing easier credit to the population echoed the situation in the United States, where zero-cost money had not induced private banks to extend similarly low rates to individual or small business borrowers. Still, President Rousseff urged consumers to support banks offering "better conditions," or lower rates, to press them to cut rates (Wall Street Journal, 2012).

At the end of the year, Mantega told Brazilian economic news outlet, *Valor Econômico* that despite being low for Brazil, its relatively high rates attracted historical levels of foreign capital. However, these caused an overvalued real and hurt the "competitiveness of Brazilian production." He asserted, "the era of easy, risk-free gain" was over (Valor Econômico, 2012). Yet, conjured-money policy outside of Brazil was inadvertently causing more problems for the future than solving present ones.

In early 2013, a deep drought plagued Brazil, putting upward pressure on electricity and food prices (O Globo, 2014). Brazilian political and central banking policies remained at odds. Now, Tombini pressed the BCB to raise rates to contain inflation. (Financial Times, 2013) Policies also shifted regarding the treatment of external capital flows. Brazil would have to pay more interest to keep attracting the hot money upon which its economy had become dependent. Mantega feared extensive capital outflows combined with a reduction of inflows if the Fed were to "taper" its QE policies. This would mean that United States rates could rise and take capital out of Brazil, especially if Brazil didn't raise rates, too (Caneca and Rodrigues, 2013).

Since Tombini took the helm of the BCB in January 2011, annual inflation had shot to more than 6.5%, the top of the BCB's target range (Brandimarte, 2013). By June 2013, utility price hikes placed increasing financial burdens on the population. An increase of twenty cents in bus fares in the city of São Paulo was a final straw (Romero, 2013). A wave of social media–organized street protests swept the country. Participants with varied ideological positions made various demands. Dilma Rousseff was only one target of political focus during the demonstrations. Protestors spanned from the far left to anarchists, center-right, evangelicals, and the students, who were responsible for the most aggressive demonstrations. State police reacted violently, which generated solidarity protests throughout Brazil (Berger, 2013).

Regarding inflation, there was enough blame to go around. Some economists, notably Werner Baer, Tombini's former economics professor at the University of Illinois, believed Tombini had been betrayed by Mantega, who hadn't controlled spending and borrowing in tandem with low rates. Though Tombini started raising rates in April 2013 to fight inflation,

higher rates in turn choked credit, hurting the economy. The reality was that raising rates wouldn't help the Brazilian Real this time. By late August, Brazil was facing a potential currency crisis. The Real was crumbling. Wanting a weaker currency was one thing; having one crushed by foreign speculation was another. Popular belief indicated that Brazilian leaders were giving up too much power. Brazil wasn't alone in its concern about the strengthening United States dollar. Emerging market central banks began draining billions of dollars in reserves to prop up currencies against the dollar, even with no United States rate hike materializing, just the threat of one. Another indicator of the pervasive power of the Fed.

By November 27, 2013, the BCB had raised rates back to 10% to defend the Real. It was the sixth hike that year (Soto, 2013). Brazil's economy deteriorated as the United States economy improved. That trend of bifurcating economies between developing and developed countries in the past would have signified just another global financial-power cycle and Brazil's relative position in it. When emerging economies overheat because of massive capital inflows from developed nations, there is no internal majority pushing for restrictive financial measures because the money is generally welcomed (Gallagher, 2014). When that capital leaves, the emerging country is left with a hole to fill. But this time was different. The inflammatory cause was a deluge of capital from G7 countries seeking higher yields due to a coordinated, unprecedented fabrication of that capital. This had unnaturally fueled excessive speculative inflows from dominant to recessive countries, from those that controlled international monetary policy to those that reacted to it.

By the fall of 2013, Brazil had gone from foreign investor darling to demon because of the alleged recovery of the United States and its Pacific Alliance partners. On September 27, 2013, the *Economist* wrote the first of many scathing analyses of Brazil titled "Has Brazil Blown It?"(The Economist, 2013a) It argued that Rousseff "has scared investors away from infrastructure projects and undermined Brazil's hard-won reputation for macroeconomic rectitude by publicly chivying the Central Bank chief into slashing interest rates. As a result, rates are now having to rise more than they otherwise might to curb persistent inflation." The criticism underscored a power and logic gap: it was fine for elite countries with big banks and central banks to cut rates, but not for others (Jarand & Stahler, 2015).

By September 2014, Brazil posted the worst current account deficit since 2001 (Ribeiro & Campos, 2014). It occurred during an anxiety-filled presidential election. Gas and diesel prices increased by 3 and 5%, respectively, despite a 60% reduction in global oil prices, causing pain to average drivers. People were on edge due to fears that their own power was diminishing.

On October 29, 2014, the BCB raised rates from 11% to 11.25% to try to quell inflation (UOL, 2014). Other major central banks remained in low-rate mode. Still, inflation would not be tamed.

On January 1, 2015, President Dilma Rousseff, after narrowly being reelected on October 26, 2014, was sworn in (Watts, 2014). She vowed to kick-start the economy, tackle corruption, and make budget cuts. Dismissing Mantega at an open press conference with journalists, Rousseff selected an even more hawkish minister of finance, Joaquim Levy (Uzêda, 2014). He was a keen austerity proponent, with an economics PhD from the University of Chicago and a career at the IMF, Inter-American Development Bank, European Central Bank, and Bradesco Asset Management, a behemoth Brazilian financial institution.

Right-wing anti-government demonstrations followed her narrow election victory (Ford & Arvanitidis, 2015). They were compounded by too much debt accumulated during the good times without considering the consequences. From the late 2000s through the 2010s, as Brazil's firms took on more foreign debt, they were subsidized by the government, which borrowed money at 14.25% and lent it to them at 2%. A January 2015 IMF paper characterized this "Bon(d)anza" as reminiscent of past Latin American debt crises (Bastos & Kamil, 2015). But now, corporate rather than sovereign bonds were managed by foreign banks, enhancing the debt problem with a currency one. The real was diving, rendering foreign interest payments, especially in United States dollars, even more expensive to make for Brazilian companies to make payments.

On January 24, 2015, Tombini overstepped his monetary policy role to advocate fiscal austerity to tame inflation. This was an unprecedented bid for power over both elements. World policy was becoming Brazil's policy, or at least Brazil's elites were accepting it as so. Yet, on March 24, the real sank to a twelve-year low (Biller & Sambo, 2015). Tombini had badly miscalculated the extent to which large foreign debts would weigh down Brazilian companies booking profits in real and making interest payments in dollars or other currencies, and the economic problems this would bring.

4.2.4 New Trade Alliances, Growing Austerity Measures And Capital Flow Concerns

China and Latin America grew closer alliances during the twenty-first century, particularly during the United States financial crisis. Trade between the two regions increased twenty-five-fold, from barely $10 billion in 2000 to $270 billion in 2012 (Piccone, 2016). In 2015, despite the slowing Chinese economy, external loan funding from China hit a near-record $29 billion—triple the 2014 amount and more than the 2015 funding from the World Bank and

Inter-American Development Bank combined (Gallagher et. al., 2012; Gallagher and Myers, 2015). A total of $35 billion worth of multilateral financing reached Latin America. About 95% of the loans from Chinese government banks to Latin America went to Argentina, Brazil, Ecuador, and Venezuela. China was settling in for the long-term power-grab through intensified lending.

On June 11, 2015, at a meeting in Brussels with Alexis Tsipras, the prime minister of Greece, Rousseff tried to defend her austerity policies, noting that austerity in Brazil was not like that in Greece, because of Brazil's $370 billion in reserves. She explained. "We have a financial system without any bubble." (Müzell, 2015) But Rousseff was wrong about Brazil having no bubble. The fact that external speculative capital flowed relatively freely into Brazil's financial markets in search of higher returns, had the effect of causing financial bubbles in Brazil. The results of this incoming and outgoing foreign capital flows effect Brazil's currency as well, and by extension, its internal policies.

This wasn't the first time that Brazil's economy suffered a deep recession plus steep inflation, but it was the first time that Brazil reacted so extremely to external central bank policies. On July 9, 2015, the IMF predicted Brazil's economy would shrink by 1.5% in 2015 as global demand for commodities, particularly from China, waned (Bolaños and Mendonça, 2015). S&P's rating downgrade of Brazil on September 5 shined light on Rousseff's unpopular austerity measures (Schineller, 2015). For president Rousseff, the combination of alleged corruption, stemming from the time she chaired Petrobras, and the economic recession crushed her popularity to a record low and increased calls for her impeachment. Brazil's Real was the worst-performing EM currency in 2015, dropping by 30%. Brazil's Ibovespa stock index fell by 35%, the fourth-worst performance of ninety-three global benchmarks. Brazil officially entered recession in Q2, with GDP falling by 2.6% (Taborda, 2015). The Petrobras scandal and investigations into inappropriate connections between industrial CEOs and the government, plummeting commodities prices, and a sell-off of EM currencies and securities by speculators only exacerbated matters.

Tombini had to pursue a contractionary monetary policy, while other central banks maintained zero or near zero interest rates, to contain inflation after Rousseff's reelection. The policy only deepened the unemployment problem without making a dent in the inflation (Rapoza, 2015). As Rapoza (2015) wrote in Forbes, "With China slowing, there is also less demand for Brazil's commodities. Investors are waiting for interest rates to decline, but may have to wait until next year due to pesky and consistently high inflation."

Other Latin American central banks adopted cheap-money policies to encourage growth in the style of currency wars and Fed-led policies. In Chile, for example, currency depreciation since 2013, despite above-target inflation, was intentional (Dwyer, 2015). Tombini stood in contrast to his Latin American neighbors, like Bolivia and Paraguay, and much of the rest of the world.

By late November 2015, Brazil's inflation exceeded 10% for the first time in twelve years. The government froze certain discretionary spending on November 30, putting Brazil at risk of a government shutdown. The BCB had already raised borrowing costs to the highest levels in a decade, having doubled the benchmark rate from 7.25% in March 2013 to 14.25%. Calls for President Rousseff's resignation intensified as Brazil's economy cratered. Her opponents accused her of using public bank funds to fudge the budget deficit, a practice known as *pedaladas fiscais*. House of Representatives president Eduardo Cunha, later arrested on charges of corruption, began an impeachment process against Rousseff on December 2, 2015 (Watts, 2015). On December 22, Brazil's antitrust authority**,** CADE, opened investigations into contract rigging of the twenty-one companies and fifty-nine executives already under criminal probe (CADE, 2015). The banking sector fell under investigation for various crimes. Pension funds were underfunded, intensifying local population and political unrest (Romero, 2015).

The new year of 2016 brought more bad news to the country. Brazilian Christmas retail sales were the worst since 2005 (Rapoza, 2015). Rising debt, defaults, bankruptcies, jobs losses, lawsuits, and currency devaluation added to the dire picture. In early January 2016, Tombini vowed the BCB would maintain current rate policy for a "sufficiently prolonged period" to reach its inflation target (Sambo and Leonel, 2016). A month later, on February 17, S&P downgraded Brazil to junk status. External fears about Brazil's scandals were compounded by its economic descent.

But Brazil had powerful external allies. Brazil was in the middle of a critical battle between the East and West and made great efforts to use international alliances to its advantage. Geopolitical and geo-economic maneuvering reigned over monetary policy considerations. In the aftermath of the financial crisis, first Lula's and then Rousseff's governments had crafted stronger ties with China relative to ties with the United States. As of 2009, as a result of the financial crisis, China had become Brazil's top trade partner, over-taking the United States. Sino-Brazilian trade leapt from $6.5 billion in 2003 to $83.3 billion in 2012 (The Guardian, 2015). In February 2016, Brazilian senators met with a Chinese delegation to discuss the proposed bilateral agreement to build the R$40 billion (about United States$10 billion at that time) Bi-Oceanic Central railway. It was to be an on-land road linking coasts, from the Atlantic

in Brazil to the Pacific in Peru, to provide more efficient routes for key products such as iron, soybeans, oil, chickens, and lithium to be exported to China (Bland, 2016).

The United States was alarmed. Latin America had been the "backyard" of the United States since the Monroe Doctrine in the 19th century (Wheless, 1914). The Obama government did not relish the prospect of seeing the continent's resources funneled to Asia (Weeks, 2014). China worried its stake and future with Brazil could be imperiled without Rousseff. A new government might nullify existing arrangements, in favor of the United States, as it ended up happening after her removal. Certain businesses wanted Rousseff out for precisely the latter reason.

Meanwhile, capital flows were of mounting concern. In April 2016, Joao Barroso, senior adviser to Brazilian central bank (BCB), considered the effect of capital inflows to Brazil stemming from the Fed's monetary policies. According to his analysis, over 54% of capital inflows from the United States to Brazil were caused by QE.[9] While Brazil showed less political and economic risk, the capital stuck around. But in late 2015 and early 2016, political problems began to overwhelm Fed-stimulated cheap-money flows. They revealed the extra problem of leverage, or taking on too much debt during the good times without considering the consequences of unwinding it. Foreign debt saddled Brazil's corporations. As a result, Brazil had to establish new alliances and enhance its existing ones to be considered not only a partner, but an equal, in order to secure its economic future.

The effect of the Fed's QE on Brazil was related to proximity and opportunism. The United States drove more capital to flow globally as a result, but that speculative capital seeking quick returns wasn't the kind of capital that could fund the building of more permanent infrastructure, or other development programs. It was mercurial, and could be retracted at the sign of the slightest market disruption. It was less reliable, in that manner, than longer-term investment capital coming from China. By the spring of 2016, something larger was at stake: a power struggle between the elites of the West and China.

Yet domestic unrest with some of China's growing partners, such as Brazil, was also intensifying due to economic and political discontent, especially over austerity worries, pitting the left and right populations against each other's leaders. In Brazil, despite national protests to keep her in power — a Senate vote on May 12, 2016, concluded with a decision to move toward the impeachment of Rousseff (Jacobs, 2016). Upon taking over as interim leader on May 13,

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[9] Joao Barroso, Meeting With Author, Central Bank of Brazil Offices, Brasilia, April 7,2016.

2016, Michel Temer was quick to embrace austerity. He vowed to cut government spending and audit social welfare programs to kick-start Brazil's economy (EFE, 2016).

The harshest austerity measures were implemented by Temer's newly appointed finance minister, none other than former BCB head, Henrique Meirelles. On May 17, 2016, Meirelles nominated behemoth Itaú Unibanco Holding's chief economist Ilan Goldfajn to head Brazil's central bank (Lima, 2016). Goldfajn had many United States and international ties, too. He had received his undergraduate and master's degrees in Brazil and his PhD in economics from the Massachusetts Institute of Technology in the United States.[10] He was a consultant for international organizations (such as the World Bank, the IMF, and the United Nations), the Brazilian government, and the private sector. On August 17, 2016, Brazil's unemployment rate hit a four-year high of 13.3%, doubling from 6.5% in 2014 (CNBC, 2016). Meirelles called for austerity measures and pension reforms (Biller, 2016). The move constricted an already weak economy, but it helped the stock market. Meirelles's ascent formed a perfect domestic power circle. Before Lula, he ran a global division of FleetBoston, then he ran the BCB, then re-entered the private sector. Now he controlled monetary *and* fiscal policy in Brazil. Bloomberg called Meirelles "one of Brazil's most accomplished financial officials." (Leite & Colitt, 2016)

Less than two weeks later, on August 31, 2016, Rousseff was impeached by the Senate in a 61-20 vote (Watts, 2016). It was Michel Temer, not her, that boarded a plane to China, the country Rousseff had forged new alliances with, to attend his first G20 meeting there. Brazil was again up for grabs with respect to alliances with either the United States or China in the global power stakes.

By February 2017, despite austerity measures, rating agency S&P maintained Brazil's junk status and its negative outlook (Alves, 2017). Meirelles downplayed these predictions. Meanwhile, the domestic scene became increasingly chaotic. In Espirito Santo, riots broke out while the police were not getting paid (Whitaker, 2017). Government employee wages were frozen. Meirelles declared Brazil's recession over many times (Gamarski and Schatzker, 2017). Major economic research institutes, including FGV (Fundação Getulio Vargas) and IPEA (Institute of Applied Economic Research), said the opposite (Brazil Monitor, 2017). Temer was turning Brazil into a financial capital paradise, with neoliberal fiscal policy and a twenty-year public spending cap proposal (Boadle & Ayres, 2017).

[10] "Ilan Goldfajn," Banco Central Do Brasil, www.bcb.gov.br/Pre/Quemequem/Ingl/ IlanGoldfajn-I.asp?Idpai=Who.

In May 31, 2017, the SELIC interest rate had been cut four times, from 13.75% to 10.25% – in three months. Yet Brazil's relationship with the United States and China was bound to the nation's disastrous economic and monetary policies rendering it more of a passive participant on the global stage between the two superpowers. It simply couldn't conjure enough money to keep up. During the first G20 meeting held after Donald Trump became United States president, in Hamburg in July 2017, Meirelles touted his accomplishments and Brazil's ameliorated condition: "We are managing in a very focused and concentrated way the economic agenda, the economy is going well."(Brasil Econômico, 2017, translated by the author). In reality, the unemployment rate was rising and economic activity was declining (Reuters, 2017). As for Meirelles: in late 2017 he began mounting his 2018 campaign for president (Reuters, 2017).

4.3 CHINA'S FOOTPRINT GROWS: RESPONSE TO UNITED STATES CENTRAL BANK POLICIES

On the other side of the world, China was planning that next steps to its gain even greater status and influence over the international economic, financial (and military) sphere. The twenty-first century upsurge of the People's Republic of China as an economic, monetary, and political superpower was accelerated by the United States financial crisis. It was a calculated reaction by the People's Bank of China to help elevate China's position in the wake of the Federal Reserve's collusion with G7 central banks to liquefy the financial system with cheap fabricated money and bond-buying.

The United States Fed assumed its role as central global monetary policy coordinator as a result of the Bretton Woods agreement of 1944. But China has a culture of playing the long game. It continued this pattern after the financial crisis by disrupting United States influence by increasing its own. This meant growing its economy, expanding its lending profile with countries that were formerly recipients of United States debt, and forming fresh trade, currency, or other diplomatic partnerships with them by investing in long-term infrastructure and sustainable energy projects. Its aim was to elevate its currency to one of the top five in the world. Even Japan, China's former foe and United States ally, chose to formulate bilateral and multilateral agreements with China unheard of before the Fed's collusion scheme.

At the onset of the financial crisis of 2008, China turned wary of the possibility of United States economic contagion and publicly skeptical of the manner in which the United States government enabled its banks to wreak global havoc. It worried about the links between

cheap money, the United States dollar's supremacy as the world's reserve currency, and dangerous speculative asset bubbles. Concern and opportunity propelled China's geopolitical expansion in the 2010s following its economic expansion in the 2000s. The world's longest-serving G20 central bank head, Zhou Xiaochuan, who led China's central bank, the People's Bank of China (PBOC), was key to forging this destiny.

Zhou became governor of the PBOC in 2002. He was reappointed in 2007 and again in 2013.[11] Born in 1948 to an early Communist Party member who mentored former Chinese president Jiang Zemin, Zhou's scholarly achievements provided him a similar gravitas in China that was equivalent to Ben Bernanke's in the United States establishment. Under his leadership, the PBOC provided extra liquidity to China's market by reducing reserve requirements (RRR) for Chinese banks. It adopted more market-friendly guidelines and pushed for the yuan's inclusion in the IMF's international reserve asset, the Special Drawing Right (SDR) basket. This was a distinctive moment of international recognition and symbolism as much as it was about power from a currency use perspective. Zhou engaged in public battles with the United States and Fed over the risks of United States monetary policies. HIs goal was to push market reforms for the benefit of external consumption in order to elevate China's position via the route of monetary policy. Domestically, Zhou orchestrated what he deemed best for China regardless of outside pressure.

However, he also began to criticize United States banking policy in forums that enabled his views to be captured for international public consumption**.** On March 6, 2008, ten days before the collapse of Bear Stearns, Zhou addressed a press conference on economic development held by the eleventh National People's Congress (NPC) at the Great Hall of the People in Beijing. Presciently, Zhou warned policymakers to be prepared for more fallout in the United States banking system. Well before the broad United States population was aware of it, he declared, "The crisis has not yet run its course and it shouldn't be ignored." (CNBC, 2008) Yet, as the Fed adopted a more aggressive money-conjuring mode toward late 2008, Zhou began decreasing rates, too, starting in September 2008. Five more cuts followed through December.

Zhou's deftness at his role—balancing what was good for China with caution about potential problems with external policies—took center stage. He understood the difference between the direct and indirect impacts of the escalating United States subprime crisis on China

[11] "Consultative Group on International Economic and Monetary Affairs, Inc." Group of Thirty: Current Member Biography, group30.org/members/bio_current/zhou.

and what they meant for China's future as a superpower. "In terms of the direct impact," he said, "the proportion of subprime investments accounted for by Chinese financial institutions is relatively small." Indirect impact was different. As he opined, "The US economy may influence the global economy, for instance when it comes to trade, and... further effects." (Ying, 2008)

Yet, China still needed to contain its domestic inflation, which required higher rates. This policy ran counter to the Fed's, yet supported what the United States government wanted for trade purposes: a strong yuan that would render Chinese imports more expensive and United States products cheaper. Trade wars between the United States and China eventually arose from this tension.

The United States was adamant about dictating the path of China's currency and financial policy. Treasury secretary Hank Paulson, who later wrote a book touting his closeness with China, was one of many United States leaders obsessed with ruling China's currency policy and pressing for market reforms to open its borders to outside speculators, such as the United States was pressing Brazil and other emerging nations to do. He began this effort while at Goldman Sachs vying for banking deals. His visits to China sowed political and economic seeds (Loosvelt, 2015). "They've headed down the path to a market economy and capital markets are a very powerful force for good," he told the press in April 2008, during a visit to speak with Chinese leaders. (New York Times, 2008b) Paulson pressed the ideologies of the Strategic Economic Dialogue initiative he began in 2006, to encourage China to liberalize its markets. His brand of China-blaming was part of a bipartisan doctrine of similar diatribes, which China handled by attacking United States monetary and banking policy while it built up its own empire

Premier Wen Jiabao cultivated a friendly image with the Communist Party and external leaders. In September 2008, at a World Economic Forum meeting, he warned, "The greatest challenge facing the international economy and finance is that the sub-prime mortgage crisis has affected some financial enterprises, even the physical economy, which resulted in the slowdown of the global economy."(Commissioner's Office of China's Foreign Ministry in the Hong Kong SAR, 2008) China was caught in the storm of the United States regulatory and banking system recklessness and wasn't pleased about it.

As the financial crisis in the United States escalated, however, the PBOC found itself having to adhere more to the Fed's rate policy for liquidity purposes, and out of growing concern for contagion of its economy. On September 15, 2008, the PBOC cut its benchmark loan interest rate, however their reasoning for broad public consumption was positioned to be

about economic development, not merely stabilization. This first rate cut since October 2005 was thus to "solve prominent problems in the current economic operation, implement the principle of giving different policies for different needs and optimizing the economic structure, and ensure a steady, rapid and sustained development." (Bradsher, 2008)

Wall Street was in significant trouble. The September 15, 2008, collapse of Lehman Brothers increased existing international instability. The Dow Jones Industrial Average (DJIA) experienced its biggest drop, 504 points, since the attacks on the World Trade Center on September 11, 2001 (Yahoo Finance, 2008). On September 29, 2008, the United States House of Representatives rejected a proposed $700 billion rescue package for banks (Federal Reserve, 2008). The DJIA shed 778 points (7%). Asian and European markets fell, too.

A month later, the PBOC cut rates for the third time in six weeks. (Associated Press, 2008) China claimed it was not specifically affected by the United States financial crisis but worried about global recession. The main concern for China was the effect the crisis would have on consumption and demand for Chinese products. In November 2008, the PBOC cut its one-year deposit rate by more than a full percent, the largest reduction since the late-1990s Asian financial crisis. Its explanation echoed the Fed's, that this was done "to implement a flexible monetary policy, to ensure the fluidity of the banking system, to ensure stable growth of credit and to demonstrate the positive role that monetary policy plays."(Bradsher, 2008) Zhou resonated with the Fed's strategy but tried to differentiate his own version of it. It was clear to him and the Chinese government that the United States was hampering their growth. As the PBOC noted, "China's economy has slowed significantly after the collapse of Lehman Brothers in September." (Hopkins, 2008) By November, 2008, exports had fallen by 2.2% since November 2007, the largest year-over-year monthly decline since April 1999 (New York Times, 2008a).

As a result, just before Christmas, the PBOC cut its key rates again (Hopkins, 2008). That monetary policy move also paved the way for more such easing actions to take place during the following year. Throughout 2009, most developed countries' central banks dove deeper into money-conjuring mode. Emerging nations, though, had to balance their domestic needs while succumbing to this power shift. The world economy saw no real recovery. However, in order to assign blame elsewhere for United States economic problems, the United States Treasury Department strongly criticized Chinese exchange rate policy and prompted other developed countries to do the same.

The US dollar, as a symbol of American power, began to suffer as the international community scrutinized its role in the crisis. In retaliation for the United States' accusations of

currency manipulation (particularly during a crisis caused by United States banks), the Chinese government openly supported reform of the international monetary system and the role of the IMF and its SDR basket as a dollar alternative (Anderlini, 2009). The US dollar had the greatest weighted average in the SDR and held the strongest international position. When countries traded or invoiced, they mostly did so in US dollars. When they used wire transfers across currencies, they also mostly did so in US dollars. This marked the start of questioning the entire US dollar-centric monetary system. Emergent countries, the UN, and other international institutions endorsed this reconsideration.

Despite having presided over the NY Fed—the Wall Street "arm" of the Fed during the crisis incubation period—Tim Geithner also labeled China the enemy of the global economy. On January 23, 2009, during his Senate confirmation hearings, as newly nominated Treasury secretary, Geithner said President-elect Barack Obama believed China was manipulating its currency and that Obama would "use aggressively all the diplomatic avenues open to him to seek change in China's currency practices."[12] The Obama administration declined to officially cite China for "manipulating" its currency, but Geithner's public rhetoric kept the issue alive (Crutsinger, 2009). China was the largest foreign holder of US Treasury bonds, followed by Japan (until October 2016 when the two switched places).[13] As a result of Geithner's barbs, the prices of long-term Treasury bonds dropped slightly, under expectations that Beijing would ease its purchases of US Treasury bonds in retaliation, as a power move. But the reaction was brief, because China would only hurt the value of its own portfolio of US Treasury bonds if it stopped buying US Treasuries.

This was another reason, though, that Zhou led the charge for elevating the yuan as a reserve currency as a means to independence. The fewer reserves required to match US dollar volume in the world, the more control China would have over its destiny as a rising superpower. On March 10, 2009, Fed chair Ben Bernanke spoke about systemic risk before the Council on Foreign Relations in Washington, DC. He characterized "global imbalances" that generated financial crises as the "joint responsibility of the US and our trading partners."(Fed, 2009) In other words, The United States could do the crime, but the rest of the world should do the time.

Meanwhile, China was growing weary of suffering the consequences of United States actions it could not influence. On March 13, at the annual National People's Congress meeting

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[12] United States Senate Committee on Finance Hearing on Confirmation of Mr. Timothy F. Geithner, Www.finance.senate.gov/Imo/Media/Doc/012209%20TFG%20Questions1.Pdf, Question 13.

[13] "Major Foreign Holders of Treasury Securities" (Table), Department of the Treasury/ Federal Reserve Board, August 15, 2017, Http://Ticdata.treasury.gov/Publish/Mfh.txt.

in Beijing, Premier Wen Jiabao noted that during the past few years the United States had depended on Chinese purchases of Treasury bonds to finance its budget deficit. “We have lent a huge amount of money to the US, [...] I am a little bit worried. I request the US to maintain its good credit, to honor its promises, and to guarantee the safety of China’s assets.” (New York Times, 2009)

China’s government and central bank both espoused the dangers posed by the United States-led global monetary system as a way to mitigate United States power. On March 23, 2009, the PBOC released a critical document titled “Reform the International Monetary System” by governor Zhou (BIS, 209). The report made a monumental pronouncement. For the first time in a public manner, Zhou called for the inauguration of a supranational reserve currency related to the IMF’s special drawing rights basket—to be managed by the IMF itself. It was a declaration of monetary policy warfare. Though he never explicitly noted the United States, he did implicitly cast doubt on its inability to restore international liquidity and the right of the US dollar to retain its position as the dominant world reserve currency. As Zhou claimed, “The crisis again calls for creative reform of the existing international monetary system towards an international reserve currency with a stable value, rule-based issuance and manageable supply, so as to achieve the objective of safe- guarding global economic and financial stability.” (ibid)

The SDR was not a currency per se, but its basket could serve as a reserve or backup to any currency, just as reserves at the Fed and other central banks served as a backup to the US dollar. The SDR aggregated the monetary powers of the major countries in it, but also blended them in a more representational way. Plus, it was a model that could extend to more currencies or even gold. A global currency connected to the SDR basket would diffuse the US dollar and monetary policy power, even as it lent power to the IMF, which was largely a United States construct.

In retaliation for Zhou’s anti-dollar campaign, President Obama, Bernanke, and Geithner united to reject the idea of a supranational reserve currency. At a press conference, Obama emphasized, “I don’t believe that there’s a need for a global currency,” adding, “The reason the dollar is strong right now is because investors consider the United States the strongest economy in the world with the most stable political system in the world.”(Wroughton and Lawder, 2009) It was as much a political power statement as one to assuage the currency markets’ concerns about US dollar supremacy, which in turn, helped the United States maintain its global position.

A week later, the G20 kicked off its second meeting in London to discuss solutions to the international crisis. In its pivotal “Leader’s Statement,” the group overrode the United States

objection to Zhou's suggestion. Leaders supported the IMF's capacity to provide international liquidity and to establish a stable international monetary system. Their statement was a crack in the wall of the Bretton Woods Anglo-American-European construct. Yet it still preserved and promoted the power base of one of its central entities, the IMF (IMF, 2009).

Two months later, two more cracks in the Bretton Woods wall came at the hands of the BRIC nations (Bretton Woods Project, 2012). First, on June 10, 2009, Brazil announced it would lend $10 billion to the IMF (Viana, 2009). China and Russia announced loans to the IMF of $40 billion and $10 billion, respectively. Lula affirmed the importance of emergent countries: "The good news is that rich countries are in crisis and that emerging countries are making a huge contribution to save the economy." (Benson & Colitt, 2009) The second fracture came from the BRIC meeting in Yekaterinburg, Russia, on June 16, 2009. (This first meeting of the four major developing nations did not include South Africa.) The meeting highlighted multilateralism and offered strong criticism of the world's financial situation (Russia, 2009).

China would not rest until the yuan entered the SDR basket. When the IMF was first established after World War II, the idea was to have a global currency, but the United States imposed instead to have the dollar be the world's main reserve currency. The shift to SDRs was a power play for the IMF. Pressing for the inclusion of the yuan was a power play for China. The symbiotic relationship between the IMF and China was an indirect attack on the power of the Washington D.C, the United States capitol in which the IMF and the White House are situated mere blocks from each other.

In its 2009 Q3 monetary policy report, the PBOC signaled it would allow yuan appreciation and that the yuan's value would be referenced to a basket of currencies. It would set aside its dollar peg (PBOC, 2009). Politically, China was choosing to placate the United States, while pushing its agenda forward with the IMF and other countries. It was also building out infrastructure programs around the world and also building up its own regional power block in the process. Perhaps, as a result, United States Treasury secretary Tim Geithner adopted a more conciliatory tone to China's yuan policy. During a trip to India in early April 2010, Geithner said, "I am confident that China will decide it's in their interest to resume the move to a more flexible exchange rate that they began some years ago and suspended in the midst of the crisis."(Lawder and Yao, 2010)

After India, Geithner traveled to Beijing. There, he had a private conversation with vice premier Wang Qishan. As *China Daily* wrote, "The decision to hold such a high-level encounter suggested that Washington and Beijing are trying to narrow their differences over currency that threaten to overshadow cooperation on the global economy, Iran's nuclear program and other

issues." (China Daily, 2010) The United States' sudden, more appeasing stance served as a calculated way for the Obama administration to keep China out of Russia and counterbalance Japan's expansion.

The PBOC loosened the yuan's peg to the dollar on June 19, 2010, as it had promised (Telegraph, 2010). The decision was viewed as a white flag in the spirit of alleviating China-United States tensions regarding trade and exchange rate policy. As a result, the yuan hit its highest value in five years against the dollar (ibid). The move brought optimism to international markets, and stocks in London, Frankfurt, Paris, and New York rose. Chinese officials began traveling with key Western bankers to promote the use of the yuan in international trade and capital markets. That summer, a growing chorus of global private banks promoted the idea that corporations use the yuan instead of the dollar in trade deals with China. HSBC and Standard Charter offered financial incentives to companies opting for such trade deals. United States banks, such as Citigroup and JPMorgan, accompanied PBOC officials on roadshows to promote the Chinese renminbi.[14]

All the focus on currency and trade served as a diversion from what was really important to China: consolidating its position as a true superpower. On October 9, 2010, at the twenty-second meeting of the International and Monetary Financial Committee in Washington, DC, Zhou presented another detailed critique of the monetary policies of major countries such as the United States, United Kingdom, European Union, and Japan. According to him, they negatively affected the way emergent countries should handle their own monetary policies, "Recovery in developed countries continues to rely heavily on unconventional stimulus policies, and private consumption and investment continue to be inhibited by high unemployment and insufficient credit." (IMF, 2010) He indirectly admonished Fed policy in the aftermath of the financial crisis, "The continuation of extremely low interest rates and unconventional monetary policies by major reserve currency issuers have created stark challenges for emerging market countries."(ibid)

The United States wasn't listening to such critiques, certainly not those from China. Yet, around the world, central banks and finance ministers—implicitly or explicitly, depending on whether they hailed from G7 or G20 nations—were increasingly skeptical of the Fed's policies and began taking China's side on the matter. Brazil's minister of finance Guido Mantega voiced his concerns on October 8, 2010 (Bloomberg, 2010). On November 8, Germany's finance

[14] USCC, Page 26. Report to Congress of the U.S. China Economic and Security Review Commission, www.uscc.gov/sites/default/files/annual_reports/2010-Report-to-Congress.pdf.

minister Wolfgang Schäuble was so critical in an interview with the German newspaper Spiegel that President Obama had to defend the Fed's second round of QE at the G20 summit in South Korea (Der Spiegel, 2010; The Guardian, 2010).

On October 19, for the first time since December 2007, the PBOC raised rates by 25 basis points (CNN Money, 2010). This was the opposite of Fed policy—and not necessarily to appease United States currency demands. That November, China hit a record in exports. Its trade surplus relative to the United States exceeded $20 billion for the fifth time in six months (Bloomberg, 2010). In the United States, Bernanke was reappointed for a second four-year term. In November 2010, the Fed began its second round of QE (QE2), purchasing $600 billion worth of United States Treasury bonds. United States unemployment stood above 9% all year, calling into question the effectiveness of United States monetary policy to boost growth or job creation by some (Isidore, 2010).

China continued its attack on this status quo. On January 17, 2011, President Hu Jintao told the United States press that an international monetary system dominated by the United States dollar is "a product of the past." (BBC, 2011) Chinese state-owned banks, the third pillar of China's power triangle along with government and central banks, were increasing their global presence through lending. Between 2009 and 2010, two major state-controlled Chinese banks, the Export-Import Bank of China and China Development Bank, lent more than the World Bank to developing countries (BBC, 2011). On February 9, the PBOC raised rates for the third time in four months (Davis and Back, 2011). The move reflected concern over rising food and commodity prices in emergent countries. On March 5, 2011, at the annual National People's Congress in Beijing, Chinese premier Wen Jiabao noted. "This problem concerns the people's well-being, bears on overall interests and affects social stability." (BBC, 2011) Inflation accelerated despite the rate hikes. But Beijing, grew increasingly concerned about the social unrest that rising costs could cause, and promised to assuage higher prices, such as pork, a dietary staple, with government intervention (BBC, 2011; New York Times, 2011). The Western central banks, on the other hand, were touting a supposed recovery in the United States despite prevailing economic anxiety and ongoing cheap money policy.

On the international stage, on May 18, 2011, Dominique Strauss-Kahn resigned his position as head of the IMF under the clouds of a sexual assault scandal. In contention for the role of managing director was former French finance minister and international lawyer Christine Lagarde. That was good news for China's superpower aspirations and the developing nations. In early June 2011, Lagarde spoke with key officials in China (Emirates News, 2011). She told the Chinese press it would be "very legitimate for Chinese representatives to be

included at the highest level of the Fund's leadership." Lagarde and Zhou developed a friendly rapport based on mutual goals. She would have a strong ally in the East if she got the top IMF spot, and he would have an advocate for China in the IMF. Lagarde was warmly received by the Chinese establishment as a supporter of its aspirations on the global stage. On July 5, Lagarde was elected the eleventh managing director (and first female leader) of the IMF (IMF, 2011).

Meanwhile, Europe was facing a growing debt crisis (Raidió Teilifís Éireann, 2011). The BOJ expressed concern about yen appreciation. The Fed kept rates at zero. They all worried about renewed global recession, and promised to "take all necessary measures to support financial stability and growth in a spirit of close cooperation and confidence." (Randow et.al., 2011) Money-conjuring policy had not brought economic stability, yet it was the only tool available that preserved central bankers' power.

Emerging countries called for solutions to the escalating Eurozone crisis. At the August IMF and World Bank meeting, Brazil's finance minister Guido Mantega had said that Europeans had a responsibility "to ensure that their actions stop contagion beyond the euro periphery." (Corrêa, 2011) PBOC governor Zhou had echoed this sentiment, stating, "The sovereign debt crisis in the euro area needs to be resolved promptly to stabilize market confidence." (BBC, 2011)

China was cast into the position of global helper. Chinese leadership thought the IMF should safeguard the long-term sources of funds to meet the needs of member states to tackle the crisis while promoting international diversification of the reserve currency system (CRNTT, 2011). In that way, he was supporting the weaker European countries while attacking the prevailing monetary system (Bristow, 2011). On Christmas Day in Beijing, Chinese premier Wen Jiabao met with Japanese prime minister Yoshihiko Noda as part of the Japan–People's Republic of China Summit (Fujioka, 2011). The governments announced that both countries would promote direct trading of the yen and yuan, reducing their dependence on the United States dollar in these transactions. The performance of the yuan in 2011 was the best since 2009. This highlighted the Chinese governments' commitment to yuan stability and Zhou's plan to turn the yuan into an international reserve currency.

4.3.1 Cheap Money and Turbulent Economic Performance

Money-conjuring policy had yielded no clear benefits to real, sustained economic growth. As a result of low economic activity, political and economic groups in Japan, Europe,

and the United States divided into two camps: those that supported easy money policies and those that didn't. But now China—after three years of fiscal stimulus— showed signs of an economic slowdown as its use of the infrastructure it had constructed stalled (Roberts, 2012). The rest of the world, economically dependent on China's ongoing expansion, turned apprehensive. During the summer, for the first time since the 2008 crisis, the PBOC cut rates in response to slower economic activity (Reuters, 2013).

In the United States, at a lecture at George Washington University on March 20, 2012, Ben Bernanke took the opportunity for another swipe at China, its currency, and gold in one go. He explained that the problems regarding establishment of a monetary system based on the gold standard could be seen by analyzing the current Chinese dollar peg.[15] Bernanke wanted to keep the monetary system as it was—not be the victim of a monetary system shake-up at the hands of China. A renewed gold standard would usurp the Fed's power as the force behind the world's dominant currency. Bernanke's real problem with any other standard, was that it diminished the power of his central bank. The United States wanted it both ways: open markets and a strong yuan, regardless of whether those open markets would support that.

It was the Chinese economic slowdown that eventually reduced appreciation pressure on the yuan. As a result, on June 8, 2012, the PBOC announced its first interest rate cut since 2008 (Bloomberg, 2012). Meanwhile, in September 2012, the Fed embarked on its third round of quantitative easing (QE3). It claimed this was also due to a slow economic recovery. Emerging countries saw United States monetary policy as fostering financial instability in the guise of promoting an economic recovery whose goal lines kept changing (Elllis, 2012). China continued poking holes in United States money-conjuring policy to ship away at the United States' superpower status. The PBOC's third-quarter report for 2012 noted that "a by-product" of the Fed's third round of QE could be "excessive liquidity which could lead to large fluctuations in cross- border capital, price hikes of international commodities and eventually growing inflationary risks." (PBOC, 2012)

On November 27, given mounting geopolitical tensions around the South China Sea, the United States Treasury Department again accused China of keeping the yuan "significantly undervalued." (Klimasinska & Katz, 2012) Although the yuan had appreciated 12.6% against the dollar since mid-2010, the Treasury insisted Beijing allow more flexibility in its exchange

[15] "Chairman Bernanke's College Lecture Series," Board of Governors of the Federal Reserve System, Www.federalreserve.gov/Aboutthefed/Educational-Tools/Chairmans-Lecture-Series-About.htm.

rate.[16] The Chinese Embassy did not respond to those comments, and the United States Treasury refrained from *officially* labeling China as a currency manipulator. But diplomatic tensions worsened.

The weaker economic situation in China invigorated internal steps toward structural reforms. The incoming government—Xi Jinping as president and Li Keqiang as premier—appeared at the Third Plenum in November 2013, pledging to allow market competition to influence China's economy (Huang, 2013). Zhou Xiaochuan retained his spot as governor of the PBOC for a third term. According to the Wall Street Journal, Zho was "the face of the Chinese economy to markets globally." (Wei, 2014) He had led the reform initiatives rendering China better adapted to market demands and become well known by international market players. He was the only Chinese official in the select Group of Thirty (Group of Thirty, n. d.). His international reputation and alliances cemented China's super-power status (Central Banking, 2019).

On March 21, 2013, China launched its largest economic reform program since the 1990s (Rabinovitch, 2013). China made strides internationally. On March 27, 2013, at a meeting in Durban, South Africa, the BRICS countries' leaders approved a $100 billion fund to confront currency crises, though they failed to reach a financing agreement for a development bank (Wild, Galvao, and Arkhipov, 2013). According to President Xi Jinping, the group "reached broad consensus" to "further unlock potential cooperation." There was value in uniting in opposition to the United States-Euro centric hierarchy.

The yuan hit a nineteen-year high of 6.210 yuan per 1 United States dollar on March 31, 2013. (Badkar, 2013). The world stood eager for a non-United States-based (or United States-directed) development bank. The Obama administration announced it would monitor Japanese economic policies to ensure they didn't devalue the yen to increase competitiveness.[17] In the same report, the Treasury Department claimed that China still undervalued its currency, noting, "The available evidence suggests the renminbi remains significantly undervalued, intervention appears to have resumed, and further appreciation of the renminbi against the dollar is warranted." (United States Treasury, 2013) If the United States could convince the world of

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[16] Report to Congress on International Economic and Exchange Rate Policies (Washington, DC): US Department of the Treasury Office of International Affairs, November 27, 2012, Www.treasury.gov/Resource-Center/International/Exchange-Rate-Policies/Documents/Foreign%20Exchange%20Report%20November%202012.Pdf.

[17] Report to Congress on International Economic and Exchange Rate Policies (Washington, DC: US Department of the Treasury Office of International Affairs, April 12, 2013), Www.treasury.gov/Resource-Center/International/Exchange-Rate-Policies/Documents/Foreign%20Exchange%20Report%20April%202013.Pdf.

China's currency manipulation strategy, it could keep China's power at bay. Numbers didn't matter.

Zhou chose to alleviate United States strife, though the yuan was hardly devalued from an historical perspective. On June 17, 2013, the yuan rose after the PBOC raised the reference rate to an historical record of 6.16% (Kim, 2013). Zhou told China Central Television that the PBOC would not intentionally depreciate the yuan to foster exports. Exports had increased, but more slowly, since the beginning of the year, and factory gate prices had fallen for the fifteenth month. (Kim, 2013)

October was a busy month for China's outreach to other countries to strengthen its global monetary and economic position. On October 10, the PBOC and ECB established an historic bilateral currency swap agreement to purchase and repurchase yuan and euro from each other (ECB, 2013).[18] The ECB considered the agreement a step forward in growing bilateral trade and investment between the EU and China, and a means of stabilizing markets.
By December 2013, the yuan overtook the euro as the second-most-used currency in global trade finance transactions after the dollar. (Fion, 2013). In January 2012, it had been the fourth-most-used currency in global trade finance, and the euro was the second. On the back of those developments and the power they connoted, the yuan hit a twenty-year high. Investors concluded that Chinese policymakers were more willing to adhere to market determinations. For Zhou, the moment had arrived to elevate the yuan to world reserve status.

4.3.2 Quantitative Easing and Continuing Currency Wars

President Obama chose Janet Yellen to succeed Bernanke as chair of the Fed (Lubin, 2013). Yellen was a key supporter of Bernanke's money-conjuring policies. She was confirmed into the post on January 6, 2014. About three weeks before leaving his Fed post, Bernanke defended his QE program, claiming it had important effects on the economy. On January 16, 2014, in Washington, DC, he spoke at a forum sponsored by the Brookings Institution, the think tank that would become his employer (Kearns & Zumbrun, 2014). He saw no immediate sign of asset price bubbles, noting, "We don't think that financial stability concerns should at this point detract from the need for monetary policy accommodation which we are continuing to provide."(ibid) Thus, he saw no reason to curtail QE.

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[18] One way in which the Fed kept US dollar supply up in the financial crisis period was through the provision of currency swaps to central banks that especially had relationships with the US and US banks through their banking systems as Benn Steil noted. See "Central Banks Currency Tracker", Council on Foreign Relations, November 5, 2019, https://www.cfr.org/article/central-bank-currency-swaps-tracker, and Prins (2018).

Meanwhile, in Beijing, Zhou's approach was different. The PBOC wasn't exactly buying bonds G7-QE style to flood the banking system with cheap money to speculate in the financial markets. But it was increasing the money supply available to banks so that they could keep China's state-owned enterprises (SOEs) awash in conjured funds and to support massive infrastructure development projects that had reached overcapacity status (Bradsher, 2014).

In China, conjured money went to building real things, whereas for the rest of the G7, it tended to go into less tangible, and more speculative uses. But China was facing economic concerns in Brazil, Argentina, and Russia, related to construction overcapacity internally. And now, the yuan began falling again. On February 28, 2014, the yuan exhibited a record daily drop. Investors speculated that the PBOC would allow more volatility in currency trading, as the Chinese economy grew more sluggish (Li and Kyoungwha, 2014). And before the United States could shout currency manipulation, Zhou explained that those movements were simply the result of market influences. If anything, he argued, they demonstrated China adapting its economy to this new, more liberalized framework. As he emphasized, "We focus more on the medium-term trend, and the short-term trend doesn't necessarily represent the medium-term one." (China Economic Net, 2014)

Meanwhile, Zhou assured an anxious world that China's economy could sustain growth between 7% and 8% (Bloomberg, 2014). But his external confidence didn't show up in China's currency. By March 20, the yuan fell to its lowest level in a year. That day, at her first news conference as head of the Fed, Janet Yellen said the Fed would probably end the quantitative easing program in the fall of 2014. That meant, technically, the next step could be raising rates (Fed, 2014). Her comments pushed bonds and stocks, reliant on cheap money, downward and lifted the dollar up (which had the knock-on effect of causing the yuan to drop further against the dollar).

Sure enough, two weeks later, on May 13, Lew criticized China's devaluation path (Perlez, 2014). It was the United States Treasury Department against the PBOC, round one hundred. He admonished that if China wanted to make the renminbi a world currency one day, it needed to demonstrate this intention by letting the currency freely float according to market movements. The United States government and the Fed could not conceive of their rate pronouncements and decisions as moving other currencies, even though it takes two currencies to make an exchange rate.

As a result of United States hostility toward its policies and to expand its economic footprint, China strengthened ties with Russia. During key economic talks between the two nations on May 20, 2014, Russian president Vladimir Putin and Xi Jinping settled several

critical trade and investment agreements (Ministry of Foreign Affairs, PRC, 2014). One was an agreement between VTB, Russia's second-biggest bank, and Bank of China to pay each other in their domestic currencies. Russia's Gazprom signed a thirty-year $400 billion deal to supply gas to China, with payments in Russian rubles and yuan. The Chinese-Russian agreement represented a commitment to confront United States dollar dominance (RT News, 2014).

On July 9, the *Wall Street Journal* noted that American companies were conducting a record amount of business in yuan, looking to benefit from cost advantages over dollar transactions (Hong and Wei, 2014). Payments made by United States companies in yuan had quadrupled in 2014 over the prior year, reaching a record of 2.6% of the global yuan total. Transactions denominated in yuan still represented a tiny portion of the annual $500 billion in United States-China trade, but companies in both countries saw the yuan playing a larger future role (Yue, 2013). And to sustain the yuan's internationalization progress, the PBOC signed bi-lateral currency swap lines with twenty countries since 2009, including Brazil, Hong Kong, and South Korea.

The United States, European Union, and Japan remained in synchrony on money-conjuring policy even as their currencies weakened. As for China, the United States kept repeating the broken-record accusations of currency depreciation - through to the Trump administration (Reuters, 2017). In response, on October 10, PBOC deputy Yi Gang claimed China was constantly working toward a market-based yuan and "interventions over the currency had neared zero."[19] On October 28, the Fed announced an end to growing its QE program started in November 2008. But with European growth stagnant, the G20 picked up the anticipated slack in cheap money manufacturing. Leaders reunited in Cairns, Australia, and agreed to inject another $2 trillion into the global economy, which they said would create millions of jobs (Guardian, 2014).

Meanwhile, with China's growth rate slowing to a five-year low that third quarter, on November 6, 2014, the PBOC unveiled a new tool to provide market liquidity (Bloomberg, 2014). It pumped RMB 769.5 billion (United States$126 billion) into China's commercial lenders through a medium-term lending facility providing three-month loans, similar to one the Fed had established for United States banks in 2009.

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[19] "Statement by the Honorable Yi Gang, Alternate Governor of the International Monetary Fund for the People's Republic of China." Governor's Statement No. 35, 2014 Annual Meetings, International Monetary Fund World Bank Group, Washington, DC, October 10, 2014, www.imf.org/External/Am/2014/Speeches/pr35e.pdf.

Two weeks later, on November 21, the PBOC also cut its one-year deposit rate to 2.75% from 3% (China Daily, 2014). It was the first cut since 2012 after figures showed China's factory output contracting. As for the economy, President Xi told chief executives at the Asia-Pacific Economic Cooperation Summit that the risks faced by China were "not that scary" and he remained confident. He remarked that even with China growing just 7% in the next year—its slowest pace in twenty-four years—it was still faster than most other economies (Yao and Sweeney, 2015). But a month later, on December 10, new data revealed the slowest export growth for China in seven months (Li, 2014). The yuan fell 2.4% during 2014, the first annual decline since 2009. But beyond currency levels lay the more pressing matter of market distortion by G7 central bank money-fabricating policies.

By 2015, emerging nations were struggling because of low commodities prices and China's reduction in demand. Brazil, in particular, faced its worst days in years owing to a weak economy, currency depreciation, and political scandal. Russia was hurt by lower oil prices and sanctions. Argentina had elected a president who promoted economic liberal reforms and a potential inversion of Latin America's political and economic path. The global political turn to the right gained steam as people lost confidence in their sitting governments and personal economies. On May 9, 2015, a day before the seventieth anniversary of the World War II victory, Presidents Vladimir Putin and Xi Jinping convened in Russia (Lu, 2015). China was one of Russia's main trading partners. They signed two more joint declarations on financial cooperation two months after yuan-ruble futures began trading on the Moscow stock exchange.

China's elite had fought against the prevailing monetary system since the financial crisis and embarked upon securing regional and international trade and economic alliances beyond the United States. Another element of China's ascension and independence was the creation the New Development Bank (for BRICS Development Bank). The NDB opened its headquarters in Shanghai on July 21, 2015 (Economic Times, 2015). It was a momentous occasion, marking the first time an emerging markets development bank was created by and for developing countries.

Movement on the yuan pressed forward. On November 30, the IMF completed its five-year review of the SDR basket and decided to include the renminbi (IMF, 2015). The IMF had created the SDR as an international reserve currency asset in 1969 to supplement its member countries' official reserves. The inclusion of the renminbi would take effect in October 2016, enabling the RMB to finally attain its status as an official international reserve currency, beside the United States dollar, euro, British pound, and Japanese yen. Two weeks later, on December 17, 2015, the China-Russia monetary alliance inched another step closer. Zhou and

Central Bank of Russia governor Elvira Nabiullina signed a memorandum of understanding (MOU) in a landmark move (Bank of Russia, 2015). It was a different kind of collusive move or epistemic community (Helleiner, 1994). According to the statement, "The goal of the MOU is to develop co-operation between the central banks in the spheres of mutual interests." The two central banks shared a criticism of the United States dollar as the main reserve currency and, by extension, the Fed as global monetary policy leader. Although China and Russia had different ways of approaching this United States power position, they agreed on the need for alternatives to the current international monetary system.

The yuan continued declining relative to the dollar, which was good for China's trade, but not so good for United States and China relations (Bradsher, 2015). Chinese exporters—as well as European and American importers—were happy. However, Chinese exporters were also worried, especially if the yuan's lower level should translate into higher costs for imported raw materials and production. Into that weakness, the Fed raised rates by 25 basis points in December 2015. It was the first hike since the financial crisis of 2008 had taken hold. The perception the Fed now promoted, and the United States media spread was that after seven years of "emergency measures" money-conjuring policy had proven effective (Trefis, 2015). The United States dollar rose on this notion. But the decision to adopt such a modest change in monetary policy showed caution regarding the United States economic capacity to recover. Plus, a higher dollar might cause pain to emerging countries' private sectors laden with dollar-denominated debt. It was a small rate move with a major impact. Chinese stocks plunged between January 4 and 7, 2016 (Bradsher and Tsang, 2016; The Economist, 2016). They were not alone. Turbulence returned. Stock markets had become dependent on the West's (and Japan's) money-conjuring policies. The Fed's minor rate hike disrupted their party. Emerging and developing markets, particularly China, bore the brunt of that realization. Speculative capital raced for home base. With the Fed in potential tightening mode, even slightly, money flow could become constricted, and suddenly, that was not a bet that speculators were prepared to take.

In response, the yuan also fell (Bloomberg, 2016). This was not what the Fed had intended when it raised rates. Nor did it comport with United States government initiatives to dictate China's rate and currency decisions and have a better trade position relative to it (Xinhua New, 2015). The United States criticized that action because it rendered Chinese exports cheaper, but China asserted that exports were low because of the reduction of global demand. The battle had not died between the two superpowers.

The consequences were record losses in the offshore currency market. The yuan fell by 3.5 % against the yen and by 0.8 % against the euro. Chinese stock market activity was suspended twice that first week of January, 2016. Japan's Nikkei fell 2.3 %. Hong Kong's Hang Seng dropped 2.8 % (Cendrowski, 2016). Headlines like "China's slowdown continues to drag, slowest since the global financial crisis" became Western lore (Yan, 2016). Concern over liquidity drying up was not about a slowdown in economic growth, but fear the global collusion to conjure cheap money would end. If a major participant stopped, cheap capital flows could be constricted. It was unclear which part of the world could assume that baton if the Fed exited the money-conjuring game. But the hysteria proved pre-mature. The Fed retreated on rate hikes for a year.

Despite the mounting volatility in the currency and equity markets, the slowdown in China and lingering fears of Fed rate hikes, the overall outlook the global economy was optimistic. On January 19, the IMF released its World Economic Outlook (WEO) global growth report. Forecasts for developed markets were positive, whereas emerging markets faced debt problems exacerbated by lower commodity and oil prices. The major concern, was the potential shift in the Fed's policy of cheap money. The report stated, "Prospects of a gradual increase in policy interest rates in the United States as well as bouts of financial volatility amid concerns about emerging market growth prospects have contributed to tighter external financial conditions, declining capital flows, and further currency depreciations in many emerging market economies." (IMF, 2016)

Fearing global contagion more than currency devaluation at that moment, United States secretary of the Treasury Jack Lew proffered confidence in China's markets. He said he did not see "the situation today as being so dramatically different" from at the end of 2015 (Petroff, 2016). He wanted to deflect the chaos that the slight Fed rate hike had caused to markets by extending an olive branch to China. Superpowers could fight, but it would be better for everyone if those fights took place in a rising, or at least more stable, market environment.

Yet, Chinese shares recorded their biggest monthly fall in seven years. The Shanghai Composite Index shed 22.6 % of its value since early January, posting its worst month since October 2008. Events were looking similar to the United States at the start of the financial crisis. But on January 31, a money-conjuring injection from Japan proved a gift to China. Asian stocks rallied sharply after the BOJ's decision to further lower rates. Crude oil prices stabilized, causing commodity-linked currencies to rise (Forgione, 2016). It appeared that the BOJ's moves, coupled with the Fed backing off on rate hikes, had achieved stability.

For Zhou, it was time to act, too. The PBOC injected more than RMB 600 billion (United States $91.22 billion) into the markets in early February (Reuters, 2016b). As a result, a degree of normalcy returned. In that placidity, on May 20, 2016, the Chinese government made a series of new appointments. PBOC governor Zhou retained his position as the longest-serving central banker among major economies (Bloomberg, 2016). His focus turned to Europe, where an influx of refugees coupled with economic angst and hostility toward elites would soon cause a rip in the EU. A month later, the yuan hit a five-year low against the dollar on growing fears of Brexit and potential economic destabilization in the region as a result (Yanfei, 2016). Nationalism was taking hold. Power shifts would follow[20].

China took advantage of G7 money-conjuring policy to expand its global footprint in much the same way the United States had done during the twentieth century, a point also noted by Cohen and DeLong (2010). But its process was different. Whereas the United States expanded from a military perspective first, then by acquiring pieces of enterprises in emerging countries, China opted for long-term loan-based infrastructure partnerships. This contrasted with private United States banks and speculators seeking quick returns on conjured capital with the United States government supporting them through military or political support. China's philosophy was to dispense capital over a longer horizon, and reap future power benefits.

China focused on infrastructure to benefit itself, such as the $10 billion Bi-Oceanic railway financed by the China–Latin America Industrial Fund (CLAI Fund) and China Railway Engineering Group (CREC) to move commodities from Rio de Janeiro to Peru's Pacific port of Arequipa (UOL, 2016). The New Development Bank (NDB) was part of China's overall strategy of collaborating with other emerging nations on development projects, spearheaded by the BRICS for BRICS. The structure of the NDB and capital allocation to long-term projects was a far cry from the way G7 nation central banks had fabricated cheap capital with no strings attached to big banks and speculators.

On April 10, 2016, at the annual conference of the Inter-American Development Bank in the Bahamas, Zhou noted that Latin America was incapable of resisting a global economic slowdown—without China's help. He emphasized cooperation and mutual coordination regarding trade and investment policies as well as the importance of both sides to each other, noting that "In recent years, thanks to joint efforts, relations between China and the LAC [Latin

[20] Countries, such as China, are trying to both fortify themselves by relying more on their domestic population or turning toward a more nationalist approach on that regard, but they are also doing what they can to keep positioning themselves higher in the global power hierarchy, at the same time.

American countries] have developed in multiple fields.” (Xiaochuan, 2016) China was Latin America’s second-largest trading partner. Thus, Zhou condemned the protectionism in trade that was beginning to form. He called for countries to become more active in securing global recovery. He sought to focus on the problem of the international monetary system leaning too heavily on the United States dollar and the IMF’s SDR basket as a route to diffuse that.

According to the April 2016 IMF report on Asia and the Pacific, the IMF was keen for China to take over the money-conjuring mantle if the United States abandoned it. It warned, “Further interest rate hikes by the Federal Reserve could lead to a further tightening of global liquidity and capital outflows from emerging Asia and other emerging market economies.”(IMF, 2016) It noted that for China “an easing bias to monetary policy as well as the announced on-budget fiscal stimulus should provide some offset.” (IMF, 2016) The IMF wanted China to be a counterbalance to the United States. Though it was advocating the same monetary policy the United States Fed had used since 2008.

On June 24, 2016, Zhou told the IMF that the PBOC was aware of rising tensions regarding China’s monetary policy (Xiaochuan, 2016). Given the seismic shift that Brexit could possibly cause in the European Union and the United Kingdom, and their currencies and trade agreements, he affirmed, “We are paying close attention to international discussions on Chinese monetary policy and will adjust our policy in a dynamic way to meet the demand of China’s economy, reform and development.”(ibid)

As part of the official program of events, Christine Lagarde praised Zhou in her remarks. (Lagarde, 2016). She said he was a “friend” and that her respect and admiration for him has “only grown over time.” She called Zhou a “central banker of the very best caliber” and “too modest” to take credit for all his accomplishments in China. Lagarde noted the inclusion of the Chinese currency in the SDR was a result of years of hard work and that Zhou had “steered China’s monetary policy throughout this impressive transformation.” If China was a ship, she said, it would be “a large container ship” of “the new mega class.” China accounted for the same share of global output as all the other EM countries combined. It represented 30% of global investment and five of the world’s biggest banks in terms of assets. Zhou, in turn, vowed that, “Ultimately the transition to a market economy will by and large be completed.”(Lawder and Schneider, 2016) He promised to address systemic risk and ensure traditional financial institutions maintain their prominent role in financing development. In a transitioning economy such as China’s (from centrally planned to market oriented), this had been taken into account. He said the PBOC’s goals were “financial stability” and to “promote reform and open up financial markets.”

Lagarde advocated growing the power base of emerging countries within the IMF structure. Zhou was grateful for a Western ally (Xiaochuan, 2016). This personal alliance underscored the supporting role Lagarde played in reshaping the superpower hierarchy and the power the IMF wielded in the process. China was also inserting itself into European matters while the United States was in presidential election mode. As the United States focused on political posturing between candidates, China tried to grab some of the United States influence in Europe. The eleventh Asia-Europe Meeting (ASEM) summit kicked off in Ulan Bator, Mongolia, on July 15. Fifty state leaders convened to discuss common issues, including antiterrorism, trade, and cultural exchange across Eurasia. Li used the forum to emphasize the strength of the Chinese economy saying "vibrant, new business forms are booming, and new growth momentum is accumulating." (Tian, 2016)

China's contribution to the world economy surpassed that of the United States. As of 2016, one-third of the world's GDP growth was from China (Hall, 2016). China's outbound direct investment's surpassed $1 trillion in 2015 for the first time. The year prior saw 18,500 Chinese domestic investors establish an estimated 30,000 enterprises abroad – and nearly 77% yielding profits in 2014 (Thomson Reuters, 2015). More growth was expected given China's "go global" policies, internationalization of the yuan, and regional development initiatives. The Silk Road Economic Belt and 21st-Century Maritime Silk Road would develop new infrastructure connecting Asian, European, and African nations (OECD, 2018). The "One Belt, One Road" infrastructure initiative, with more than $1 trillion of projects, would connect those continents and bordering seas, upgrading trade routes, roads, railways, ports, and maritime routes (The Sydney Morning Herald, 2017; PRC, 2015).

In 2016, China accounted for half of regional growth. It was the top trading partner of most major regional economies in East Asia and ASEAN (IMF, 2016). But in the process, China's total debt as a percentage of GDP rose. Ironically, that meant that China's continued power rise was based on optimizing the balance of crafted money and fiscal policy. It may have wanted monetary autonomy, in the sense discussed by Cohen (2016), but it was nevertheless caught up in the money-conjuring world. By early August, the PBOC faced government calls for further monetary easing to help lower business costs and boost domestic investment (Bloomberg, 2016). The body released a statement on August 15, 2016, urging investors not to focus too much on short-term conditions and affirming that the diverging pace of credit expansion did not mean a loss of strength of monetary policy (Bloomberg, 2016). But, the PBOC could not disconnect from the central government or external pressure to ease money. The PBOC still had no fixed schedule for policy decisions, did not publish meeting minutes,

and rarely provided scheduled press conferences. Zhou was under pressure from the IMF to be more transparent.

In general, the United States and China continued to increasingly distrust each other through the 2016 United States presidential election. The race pitted two candidates, Hillary Clinton and Donald J. Trump, neither of whom was especially warm to China, against each other. China's power trajectory worried the United States. Yet the two superpowers had to be pragmatic about finding common ground, because their alliances were up for grabs. That's why China pressed for the yuan to be included in the SDR and Zhou tried to communicate his brand of monetary policy beyond his prior thresholds. Lagarde and the IMF required his transparency to maintain their own balancing act between the United States and China in the superpower realignment wars.

The moment for which Zhou had been angling for more than a decade had finally arrived. On October 1, 2016, the IMF, historically embedded in Western monetary protocol, moved to include China's currency, the renminbi, in its SDR basket of major reserve currencies. Lagarde characterized this as an "historical milestone" for the "international monetary system" and "ongoing evolution of the global economy." (IMF, 2016) With its position in the SDR basket, China automatically assumed a more prominent role in global markets. The PBOC proclaimed the inclusion "a milestone in the internationalization of the renminbi, and is an affirmation of the success of China's economic development and results of the reform and opening up of the financial sector." (Reuters, 2016a) The United States, not supporting the inclusion to begin with, openly downplayed it. United States Treasury secretary Jack Lew was condescending, saying, "being part of the SDR basket at the IMF is quite always away from being a global reserve currency."

4.4 THE RISE OF TRUMP, REACTIONS IN CHINA, MONETARY AND TRADE POLICY DYNAMICS

China would eventually face more than the regular United States pressing of its currency policy, and somewhat acerbic, but still expected diplomacy measures. For the November 2016 United States election had come down to a battle between Secretary of State, Hillary Clinton who had beaten out Socialist Democrat Bernie Sanders for the Democratic presidential nomination, and billionaire, TV-personality, Donald Trump. As the world was shifting to the right and to isolationism and 21st century populism, it was Donald Trump that would be the

victor in that match, having projected himself as anti-establishment, and someone that would "drain the swamp" that was the Washington establishment and to "Make America Great Again."

The election of Donald J. Trump as United States president on November 8, 2016, was a blow for China. Trump had campaigned against China's "job-stealing" propensity, which resonated with his base of voters. As president, he would attempt to thwart the growth of China as an economic and political superpower. He would question their legitimacy, accusing them of stealing intellectual property and jobs from the United States (that United States multinational companies had decided to move to China), not playing fair in trade and generally, taking advantage of the United States, through the manipulation of their currency. He would oppose multilateral in favor of bilateral trade agreements to fracture power around the globe. But there was something Trump did not understand. The more China traded with other countries, the less it would trade with the United States. That meant that Trump securing "better deals" with China and other nations would be less unattainable simply because the United States would have less leverage. And because fighting China would lead to fights with allies as well. They were all connected in a global supply chain. Plus, the more countries traded with China, the more this would cut the United States out of the picture. The relationship became more complex and fraught with mistrust and tension once Trump entered the White House.

On January 17, 2017, President Xi Jinping touted China's proactive approach on the world stage. In a keynote speech, referencing Charles Dickens's A Tale of Two Cities, he addressed the World Economic Forum in Davos. He urged the world to "rise above the debate" over "fiscal stimulus or more monetary easing." (Cai and Wu, 2017) Innovation was the way forward. Protectionism was not. He defended the positive attributes of globalization. "Those who push for protectionism are shutting themselves inside a dark house." He added, "A trade war will only lead to suffering on both sides."(ibid) It was an ambitious proclamation given the extent of central bank intervention that had taken place leading up to that moment. His message followed eight years of China criticizing the Fed's cheap-money policy, which had inflated speculative bubbles but not funded development projects as China had.

China's policy of fiscal stimulus for its domestic economy would continue, but China was preparing for a grander phase—deploying money into global development projects and the political, and possibly military, alignments that accompanied them. Xi's embrace of globalization and disdain for money being deployed into speculation rather than growth was clear. What the United States wouldn't do, China would. On his third day in office, on January 23, 2017, President Trump made good on one of his key campaign promises. He issued a presidential memorandum followed by signing an executive order to "permanently withdraw"

the United States from the Trans-Pacific Partnership agreement penned under the Obama administration.[21] Because China hadn't been a part of that major agreement spanning twelve countries to begin with, the United States exit meant China would have a freer rein in growing its other regional partnerships absent that particular competition from the United States.[22] China wanted to capitalize on linking with countries Trump ostracized through nationalism or broken bilateral agreements.

President Trump's Treasury secretary, former Goldman Sachs partner Steven Mnuchin, repeatedly signaled wanting a strong United States dollar, whereas President Trump wanted United States trade to be more competitive, which meant a weaker dollar. That kind of bipolarity characterized what would become the Trump administration's global economic policy. According to a February 14 editorial by Caixin's chief editor Hu Shulion, "A volatile international economic environment also poses challenges to China's monetary policy**."** United States president Donald Trump's pledge to "revive United States trade" made it harder to predict the future course of United States action or the Fed's monetary role in it (Shuli, 2017). On April 22, 2017, Zhou addressed the annual meeting of the IMF and World Bank in Washington, DC. There, he pointed out that China's "GDP growth in 2016 reached 6.7 per cent, contributing 30 per cent of the global growth."[23] That figure was in comparison to the United States GDP growth of 1.6 % and EU GDP growth of 1.8 % (Amaro, 2017). He used the platform to underscore threats he saw in asset bubbles and promote the need for prudent monetary and bank regulation policy (China Daily, 2017). He professed his ongoing support for "the IMF's work on broadening the role of the SDR" and remarked that he expected "more targeted and sustained efforts focused on addressing the inherent weaknesses in the existing international monetary system." It was a decade since Zhou had first catapulted into prominence by criticizing the United States dollar–centric monetary system in the wake of the United States-caused financial crisis.

By the time the twelfth G20 summit kicked off in Hamburg on July 7–8, 2017, China had a solid read on President Trump and his protectionism. The real power shift was the

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[21] "Presidential Memorandum Regarding Withdrawal of the United States from the Trans-Pacific Partnership Negotiations and Agreement," The White House, Office of the Press Secretary, January 23, 2017, Www.whitehouse.gov/the-Press-Office/2017/01/23/Presidential-Memorandum-Regarding-Withdrawal-United-States-Trans-Pacific.

[22] "Trans-Pacific Partnership Agreement," Australian Government, Department of Foreign Affairs and Trade, September 13, 2017, http://Dfat.gov.au/Trade/Agreements/Tpp/Pages/Trans-Pacific-Partnership-Agreement-Tpp.aspx.

[23] "IMFC Statement by Xiaochuan Zhou Governor of the People's Bank of China - Thirty-Fifth Meeting." International Monetary and Financial Committee, 22 Apr. 2017, www.imf.org/External/Spring/2017/Imfc/Statement/Eng/Chn.pdf.

accelerated realignment of countries away from the United States. Isolationism is truly a one-way street. In the battle for economic survival and global economic dominion, one country's isolationism is another country's opportunity to forge new relationships with its former partners, as in the old idiom, the enemy of my enemy is my friend. China was pragmatic. Trump's isolationist stance drove China to enhance targeting United States allies for trade deals. Thus, China approached former United States strategic partners like Germany and Saudi Arabia and forged tighter alliances with Russia. The world was turning away from the United States, even as United States President Trump believed he was controlling the shots.

As for the yuan, calls from inside the Chinese government, business community, and the People's Bank of China itself intensified to "free" the currency from central bank intervention. It was a further sign of the internal battle in China on how to strengthen its position in the global financial markets and promote the yuan on the world stage, in a public way. In addition, the PBOC's leadership of Zhou was coming to an end as he considered retirement (Yan, 2017). He had reigned through three different Chinese presidents (Group of Thirty, n. d.).

Zhou's long tenure occurred during a major alteration in the power structure of the international monetary system. This paradigm shift entailed central banks expanding their roles in unprecedented ways and gaining power in the process. The financial crisis of 2008 changed everything, monetarily, geopolitically, and from a power perspective. Central bankers colluded under the guise of promising real growth. But because they did so in a manner that fluctuated between idle speed and rapid response, it was nearly impossible to quantify the effectiveness of their actions relative to their stated goals. Central banks would transcend their institutional frameworks. They grew in influence throughout crisis. But that power would not be thwarted. The policies spawned as "emergency measures" morphed into opioids for banks and markets. The G3 central banks (the Fed, the ECB, and the BOJ) that drove these policies had no exit plan. Because G7 monetary policy had produced considerable wealth for the most elite corporations and individuals yet no tangible economic results for the vast majority. Broken confidence in the financial system continued to steer elections and reroute historical foundations of multinational alliances.

Aggravation and confusion among investors and voters fueled major negative repercussions including social unrest, dissolution of economic unions such as due to the Brexit vote, and sweeping revolutions such as the Arab spring, the French yellow vests movement and the street battles for Hong Kong's sovereignty. Meanwhile, stock indexes soared to new heights, building a false sense of security on fabricated capital. With rates at zero, or negative in some countries, there was little room to maneuver in the event of a looming crisis. After a decade-long

money-conjuring policy, one thing became clear: central bank craftsmanship had demonstrated gross negligence for the lasting consequences, at worst. The assumption that these central banking policies would evoke real growth was as preposterous as it was wrong and dangerous. Yet the real threat of a collapse larger than the 2008 financial crisis loomed because of the plethora of asset bubbles that the central banks had fueled—setting the scene for a more disastrous fall. That fall could be catalyzed for reasons from a corporate credit meltdown in Latin America, to another big bank bet gone wrong, or some new, external unforeseen factor. Thus, the world economy remained imperiled. Eventually, this would lead to Phase II of the monetary and power dynamics of collusion, which we will discuss in the next chapter.

4.5 CONCLUDING REMARKS

In this chapter, we explored the collusion of the world's major developed country central banks as they acted in concert to mitigate the impact of the financial crisis of 2008. In doing so, they entered the Phase I period of their rise in power beyond their historic boundaries. The by-product of this collusion was that it served to catalyze developing nations forging tighter economic and trade alliances amongst each other relative to the United States. This was especially true, for example, of the alliance between Brazil and China which expanded in order to both protect themselves from the risk inherent to the United States Fed's monetary policy and solidify economic growth. In the next chapter, we will analyze the evolving nature of these new relationships in the financial calamities and economic and political uncertainties that occurred during the Phase II period of central bank power and the onset of the global coronavirus pandemic.

5 PHASE II AND CORONAVIRUS CRISIS: NEXT SHIFT IN GLOBAL POWER HIERARCHY

This chapter shows how the period between the middle of 2019 and the beginning of 2020 marked a point of no return for the reliance of banks, markets and governments on central bank intervention. It reveals how the coronavirus pandemic was but one possible exogenous factor that enforced a new status quo of disconnect between the markets and the real economy, and that the leaders of the United States, China and Brazil, implicitly deployed the power of their central banks in their own political fight for domestic and international power.

The chapter is organized as follows. The next section describes the transition from Phase I to Phase II of global monetary policy. The third section presents the broadening of the Phase II environment, the intensification of the United States-China conflict and the connection to Brazil, and comparisons to the Great Depression at the onset of the coronavirus pandemic. The fourth section discusses the money and power frictions triggered by the initial monetary and fiscal responses to the pandemic. The fifth section sheds light on the perverse relationship between financial markets and the real economy resulting from these central bank and government actions. The final section concludes.

5.1 FROM PHASE I TO PHASE II OF CENTRAL BANK POWER EXPANSION AND THE RAMIFICATIONS

As we have discussed in the previous chapter, the financial crisis of 2008 converted major central bankers from monetary policy bureaucrats into international power brokers. They controlled the lifeblood of financial markets – money – and with that, the ability to buy public debt. This, in turn, provided certain governments that were less concerned with domestic inflation which remained low (even as unemployment rates declined), the power to increase debt at cheaper levels without having to plan as carefully for economic growth longevity. But it also provided governments with camouflage. Elected leadership did not have to do anything specific with that debt. They could allow central banks to call the shots, manipulate markets and assist elites – instead of building out policy, laws and their respective economies. With no physical assets, such as gold, underlying central bank capital beyond quantitative easing (QE) assets that represented debt, the result of manufacturing money was a destabilization of the real economy.

Manufactured money flowed toward financial assets that either served to elevate that debt or produce quicker returns, as was seen in equity markets. New political regimes that skewed further toward the right were a shift away from the traditional parties in power over the years following the financial crisis of 2008. That shift stemmed from the economic bifurcation between governments and individuals that could create or had access to massive quantities of created money versus those that didn't. What transpired was a great socioeconomic divide. This growing economic fracturing provoked greater civil and social unrest that further damaged economies even as their financial markets thrived.

To define the first two major 21st century phases of central bank power, we can consider that Phase I was the collusion of the major central banks' in terms of their responses to the financial crisis of 2008, as discussed in the previous chapter. This phase lasted until another round of reinvigorated easing policies began in mid-2019, which it is here considered Phase II. As Phase II extended into the 2020s, the rest of the world's central banks increasingly adopted similar strategies to the developed country ones, however in ways that were magnified because they had not adopted them to the same extent during Phase I.

During Phase I, the "Big Three" central banks — the Federal Reserve, the European Central Bank and the Bank of Japan —collectively kept interest rates at zero percent on average. The total amount of securities on their books in 2017 hit $14 trillion, an amount equivalent to 17% of global GDP (Roberts, 2017). That monetary policy fueled asset and debt bubbles around the globe. (Crutsinger, 2019). This meant that the world was set to fall from higher, artificially supported, financial heights in the next crisis.

The American financial system was broken. However, the international monetary system of interest rates, currency movements, and debt creation had become so intertwined with the US banking system that "saving" the latter meant subsidizing the former. Before the financial crisis of 2008, major central bankers exhibited gross negligence in their regulatory responsibilities to contain bank risk and rampant fraud. To minimize the fallout during Phase I, central bank policymakers deployed extreme monetary interventions on the biggest banks and the markets in which they operated. What began as a rescue mission of the big United States banks with "emergency" liquidity measures soon evolved and became a global phenomenon.

This hijacking of capital production caused countries to reexamine their positions in the international financial power hierarchy relative to the United States. Non-Western nations such as China and Russia didn't want to be casualties of another United States-led crisis. Yet, their dependency on the US dollar and US-centric monetary policy put them at risk. Other emerging market nations began gravitating toward China for monetary refuge and loans. They were

seeking to grow trade relationships while diffusing exposure to United States policy risk in tandem with considering their own domestic economic needs.

In 1977, six years after the gold standard was abolished and with prevailing oil price shocks that sent inflation sharply higher, the Fed's "dual mandate" policy was calibrated to act in "pursuit of maximum employment, stable prices, and moderate long-term interest rates." But after the financial crisis of 2008, zero interest rate percentage (ZIRP) and negative interest rate percentage (NIRP) money created by the Fed and other central banks had the effect of inflating stock, debt and real estate markets. This result effectively meant that the Fed was breaking the law of its own mandate as it pertained to financial asset prices. Meanwhile, core inflation and real growth in major countries remained relatively low. One reason was that borrowing, lending and investing in the real economy required funds from private banks. Those banks wanted to preserve their power by constricting their lending practices to larger corporations and higher-fee businesses. It was a world built by financial elites that focused on supporting financial elites.

The largest global private banks, such as JPMorgan Chase, Deutsche Bank, and HSBC, were not required to increase their lending to the "Main Street" or the foundational economy as a condition of supportive central bank policies. Instead, they and their major corporate clients used the debt made available at cheap rates to buy back their own shares, pay dividends and inflate executive bonuses. The moves meant they could effectively manipulate their stock with explicit support from the central banks. According to a July 2017, letter to the Senate banking committee from former Federal Deposit Insurance Corporation (FDIC) Vice-Chairman, Thomas Hoenig, banks had used 99% of their net earnings for stock buybacks, meaning that this capital would, "provide no base for their future growth that would benefit our national economy."(Hoenig, 2017) Similar patterns occurred around the world; public and private debt grew as a percentage of GDP, while stock markets rose, and real GDP languished in comparison.

As a result, developing and least-developed countries challenged the status quo of United States and European Union-led monetary policies by establishing new alliances with each other. However, as their economies slowed, they too began deploying similar strategies with their central banks. This inevitably resulted in more inequality and civil unrest around the world. What transpired was turmoil from Hong Kong to Brazil to France as people felt economically disenfranchised by their governments. Yet, central banks enabled the entire financial and monetary system to remain propped up. That saw the world's richest 1% have more than twice as much wealth as nearly 7 billion of the global population (Oxfam, 2017).

The Fed eventually began tightening rates under two different Fed Chairs and two different United States Presidents, Janet Yellen and Jerome Powell, and Presidents Obama and

Trump respectively. The Fed raised rates once in December 2015, once in December 2016, and three times in 2017.[1] The Fed hiked rates for the fourth time since December 2015 in December 2018. (Applebaum, 2018) This move came amidst a public power struggle between chair Powell and President Trump (Associated Press, 2018). Powell wanted to assert the independence of Fed policy decisions from politics. President Trump wanted a more dovish policy that would keep markets lifted and ultimately help his re-election and fortify his conservative power base.

Financial markets were hooked on cheap money as a means of retaining their own power. The idea of starting 2019 with the possibility of rate hikes rather than cuts didn't sit well. As a result, December 2018 was a negative month for markets worldwide. The Dow fell by 8.7%, its worst December since 1931 during the height of the Great Depression (Imbert, 2018). Hong Kong's Hang Seng index dropped 5% and Brazil's Bovespa index dropped by 2% that same month (Yahoo Finance, 2018). By the end of 2018, the Hang Seng had dropped by 13% and the Stoxx Europe 600 index by 11% (BBC News, 2018). The cry for cheap money to bolster markets as a means to retain power for incumbents, and emerging leaders around the world, intensified. The level of markets was a reflection of their power.

With pressure from the White House, Wall Street and the markets, the Fed abruptly changed course. In 2019, the Fed cut rates 3 times. Events and data served to validate those decisions, enabling Powell to maintain the veneer of Fed independence and power, and President Trump to appear vindicated and powerful. At the time, the ongoing trade war between the United States and China was hurting both superpower economies and complicating matters further. Governments that had partnerships with both, like Brazil, were caught in the middle and were occasionally targeted with tariffs in the process which destabilized their economies, too (Swanson, 2019). Plus, growing uncertainty over the outcome of Brexit also served to dampen economic growth around the world. As a result of this slowing global economic activity, more central banks adopted a looser monetary policy in 2019. Central banks began lowering rates in India, Brazil, Mexico and other emerging-market countries (Mellow, 2019). Leaderships across the political spectrum, from on the left, as in Mexico, or on the right, as in Brazil, were demanding it (Torresan, 2019).

In concert with that shift to easing, in late August 2019, central bank representatives from 40 different countries convened at the annual Kansas City Fed's Jackson Hole Economic

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[1] "Minutes of the Federal Open Market Committee December 12–13, 2017." The Federal Open Market Committee, The Federal Reserve, December. 2017, <www.federalreserve.gov/monetarypolicy/files/fomcminutes20171213.pdf>. Accessed on 24 September 2020.

Policy Symposium. The United States-based conference itself began in 1978. In 1982, it moved permanently to Jackson Hole, Wyoming, where it became a sort of summer camp for international central bankers, strengthening the epistemic community. Each year the symposium had a unique theme. For the year 2019, it was "Challenges for Monetary Policy." The symposium organizers noted: "Different rates of recovery have led central banks to chart different courses for the normalization of monetary policy following a period in which most central banks used both conventional and unconventional monetary policy tools" to handle the Great Recession.[2] Those "unconventional" tools had lasted a decade and gave central bank leaders extreme power that could go relatively unchecked.

Another main topic was how to unwind these policies, for they had been crafted with no exit plan or specific associated real economy growing strategy. However, by that time, policies were already shifting away from normalization, plus economic recovery was slowing as well. There was a growing gap between these themes and what was going on in the world, and in their own institutions and governments.

When Powell delivered his keynote speech on August 23, 2019, while trade wars between the United States and China raged in the background, he noted that, "While monetary policy is a powerful tool that works to support consumer spending, business investment, and public confidence, it cannot provide a settled rulebook for international trade."(Timiraos, 2019) The chair gave markets a mixed message on future cuts. However, other major central banks resumed easing policies precisely because of that ambiguity, which they took to an invitation to looser policy in the wake of greater international economic and political tension. Emerging market central banks eased by more because they believed they had to, as countries like Brazil were slashing their 2019 economic growth forecasts in half (Reuters, 2019b)

And so, Phase II solidified. Any sign of weakness in the economy, markets, or governments, was an opportunity for central banks to ease policy and create cheap money in this new 21st-century power paradigm. That meant more avenues from which to grow debt and prop up stock markets. While the stock market is not the economy – central banks crafted a policy of intervention with the false hope or narrative of it trickling down to the real economy. This meant that fewer real economy remedies would receive policy focus from governments. They could be lulled into a sense of recovery or at least point to its sign, without having to do too much more.

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[2] "Challenges for Monetary Policy." The Federal Reserve Bank of Kansas City, Jackson Hole Annual Economic Policy Symposium, Aug. 2019, <www.kansascityfed.org/publications/research/escp/symposiums/escp-2019-about>. Accessed on 24 September 2020.

On the surface, the Fed's July rate cut before the Jackson Hole symposium was expected to weaken the dollar, something that President Trump and United States businesses had demanded since 2018 due to trade deficits, especially with China (Lange and Saphir, 2019). However, as central banks around the globe turned dovish, the dollar continued showing strength by default. That was especially true against the backdrop of uncertainty about Brexit, United States-China trade war tensions, slowing growth in the Eurozone, and emerging market economic, political and financial turmoil. One example of this dynamic played out in Argentina, where markets fell by nearly 50% in one day – its largest drop in 70 years (Ponczek, 2019). This chaos boosted the dollar's safe-haven appeal, and by extension lifted the value of United States financial asset markets and, to an extent, United States financial power at the time.

Once the Fed began cutting rates in 2019, however, the rest of the world's central banks followed suit rapidly. Having been more hesitant to go that route in the past few years due to higher internal inflation levels, developing nations surpassed the Fed's pace of rate cuts. This was largely due to the fact that their interest rates were higher than those of the United States and other developing nations to begin with. As such, they had to cut rates more rapidly in order to reduce the gap between their respective interest rate levels . By September 2019, the Fed, citing the need to maintain rates in its target band (and because that's what Wall Street banks needed to support their operations), started engaging in repo operations [a very short-term form of reversible borrowing where corporations, big banks, and hedge funds receive loans in exchange for providing safe collateral to the Fed.][3] As a result, for the first time since 2017, the growth of the Fed's balance sheet in 2019 turned positive on a year-on-year basis. From an August 2019 level of $3.7 trillion (down from a post-financial crisis height of $4.5 trillion) the Fed's book grew by $234 billion by the end of 2019 (Cox, 2019).

The Fed refused to acknowledge these actions as QE. To do so would have been to concede power predicated on the success of those strategies. Following a speech to the National Association for Business Economics on October 8, 2019, Powell stressed, "In no sense, is this QE." He added, "Growth of our balance sheet for reserve management purposes should in no way be confused with the large-scale asset purchase programs that we deployed after the financial crisis."(Miller and Matthews, 2019) Regardless of this statement, the policy amounted to QE in effect. The Fed's repo policy was cushioning the risk for major Wall Street banks and corporations — again.

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[3] "Quarterly Report on Federal Reserve Balance Sheet Developments." The Federal Reserve, Aug. 2017, <www.federalreserve.gov/monetarypolicy/bsd-monetary-policy-tools-201708.htm>. Accessed on 24 September 2020.

The European Central Bank (ECB) cut rates in September 2019 as part of its biggest economic stimulus package in three years.[4] That was followed by the Fed's second reduction in its rates in 2019. By late November 2019, the Fed had also extended $3 trillion worth of short-term "loans" to the repo market (Martens, 2019). Even though the biggest four United States banks held over $5.45 trillion in deposits, they sought the Fed's help and money creating might, rather than use their own repo operation routes for short term lending (US Bank Ratings, 2019). On December 13, the Fed announced an increase in repo offerings from $120 billion to $150 billion through January 2020.[5] That was the sign of fear and the threat of losing control, not a quick fix as the Fed had initially positioned it.

5.1.1 Phase II Expansion to Emerging Markets

It wasn't just the Fed injecting more money into the United States financial system that was shifting the paradigms of monetary power. By October 2019, global central banks had adjusted their monetary policy stance toward easing from tightening, with overall easing moves soaring to a decade long high (Grady, 2019a). More than half of the world's central banks (or 58.5%) had converted to easing mode, the biggest proportion of them to do so since the financial crisis (Grady, 2019b). The pace of that easing accelerated throughout the last quarter of 2019. Global manufacturing was exhibiting its longest downturn in seven years. Overall global economic growth was contracting, and looser monetary policy was the central bank's way to stimulate economic activity, or at least, the financial markets - the most direct recipients of that policy and money. Political leaders were nervous about retaining their power and people were taking to the streets in protest. (Wright, 2019).

In 2019, 67 central banks eased monetary policy - either by cutting rates, lowering reserve requirements, initiating loan programs, or restarting asset purchases. This only added an estimated a half a percentage point in global growth, according to the International Monetary Fund (Evans-Pritchard, 2020). Emerging market countries central banks adopted more dovish monetary policies with more vigor than developed ones did (Strohecker and Carvalho, 2019). They eased policy 63 times, through 49 rate cuts due to more economic, budget, and credit

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[4] "Press Release: Monetary Policy Decisions." European Central Bank, 12 Sept. 2019, <www.ecb.europa.eu/press/pr/date/2019/html/ecb.mp190912~08de50b4d2.en.html>. Accessed on 24 September 2020.

[5] "Statement Regarding Repurchase Operations." Operating Policy, The Federal Reserve Bank of New York, 12 Dec. 2019, <www.newyorkfed.org/markets/opolicy/operating_policy_191212>. Accessed on 24 September 2020.

strains in those countries (Central Bank News, 2019). In China, the PBOC preferred decreasing bank reserve requirement ratios (RRR) as a tool to ease monetary policy. However, it too shaved interest rates in 2019. In Brazil, the BCB cut its key benchmark interest rate (SELIC) through a series of reductions from what had been a ten-year high of 14.25% in 2016 to 4.5% by December 2019 (ECRI, 2016; BCB, 2019).

Phase I policies grew more broadly and rapidly in Phase II. The scale of major central bank responses to the financial crisis of 2008 had been unprecedented. One outcome of that fabricated money was that the Dow Jones Industrial Average (DOW) rose by more than 350% from its financial crisis low of 6,469 on March 6, 2009, to a record high of 29,569 by February 12, 2020 (Trendeconomics, n.d.). Other major economies saw similar market behavior (Sano, 2020).

The second outcome was a debt bubble. The world's debt pile sat at a record $253 trillion by the end of 2019, an amount equivalent to more than three times the size of global GDP (The Institute of International Finance, 2020). The amount of debt was particularly high in emerging-market countries where it took the form of government debt and corporate debt denominated in US dollars, a contributing factor to the growth of Phase II.

The US dollar had strengthened; first on the back of the Fed's tightening bias from late 2015 through to late 2018. The problem this caused was compounded as other economies slowed relative to the United States and their central banks cut rates to try to stimulate growth. What transpired was the cost of servicing their debt increased. This hampered domestic budgeting plans that were reliant on domestic revenues plus stronger currencies. This, in turn, incited more austerity measures and internal economic imbalances within domestic populations. The United States had chartered a path through its monetary policy might that it hoped would translate into greater economic growth, instead, it fostered instability and angst around the world.

Monetary policy became a driver of financial globalization and power accumulation. However, these policies, because they manufactured money that went disproportionately to the top of society and into financial assets, rather than workers, wages and long-term development, contributed to rising inequality, geopolitical tension, civil unrest, nationalism, trade wars, and business and financial uncertainty. All of these symptoms of power fractures inevitably provoked greater unrest around the world as people were left behind economically - by their governments, central banks and the entire financial system.

This Phase II augmentation meant more countries would be deploying loose monetary policy which would form a foundation for more crises in the future. After more than a decade

of unprecedented monetary policy, the financial system had become irrevocably distorted. The idea of free markets was irrelevant. Price discovery for securities was meaningless. The more that QE (or attempts to reverse it) restructured the very nature of global finance, the broader the growing risk to the world economy and population, and the greater the power plays that resulted.

5.1.2 Phase II Shifts to Isolationism

As previously discussed in Chapters 4 and 5, the 2008 financial crisis was ignited by a rapacious US banking system enabled by faulty regulation and legislation. As a result, other countries sought to move away from United States hegemony to diversify their economic and political exposure. Developing country government's sought alternatives to US-dominated monetary, trade, and financial policy as a means to alleviate future risk and grow their own power bases (Scheck and Hope, 2019). They forged new, non-US alliances, and considered using non-US-dollar currency alternatives for transactions. The superpower benefitting the most from these shifts, China, used its monetary policies combined with fiscal policies to develop its domestic infrastructure. China increasingly collaborated with regional and international partners, such as Brazil, on long-term growth projects to gain power through funding a larger global footprint (Veiga & Rios, 2019).

It was because of this policy, that during his election campaigns and throughout his presidency, President Donald Trump galvanized his base group of voters by vilifying nations such as China and Mexico from a trade deal, and xenophobic, perspective. For instance, by characterizing the 1994 North American Trade Agreement (NAFTA) as the "worst trade deal maybe ever signed" between the US and its main trading partner neighbors, Canada and Mexico, and labeling China a currency manipulator that had been stealing from the United States for years, he was able to build a narrative to contribute to an electoral victory (Grunwald, 2017). Trump's power stemmed from his ability to pinpoint and manipulate the economic insecurities of his base while dividing the opposition. His attacks served to highlight inequalities that had largely been the result of monetary and fiscal and financial policies, and in turn the president would blame mounting problems on other countries, demographics and institutions. To build on this strategy, the Trump administration pursued an isolationist policy of bi-lateral vs. multi-lateral trade agreements (Mildner & Ross, 2020).

By late 2019, a growing number of political and financial problems threatened the world's economy. The ongoing trade wars had created uncertainty for companies, farmers, and industrial and manufacturing businesses. The tariffs that the Trump administration imposed

upon China impacted the United States poor and working class most severely – as one study found, "the burden of import taxes five times as heavy for the bottom tenth of households as for the top tenth." (Coy, 2019) Meanwhile, the level of United States household debt reached a new record of $14 trillion in Q3 2019. That figure was nearly $1.3 trillion higher than it had been during its prior peak in Q3 2008 during the financial crisis (Richter, 2019).

From an economic standpoint, United States GDP growth was decelerating in its 11th year of expansion (one that was longer but shallower than prior expansions).[6] It was 2% in 2019, despite prior promises of 3% by the Trump administration earlier that year (Casselman, 2019). The United States debt to GDP ratio was 107% by the end of 2019, approaching an all-time post World War II high. And that had been a time when the United States was spending money to finance massive infrastructure projects like interstate highways and the space program. Throughout the world, economic growth was already stalling into the third quarter of 2019 (Gopinath, 2019). EU GDP growth had dropped to 1.4%. Japan's GDP had fallen to 0.1% in Q3 from a half a percent during Q2. The UK economy grew just 0.3% in Q3 2019, after contracting 0.2% in Q2. Plus, China's GDP growth had experienced its slowest growth since 1990 (Tan, 2020). All of this weighed on politicians and central bankers and contributed to fortifying voter support for conservative leaders.

The global swing to the right and to isolationism that Trump personified spread to Brazil as well. Far-right Congressman Jair Bolsonaro followed a similar approach to Trump in Brazil, riling up the population as he campaigned (Romero, 2016). Part of the global electorate was swinging toward isolationist and right-leaning notions, as these actions played out between the period of Brexit and President Trump's win and Brazil's political arena. When Bolsonaro was declared the winner of Brazil's presidential election on October 28, 2018, claiming victory with a wide margin, he became Brazil's first right-wing president in more than 30 years (Phillips and Phillips, 2018). This was amidst a recession and widespread corruption scandals. He reflected a growing tide of nationalism and social divisions. Like Trump, he attacked China's economic status and had vowed to withdraw Brazil from the Paris climate change agreement (later backing down) (Atkins, 2018). His affinity toward President Trump pressed him to alter Brazil's prior foreign policy initiatives that had sought to establish tighter trade and political

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[6] "Economy Reaches Longest Expansion in U.S. History in Third Quarter of 2019, Beats Market Expectations." The White House, The United States Government, 30 Oct. 2019, <www.whitehouse.gov/articles/economy-reaches-longest-expansion-in-u-s-history-in-third-quarter-of-2019-beats-market-expectations/>. Accessed on 24 September 2020.

alliances with other major emerging market countries such as China, that were challenging the power of the United States.

The international community took notice of Bolsonaro's power shift to embrace Trump and the United States and turn away from China. "The support of an emerging market country such as Brazil at the United Nations, the [Group of 20], the World Trade Organization and other global forums will be a significant boon to the Trump administration." It "will validate US positions that the vast majority of other nations reject."(Simon and Winter, 2018)

When Bolsonaro took office on January 1, 2019, the business sector had high hopes – as the financial media and talking heads touted a "Bolsonaro Bump" for Brazil (Imbert, 2019). Not being much of a businessman himself, Bolsonaro delegated all such decisions to his free-market espousing, Economy minister, Chicago-trained economist Paulo Guedes, a co-founder of the investment bank BTG Pactual. Guedes, was also a co-founder of the right-wing think-tank Instituto Millennium. He appointed Roberto Campos Neto to run the Central Bank of Brazil, a United States-trained economist, financial market trader and someone who was believed to have a pro-market bias (Mazui, 2019).

Yet Brazil's economy quickly plunged to 2014 levels (McGeever, 2019). With a government marred by infighting, a misplaced attempt at state intervention in Brazil's fuel policy, and a general lack of leadership, it got worse. The number of people unemployed nearly hit 13.4 million in 2019. In contrast, Brazil's stock market (BOVESPA) hit an all-time high in January 2020 (Tradingeconomics, n. d.). To combat the ailing economy, the BCB cut rates 5 times from July 2019 by a total of 225 basis points. Then, in November 2019, the BCB froze rates for the first time after 10 consecutive cuts. The central bank introduced the statement that keeping rates steady for a "prolonged period" was the most appropriate strategy to ensure that inflation would return to the bank's target. This guidance was repeated at the bank's meeting in January 2020, but by then, price inflation had accelerated amid some tepid economic growth improvement. This fueled expectations that rates could be raised. Yet, Brazil's GDP rose by a paltry 0.6% in the fourth quarter of 2019 bringing its annual growth to 1.4% heading into the new decade.

5.2 DEPRESSION AND PANDEMIC FUEL UNITED STATES-CHINA BATTLE WITH BRAZIL IN THE CENTER

At the start of 2020, a major coronavirus pandemic sprouted that cast more economic pain and doubt everywhere. It also served to heighten tensions between the United States and China, as well as pour fuel on the fire of existing economic problems. The White House

remained adamant about China's agricultural purchases requirement and intellectual property demands.[7] China insisted that previously imposed tariffs be removed. President Trump engaged China in a trade war that kept the global economy on edge and hurt importers and exporters alike. It was not merely a fight between two countries, but a categorical paradigm shift in the global order. The two superpowers had battled on the global stage since the middle of 2018, with the United States imposing tariffs on Chinese imports and China retaliating in turn (Reuters, 2020). Other countries and workers were caught in the trade-war crossfire, both economically and financially.

Yet both superpower leaders, President Trump and President Xi Jinping touted their positive economies and markets – to their people and the world – in an effort to retain power and influence. The chess match of global domination marched to a draw. As a result, the first stage of the United States-China trade deal was finally reached in January 2020 (Borak, 2020). The agreement reduced some of the tariffs that each side had placed upon the other over the prior 18 months (France 24, 2020). It also allowed China to avoid additional taxes on almost $160 billion worth of United States goods. In exchange, China promised to buy an extra $200 billion worth of United States goods and services in 2020 and 2021 (Toh, 2020). The second stage of the agreement was promoted as something to be solved in the future, but that future would have to endure major shocks in 2020, with respect to China and other nations, such as Brazil.

Though Brazil's business community had embraced President Bolsonaro's free market and neo-liberal views during the election, with Brazil's economy facing its second-deep recession in less than five years, and the pandemic growing, their support waned. Tensions mounted throughout the streets of Brazil. On February 5, 2020, fearing a ceasing up of Brazil's financial system as the coronavirus spread, the Central Bank of Brazil (BCB) cut its benchmark rate by 25 basis points - to a record low of 4.25%. The Brazilian currency dove to 4.3 Reals per US dollar, down 7% from the prior year (McGeever, 2020a). The BOVESPA lost half of its January 2020 value by mid-March 2020. Bolsonaro's power and the international investor confidence in Brazil was diminished by his handling of the pandemic. On March 18th, 2020, the BCB cut the Selic rate by another 50 bps to 3.75% as economic conditions in Brazil plummeted due to the pandemic (Malinowski, 2020).

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[7] "Statement of the United States Regarding China Talks." The White House, The United States Government, 31 Jan. 2019, <www.whitehouse.gov/briefings-statements/statement-united-states-regarding-china-talks/>. Accessed on 24 September 2020.

In addition, the People's Bank of China (PBOC) and the Chinese government started coordinating their monetary and fiscal fight against the coronavirus on February 4, 2020. The PBOC began injecting liquidity into China's banking system and cutting rates to support the economic activity hit by quarantines and shutdowns. Initially, the PBOC injected 1.2 trillion yuan through 7-day and 14-day reverse repo operations (Xinhua, 2020). It then launched a 300-billion-yuan lending program to provide low-cost loans to companies affected by the virus (Jia, 2020). The government would subsidize half of the companies' interest payments, which could help them weather the storm, and fortify China's domestic economy for a rebound. On February 19, 2020, the PBOC lowered its new policy rate by another 10 basis points to 4.05%, its fourth cut in the 1-year Loan Prime Rate (LPR) since August 2019 (Chen & Zhou, 2020).

Thus, even before Covid-19 was officially labeled a pandemic by the World Health Organization on March 11, 2020, its economic (and health) effects had been traversing the globe since January 2020 (Branswell & Joseph, 2020). However, the abrupt economic impact of the coronavirus instantly ravaged individuals, companies, and economies as travel bans, shutdowns and lockdowns were imposed. This sudden constriction of movement caused the permanent or temporary loss of millions of jobs and millions of small businesses and took hundreds of thousands of lives. That extreme situation triggered another shift in the global power hierarchy from a monetary, political, and economic perspective.

This exogenous "shock" to the financial system prompted central banks and governments into rapid action, some quicker than others, to support their health care and financial systems and economies. Thus, as the coronavirus raged through the United States population, Trump tweeted, "As usual, Jay Powell and the Federal Reserve are slow to act. Germany and others are pumping money into their economies. Other Central Banks are much more aggressive." (Cox 2020)

The Fed cut rates back down to zero on March 15, 2020 and opened multiple lending facilities to inject money into the system in the form of loans on extremely favorable terms and for riskier collateral.[8] Central banks around the world rushed to adopt more forms of loose monetary policy than ever before in efforts to provide market liquidity and support their respective economies and governments. On March 26, 2020, Powell vowed that, "the Fed is not going to run out of ammunition." (Condon et al., 2020) The result was catalyzing a period of "permanent distortion" from a financial perspective, which we will discuss further in Chapter

[8] "Federal Reserve Issues FOMC Statement." Board of Governors of the Federal Reserve System, Press Release, 15 Mar. 2020, <www.federalreserve.gov/newsevents/pressreleases/monetary20200315a.htm>. Accessed on 24 September 2020.

6. The problem was that even while the Fed can electronically print money, it cannot print jobs. It can buy bonds and Exchange Traded Funds (ETFs), but it can't cure a virus. It can stimulate the market, but it can't banish fear or manifest confidence. A strong, sustainable, and stable economy needed much more than artificial money, it needed planning and fiscal support. The first main United States fiscal response, or CARES Act, signed into law by President Trump on March 27, unleashed $2.2 trillion in government relief.[9] However, that amount really reflected upward of $6.2 trillion considering how it would also filter through and augment the Fed's programs (Prins, 2020). Wall Street went on to achieve one of the best months for the stock market in 33 years - after it had dropped 34% (Henderson et al., 2020; Fitzgerald et al., 2020)

5.2.1 Coronavirus Reinvigorates United States-China Turbulence

Even before the coronavirus outbreak, the United States-China trade war and superpower rivalry had made Beijing question the reliance on the goodwill of its trading partners to continue its expansion according to Chinese news coverage of related reports. (Bermingham, 2020). However, the coronavirus further stoked existing battles between the United States and China and ignited more debate internally centered around decoupling from the United States. Reeling from the pandemic, China's GDP contracted by 9.8% during Q1 2020 following an already anemic 1.5% growth during the final quarter of 2019 (France 24, 2020). That drop was China's first quarterly contraction on record, as a result of the coronavirus outbreak, the shutdown of its economy, and the economies of its trading partners.

To cast aside any accountability for his failure to react promptly to the spread of the virus, something that could impact his re-election chances, President Trump deployed a strategy of blaming China for the coronavirus, dubbing it "the China Virus." (Riechmann, 2020). In response, with United States-China hostilities rising, on May 8, 2020, Tang (2020) reports that the Chinese Academy of Social Sciences (CASS), one of China's think-tanks, claimed that "the strategic game between superpowers has intensified, while international systems and orders are reshuffled." The report mentioned by Tang suggested that China should become more self-reliant in response to the pandemic, underscoring a domestic view that was gaining traction amongst policymakers and scholars.

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[9] "Remarks by President Trump at Signing of H.R.748, The CARES Act." The White House, The United States Government, 27 Mar. 2020, <www.whitehouse.gov/briefings-statements/remarks-president-trump-signing-h-r-748-cares-act/>. Accessed on 24 September 2020.

According to the Bermingham and Zhou (2020), the globalized economy that helped China catapult into an economic superpower would undergo dramatic shifts. It noted, “Populism has risen as the global economy weakens, while countries are divided as imbalances expand (Bermingham and Zhou, 2020). The old multilateral [trading] system is under pressure.” Jie (2020) mentions that the CASS report suggested that given its large middle-income demographics of between 500 and 700 million people, domestic power should be tapped to fuel China’s economic growth for the next five years. The proposed solution wasn’t to enhance multilateral trade with non-United States partners, but for China to fortify itself from the inside (Jie, 2020). For its part, the PBOC held rates steady on May 20th, as the country’s rigid lockdown had proven effective and April and May’s economic data were better than expected. China's overall trade surplus surged to $45.34 billion in April 2020 from $13.02 billion the prior year (Trading Economics, 2020). Relative to the United States, it widened to $22.9 billion in April from $15.3 billion in March. It had narrowed to $58.40 billion from $85.89 billion during the same period in 2019, showing the effect of the trade wars with the United States and the resulting drop in exports from a slowing United States economy and the pandemic making things worse.

Brazil copied the United States in disparaging its largest trading partner, China. In mid-April 2020, anti-China banners adorned by President Xi Jinping’s face with slogans such as “China Lied, People Died” and “China Virus” were spread around Brasília. Bolsonaro’s son tweeted that the global spread of Covid-19 was “China’s fault.” The Chinese Embassy responded that his tweet sounded “familiar”, referring to President Trump’s similar pattern of blaming China and said that it came “without international vision or common sense.”(Harris and Schipani, 2020d) China’s consul general in Rio de Janeiro, Li Yang, wrote an editorial in *O Globo* newspaper defending Beijing. In it, he asked Bolsonaro’s son: “Have you been brainwashed by the United States and are now following them like cattle in opposing China?” (Baptista, 2020)

Oblivious to its own economic needs for good relations with China. Bolsonaro’s stance exacerbated Brazil’s already weakening relationship with China and the trade relationship that covered 1.6 billion people. China had made substantial investments in Brazil’s infrastructure. For its part, Brazil was a key supplier of soybeans, iron ore and meat to China. For every $1 of exports to the United States, Brazil exported roughly $3 to China. And while Brazil’s exports to the United States fell more than 15% during the first quarter of 2020, its exports to China grew almost 5% during that period compared to the same period the previous year (Harris and Schipan, 2020d.) But as Stuenkel (Apud Harris and Schipan, 2020d) observed, “The decision

to attack China right now is remarkably risky considering that Brazil may soon come to depend on Chinese medical equipment during the height of the pandemic. Yet it plays well with Bolsonaro's most radical supporters, many of whom believe that the pandemic is a communist plot to weaken the west." The pandemic fostered a further shift in Brazil's trade policy away from China. But Brazil's economy needed China. Shifting back would require a non-Bolsonaro administration in Brazil. However, that possibility would have to wait until the Brazilian elections in 2022 (assuming there will be elections). That meant Brazil's stock market might rise on the back of foreign speculation, but its reliance on the weakening United States economy in contrast to the more quickly recovering one in China could cause Brazil to weaken further.

5.2.2 Comparisons to The Great Depression

While the United States had progressed since the Great Depression, and though Powell later denied that the coronavirus crisis as being of the same type at all**,** there were lessons to be learned from the similarities.[10] In particular, examining four key factors; unemployment, the economy, the market, and the Fed or central banks response provide greater clarity on these times in a historical context. In 1933, at the height of the Great Depression, the United States unemployment rate had reached a stunning 24.9% (Margo, 1993). In parallel to 2020, that double-digit increase also started from a low level of unemployment, 3.2% in 1929 (ibid, p. 156). However, by mid-1931, mass layoffs were the new norm and despair was widespread. By comparison, in February 2020, the United States employment rate stood at a similar 3.5%. Yet, in the aftermath of lockdowns and coronavirus shocks, by the week of June 15, 2020, new filings for unemployment claims hit an estimated 44 million over twelve weeks (Lambert, 2020). That was the highest number of jobs lost during the shortest time-span in United States history.

By April 2020, the United States official unemployment rate hit 14.7%. That was the worst rate since the Great Depression. That excluded what the United States Bureau of Labor Statistics considered those "marginally attached" to the workforce, meaning those not looking for a job or working part-time. Factoring that in, and the United States unemployment rate stood at 22.8% (BLS, 2020). Then there was the overall global currency impact. In echoes of the financial crisis, during the week of March 20, 2020, the US dollar soared as investors sold assets, including gold and US Treasuries, to raise cash and make margin calls (Watts, 2020).

[10] Powell, Jerome. "Transcript of Chair Powell's Press Conference." The Federal Open Market Committee, Federal Reserve, 10 June 2020, <www.federalreserve.gov/mediacenter/files/FOMCpresconf20200610.pdf>. Accessed on 24 September 2020>. Accessed on 24 September 2020.

Businesses drew down their credit lines. Foreign companies that had borrowed in dollars were desperate to get dollars. The Fed addressed this dollar shortage by lowering the rate on existing dollar swap lines with major central banks and establishing new ones with central banks in other countries, including emerging market countries facing additional pain from low oil prices.

Despite multi-trillion-dollar government stimulus packages, relief efforts were skewed toward helping banks and big corporations relative to the Main Street economy (Kahn, 2020; Prins, 2020). There was no substantive plan for real governmental action to get people working again in ways reflecting the new norms in the coronavirus era. Struggling small businesses, graduates entering the workforce and those that won't see jobs return were being left behind. For them, a newer deal was needed, one that provided more of a cushion to workers, better health care prospects for all, and infrastructure that meets the challenges of the post-coronavirus world.

The Great Depression was catalyzed by an acute market crash that banks created by lying about the true value of securities and too much debt in the system. The Covid-19 crisis was catalyzed by a virus, supply and demand chain shocks the world over, and global lockdowns. Yet it was also exacerbated by too much debt, the central bank supported markets, and rampant inequality. Once the coronavirus sell-off began, the Dow lost about 35 % of its value by March 23. Since then, equity markets sharply rallied (Levisohn, 2020).

That's because something exists now that didn't during the Great Depression, a Fed with a "no limit" directive. Certain central banks now have greater power than governments or banks. They fortify government policies that rely on external money being available as needed. That means that governments can get lazier about planning for sustained growth. When budgets fall short or too much public debt is accumulated, they can look to extract it from social or health programs while the financial system has an endless supply.

Within any economic system, a financial crisis is caused by a seizing up, or a retrenching, of the flow of capital. Either there isn't enough money in the system, there's lack of confidence that there won't be enough, or there's a lack of trust between creditors and lenders, and buyers and sellers. Or it can be all three of those elements combined. This was the case with the onset of the coronavirus pandemic. It not only caused economic pain by itself due to extensive disruption to the health and movement of populations, but it also provoked responses from political, monetary and diplomacy perspectives that served to exacerbate existing problems.

5.3 THE PANDEMIC STRAINS WEAKENED ECONOMIES AND MONEY AND POWER RELATIONSHIPS

Trump’s policies, notably his trade war with China, had already weakened economic conditions for United States farmers and manufacturers (Reuters, 2019a). It had also become increasingly clear that cutting taxes for major United States corporations hadn’t helped the poor or working class (Coy, op. cit.). But Trump knew that cheap money was a catalyst that would lift the stock market (Lahart, 2019). Indeed, until the coronavirus hit, the Dow had rallied and even hit 29,000 points for the first time, though the average annual growth in GDP was between 2 and 3% (Wink, 2020). He viewed the stock market as one major source of his, and his administration’s power and did not want to lose that. That fear was considered to be one of the reasons that he downplayed the virus and his health advisors’ advice in its initial stages. It was also part of the reason the United States had advocated multiple arbitrary deadliness to re-open the economy quickly after the pandemic first hit the US despite warnings from health officials (Zeballos-Roig, 2020).

The environment of suspicion and blame over the coronavirus pandemic intensified and reignited existing tensions between the United States and China (He, 2020). The pandemic also ravaged both economies and populations as it did so throughout the world. President Trump's threats of new tariffs on China and retaliatory talk from China had the potential to dampen even a tepid global economic recovery after the initial first wave of the pandemic subsided. Stage I of the United States-China trade agreement, inked before the pandemic began, required China to import more agricultural goods from the United States than it had done before the pandemic.[11] In the aftermath of the pandemic however, this made less economic sense for China. Having grabbed global power by opening its markets and expanding its international trade alliances, China was considering how to retain, strengthen it during a pandemic. More domestic focus looked increasingly appealing. But that could also prove risky in terms of progress with respect to global status and power.

Meanwhile, central banks worldwide adopted more aggressive monetary policies to try to keep money in their domestic economies and combat the crippling economic impact of the pandemic. Rate cuts from emerging market countries were more intense that developed nations

[11] Economic and Trade Agreement Between the Government of the United States and the Government of the People's Republic of China. 15 Jan. 2020, <ustr.gov/sites/default/files/files/agreements/phase%20one%20agreement/Economic_And_Trade_Agreement_Between_The_United_States_And_China_Text.pdf>. Accessed on 24 September 2020.

because those cuts were happening from higher rates than the developed countries had before the crisis. This was a double-edged sword as these lower rates were less attractive to foreign capital at a time when emerging market economies were struggling significantly. They could also increase the cost of their debt by lowering the strength of their currency, and increase domestic price inflation for populations hit hard by the coronavirus.

Brazil's economy had shrunk by 1.5% during Q1 2020 due to the pandemic (Burin, 2020). That marked Brazil's first contraction since 2016 and its steepest since Q2 2015. Brazil's trade surplus narrowed to $4.5 billion in May 2020 from $5.6 billion the prior year. Among major trading partners, exports dropped by 8.5 % to the EU and by 43.5% to the United States, while exports to Asia had jumped by 27.7% (Trading Economics, n. d.). Imports plunged by 11.1% from Asia, by 16.4% from the EU and by 39% from the United States. Those figures showed that whatever Brazil's leadership said, Asia, and especially China, were critical to Brazil's economy.

The BCB cut its rate by 75 bps further to another all-time low of 3% on May 6th, 2020 on expectations for a deeper economic contraction than previously forecast (McGeever, 2020b). The next day, on May 7, 2020, Brazil's Congress approved a constitutional amendment expanding the BCB's "emergency" powers, enabling it to buy both private and public sector assets (Harris & Schipani, 2020a). Brazil's Economy Minister Paulo Guedes said that the BCB stood ready to inject money into the system to thwart a depression due to the pandemic (Mandl, 2020).

However, as the pandemic worsened in Brazil – so did its relations with China (Reuters, 2020). Some Brazilians were concerned about irreversible damage with Chinese relations after the influence of Trump on President Bolsonaro. But even as Bolsonaro's allies traded barbs with Chinese diplomats in Brazil, commodity trade between the countries boomed. In April 2020, Brazil's soybean exports surged 73% year on year to a monthly record of 16.3 million tons, of which 75% went to China (Reuters, 2020). The trend continued in May 2020, with a 55% jump year on year to 15.5 million tons from 10 million. The United States and Brazil accounted for about 80% of global soybean output, so when Beijing retaliated for Washington's tariffs on Chinese goods by slapping levies on United States soybeans, Brazil reaped the benefits which was critical due to the pandemic.

According to Brazil's Ministry of the Economy, exports to China in the first five months of 2020 gained 12.4% year on year to $27.5 billion. Crude oil and iron ore for making steel were among Brazil's top shipments to China, making up about 50% of its total exports. Brazil's economy had been badly hit by the pandemic and a surge in jobless figures, whereas China had

a great dependence on Brazil's soybeans. Between 2009 and 2019, Chinese companies invested more than $55 billion in Brazil. Brazil's exports to China in 2019 reached $63 billion. They looked set to expand in 2020 despite the damage from the coronavirus pandemic. Yet, as in other nations, the pandemic exacerbated existing shaky conditions. Brazil's main business confidence index, calculated by the FGV IBRE, dropped to its lowest level on record for April 2020 (Harris & Schipani, 2020b). This was in addition to Brazil's endless state of political crises marked by judicial investigations into Bolsonaro and rumors about the pending resignation of free market, "Chicago Boy" Brazil's Finance Minister, Paulo Guedes, pushed the real to a new low (Schipani & Harris, 2020c).

Brazil had another major problem. On May 27, 2020 it became the world's number two global hotspot for Covid-19 (Meredith, 2020). Like President Trump, Bolsonaro initially dismissed the coronavirus as a "little flu." Like Trump, he repeatedly downplayed its threat and chastised state governors for imposing lockdowns to mitigate its spread. His zeal to imitate the United States President cost Brazil tens of thousands of lives. It also damaged his power base as some of Bolsonaro's closest circle of ministers including health ministers, similar to those of President Trump, were leaving office over disagreements about responses to the coronavirus (Los Angeles Times, 2020b).

By June 2020 many major economies such as the United States United Kingdom, and Brazil were facing double-digit unemployment rates. In the United States, On June 1, the Congressional Budget Office (CBO) warned a full recovery could take a decade, and along the way more than $15.7 trillion worth of United States nominal output would be lost (Swagel, 2020). In addition, on June 10, the 37-country member Organisation for Economic Cooperation and Development (OECD) levied its worst prediction in its 30-year history (Reuters, 2020; Riley, 2020). The body (which included nations such as the United States, China, India and Brazil) proclaimed that the pandemic had unleashed the worst global recession in 100 years. In an unusual occurrence, the OECD forecast GDP under not one, but "two equally likely scenarios" one in which a second wave of the virus hit by the end of 2020, and one in which it didn't (OECD, 2020). Under the second wave scenario, the OECD predicted global growth to contract by 7.6% in 2020, before rebounding to 2.8% in 2021. It forecast the OECD unemployment rate to double relative to its pre-outbreak level.

Under a "no second wave" scenario, the OECD forecast a global growth contraction of 6% for 2020, and for unemployment to climb to 9.2% from 5.4% in 2019. The OECD forecast the Euro area GDP to drop by 11,5% in 2020 if a second wave hit, and by 9% if it didn't. It predicted that the United States GDP would contract by 8.5% and 7.3% respectively. The

forecast for Brazil, given its health systems strains and prevailing commodity price drops, was for GDP to drop by 9.1% in the case of a "second wave" scenario, and by 7.4% with one wave. The OECD (2020) projected China's GDP to be less affected, with a contraction of 3.7% for a second wave scenario and 2.6% without one.

In contrast, on the day of that dire OECD announcement, the NASDAQ had not only recovered from its mid-March 30% loss, but hit the third of three new records that week (Pound and Stevens, 2020). However, the next day, global markets plunged after digesting the Fed Chair Jerome Powell's warnings about the "extraordinarily uncertain" path ahead (Smialek, 2020). At his June 10th remarks after the 2-day FOMC meetings, Powell also reiterated the Fed's commitment to using its "full range of tools" for "as long as it takes" which he reiterated several times during his speech – as a signal to Wall Street.[12] The Fed was once again setting the tone for the world, just as it had in the wake of the financial crisis of 2008.

When referencing interest rates, Powell said, "we are not thinking about raising rates. We are not even thinking about thinking about raising rates." (Powell, 2020.) According to its analysis, the Fed wasn't planning on raising rates until 2022. The last time the Fed didn't think about raising rates, it kept rates at zero percent from December 2008 through December 2015. Given the circumstances, even 2022 was a rather arbitrary date (and would be pushed to 2023 a few months later). As the Fed broadcast its policy intentions, uncertainty over how the pandemic should be handled caused power fractions within the governments of major economies. The result was several resignations of policy makers whose views on fighting the virus vs. re-opening the economy didn't match those of their leaders, particularly in Brazil, the United Kingdom and the United States (The Hill, 2020).

Latin American countries had been hit hard by the coronavirus, but none as badly as Brazil. On June 15, 2020, after having served a year and a half in Bolsonaro's administration, austerity-monger Treasury Secretary Mansueto Almeida confirmed that he planned to resign in July or August after noting that he was "tired" and rumors swirled that he was looking for a position in the private sector (Gaier, 2020). On June 17, Brazil's Central Bank (BCB) cut rates by another 75 basis points to a record low 2.25 % (its eight straight cut in as many meetings) to try to contain what could be Brazil's worst economic crash on record (Reuters, 2020). Brazil's government forecast a 4.7% contraction in GDP for 2020 (McGeever, 2020c). That rate decision came after Guedes warned that Brazil could fall into depression if it didn't change its

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[12] Powell, Jerome. "Transcript of Chair Powell's Press Conference." The Federal Open Market Committee, Federal Reserve, 10 June 2020, <www.federalreserve.gov/mediacenter/files/FOMCpresconf20200610.pdf>. Accessed on 24 September 2020.

fiscal course in the wake of the pandemic. He advocated returning focus to pro-market reforms to boost investment and fiscal accounts. But that could further hurt the population, already suffering on multiple fronts, and invite greater social unrest. The next day, the BCB reported its economic activity index for April dove 15% vs. the prior year (Lima, 2020).

By June 19, 2020, Brazil had reached a grim milestone - 1 million coronavirus cases and nearly 50,000 deaths (BBC News, 2020). The figures were second only to those of the United States. As in the United States, there had been no national lockdown, no national testing campaign, and no real socio-economic plan for the future. The pandemic underscored the similarities between the United States and Brazil. They were two large countries with extreme inequality, populist presidents, and a looming crisis of power brewing domestically and internationally, including friction with China.

Former Brazilian Ambassador to China, Marcos Caramuru de Paiva said tensions between Brazil and China feed off the current United States administration and could end after November following the United States presidential election (Baptista, 2020). That power dynamic would seemingly be altered in the event of President Trump losing to former United States vice president Joe Biden. However, whatever the election result, the economic damage caused by tariffs would take time to ameliorate.

This dynamic also took its toll on China. The PBOC pledged to cut the reserve requirement ratio (RRR), or the number of cash lenders must hold as reserves, and pushed financial firms to sacrifice 1.5 trillion-yuan worth of profit in 2020 to support domestic firms (Bloomberg, 2020). Beijing also issued local government bonds to fund infrastructure projects that could have longer-term benefits post-Covid-19. The PBOC declared that it would not directly buy government debt, a form of quantitative easing, as the Fed was doing. Guo Shuquing, chairman of the China Banking and Insurance Regulatory Commission (CBIRC) said China would not adopt "flood-like" stimulus or negative rates. He warned that unprecedented easing by the Federal Reserve would dent United States credibility (Reuters, 2020). This was a page out of Zhou’s power book and marked the start of another post-crisis power consolidation move by China.

As they did during the post-financial crisis of the 2008 period, Chinese officials expressed concerns that excessive monetary stimulus could produce greater debt risks. Unlike the Fed, China’s central bank began signaling caution over the unintended consequences of excessively loose monetary policy. “We should pay attention to the hangover of the policy," PBOC Governor Yi Gang told a financial forum in Shanghai on June 17, 2020. "We should consider the timely withdrawal of policy tools in advance."(Zhou, 2020) China wanted the

world to know that it was considering an exit plan to monetary stimulus and that it didn't want to contribute to future bubbles or crises.

In a similar manner to what China had done to extend its power in the wake of the financial crisis, it sought to use the pandemic to leverage its influence. On June 22, 2020, Chinese President Xi Jinping hailed the successful opening of a three-day online China-Arab States Political Parties Dialogue Extraordinary Meeting (Xinhua, 2020). In his opening letter to the meeting, President Xi highlighted the long-standing friendship between China and the Arab nations noting that the video conference was an important platform to strengthen strategic partnership and cooperation. Arab Leaders, in turn, commended China's efforts in fighting the pandemic and its support in defending the sovereignty of Arab states. China was once again using economic weakness and uncertainty to secure future alliances and power.

As discussed in the previous chapters, the symbiotic relationship among central banks, major governments, and large private banks are nothing new. However, it was the overriding power of the Fed that had the unintended consequence of diminishing the political super-power status of the United States, while enhancing its own. Yet, the proof of the Fed policy's ineffectiveness at fostering long-lasting economic stability was made clear by how quickly an external shock, even one as major as the coronavirus, evoked such a massive reaction.

The trillions of dollars added to the Fed balance sheet under its "no-limit" platform put in place over a period of a few months was staggering (CBS News, 2020). The Fed's June 18, 2020 H4.1 report (that shows the amounts and categories of Fed purchases) revealed the size of the Fed's book had grown to $7.1 trillion.[13] That was nearly double its prior-year level and 60% greater than it had been at the height of post-financial crisis of 2008 period. All of that manufactured money lifted Wall Street's spirits and propped up the stock market. This was in stark contrast to the extreme unemployment figures and record corporate bankruptcies filings that were piling in as well. The pandemic and the response to it had aggravated the discrepancy between the loss of jobs, closures of small businesses and the general economic well-being of the nation. These conditions were on the opposite side of an economic divide made wider by the recovery of the stock market that increased wealth inequality. The associated anguish of the population pushed a new wave of social unrest to a point of no return.

[13] "FRB: H.4.1 Release -- Factors Affecting Reserve Balances." Federal Reserve, 18 June 2020, <www.federalreserve.gov/releases/h41/20200618/>. Accessed on 24 September 2020.

5.4 THE DISCONNECT BETWEEN THE FINANCIAL MARKET AND THE REAL ECONOMY

Financial markets and the economy are ideologically disparate. The former are fueled by money seeking the quickest and highest possible returns. The stock market is a mechanism where money and speculation can lift the value of share prices by the force of its mere presence. The real economy doesn't have that luxury. It can't simply snap back. The real economy is fueled by people working at real jobs, for real wages. It takes time and greater effort to convert capital and labor into goods and services. Yet, central banks and government leaders consider the two as mutually reinforcing. Major central banks became centralized ATM-machines to the world's banking system and financial markets in response to the financial crisis of 2008. The amount of debt created by their respective governments and corporations, because the cost of borrowing got so low, sky-rocketed (Meredith, 2020). The value of financial assets like stocks and bonds ballooned (Curran and Miller, 2019). This created a classic multi-asset class bubble (Winck, 2020).

The central bank and political leaders from both the left and the right embraced the narrative that this ongoing "emergency" creation of cheap money was for the good of 'the economy (Rao, 2020). The coronavirus pandemic presented another instance and opportunity. The byproduct of an abundance of artificially created money made available to a sliver of society is that it flows to that sliver. This exacerbates wealth and by extension, power inequality. Over the past three decades, the global income and wealth inequality gap has hit historic highs. It was especially high in the United States (Gold, 2020). That's because, as in most countries, participation in the stock market required a higher socioeconomic status and commonly used stock related profits to enhance the same elite upper echelons of society.

The coronavirus underscored the ability of largely unforeseen factors to crush the market and by extension the economy at large, as businesses and services were forced to either slow operations or shut down. It again incited the Fed and other central banks to intervene in their markets under the guise of "helping" the economy. Yet, the pandemic triggered economic conditions in a far more acute fashion than any disruptions levied by the financial crisis of 2008. Though the world had suffered shocks before – the combined velocity of the pandemic and its impact on the real economy was unparalleled. A new and defining chapter in the history of the United States and the world was being written.

One of the key elements of this chapter would be the new role of, and reliance on, central bank power. As Tooze (2020) wrote "the political and economic circumstances out of

which the original model of central bank independence emerged have changed… This renders the classic paradigm of inflation-fighting independence obsolete." He went on to observe that, "In recent decades, central banks have become more powerful than ever. But with the expansion of their role (and their balance sheets) has gone a loss of clarity of purpose." (Tooze, 2020) Regardless of clarity of purpose the real power of central banks lies in their unlimited policies of easy money.

According to a BIS Bulletin (Cavallino & De Fiore, 2020. p. 1) "Across the five largest advanced economies, balance sheets are projected to grow on average by 15-23% of GDP before end-2020 and to remain large in the near future." They went on to note, "Between March and April 2020, the five central banks... all offered new lending operations, and either extended or inaugurated asset purchase programmes." (Cavallino & De Fiore, 2020. p. 1)

During the first three months of the crisis, their balance sheets increased, on average, by 10% of GDP. The BIS forecast that the size of central banks' balance sheets would expand in 2020 at a faster pace than ever before. That was unprecedented or monetary firepower leveled at global markets and their main participants. However, that firepower didn't serve all nations equally. Emerging market economies (EMEs) felt the brunt of Covid-19 relative to the developed countries (Arslan, 2020). The pandemic shined light on two key dimensions of EME governments' funding risk and diminished economic and monetary power during a crisis. According to the BIS, these were "vulnerability to currency depreciations" and "dependence on non-resident portfolio investors."(Cantú et al., 2020) About 90% of the debt that the oil-producing SOEs of Brazil, Colombia, and Mexico is denominated in US dollars. Therefore, the collapse in commodity prices hurt companies that counted on commodity sales as a "natural hedge" to service foreign currency debt. By late May 2020, several large EMEs were barely investment grade. A downgrade could reduce the pool of potential investors, causing "severe market disruption" in those countries.

As a result, EME central banks had more forcefully cut rates, intervened in foreign exchange markets, and provided liquidity by extending existing facilities or establishing new ones. Taking the Fed's lead, they broadened eligible collateral requirements for lending operations. This had major ramifications on the size of their books and associated impact on their domestic markets, budgets, and economies.

At the center of the 21st-century cold war - between the United States and China - lay a juxtaposition of economic, monetary, and battles over technology. In the face of aggressive monetary policy, erratic trade discussions, and a pandemic, China became the United States' main competitor - particularly in the tech sector. The United States would need to adopt a strong

industrial strategy to keep ahead of China in the long-term superpower stakes. But, if the United States continued to place the needs of its financial community before the needs of its people or critical infrastructure, that won't be the case. United States power could diminish in comparison. And to the extent that Brazil realigns itself more with the United States than China, that dynamic could unfold in unexpected ways.

In Brazil, the pandemic provided leaders already advocating for greater austerity measures another reason to press for them in 2021. As in the United States, social isolation in Brazil meant steep losses of income across the country. Brazil's government passed stimulus measures to try to minimize some of those losses, including emergency aid, or an extra income of R$ 600 for people that lost jobs or couldn't work. The total expense of those programs was R$ 750 billion ($150 billion). [14]

Brazil had been adopting an austerity policy since 2016. In the wake of the coronavirus, the neoliberal think-tank Millennium interviewed neoliberal economist Fábio Giambiagi, and data scientist and communicator Wagner Vargas. Both men were concerned about the increase in debt due to the coronavirus. Giambiagi said, "Gross debt was just over 51% of GDP in 2013. Due to the fiscal situation at the time, it rose sharply and reached 76% before the pandemic. Now, the expectation is to increase to 93% and 95%. The concern of economists is the trajectory. If it is continuous, the story may not end well." Giambiagi stressed that the austerity policy must be maintained. However, neither men addressed the impact that severe income and health losses for the population would have on Brazil's overall economy, instead choosing to preserve the power of the status quo that had diminished Brazil's economy even before the pandemic.

The issue of using the pandemic as an excuse to cut social programs was similar in the United States. There also didn't seem to be an understanding that inequality could rise given the monetary and fiscal responses to the pandemic. And with it, so could other tensions in the population. Yet, on May 29th, in a virtual speech, Powell said that the Fed's policies "absolutely" didn't increase income inequality. Instead, he pointed to the coronavirus impact itself, noting that, ″The pandemic is falling on those least able to bear its burdens. It is a great increaser of inequality. It is low-paid workers who are bearing the brunt of this and women to an extraordinary degree." (Condon & Saraiva, 2020) What he failed to address was who the abundance of Fed programs disproportionately supported, and what policies were doing for lower-paid workers and those unable to re-enter the workforce.

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[14] "Brazil. General Information." KPMG,. 9 September 2020, "<https://home.kpmg/xx/en/home/insights/2020/04/brazil-government-and-institution-measures-in-response-to-covid.html/>. Accessed on 29 September 2020

By early June 2020, mass protests were sparked after police brutality was front in center. The black community in the United States acted in response to the murder of George Floyd by police officers in Minneapolis, and a sweeping discussion began after years of racial inequality and injustice. Millions of people demonstrated in solidarity across the world and major United States cities (Cave et al. 2020). The protests underscored the helplessness and hopelessness that people around the planet felt about what was ultimately a gross imbalance of power – heavily in favor of financial elites.

By that time, about 43 million people in the United States had applied for jobless claims. Yet the stock market had recovered most of its coronavirus-related losses, with the SP500 erasing losses occurred and the NASDAQ hitting new records (Jasinski, 2020). The United States unemployment rate soared from 3.5% to 13.3% between February and May (McCormick, 2020). Adjusting for the size of the United States labor force the "realistic unemployment rate" was 17.1% in May 2020., not 13.3%. But even that revealed a power imbalance based on financial status (Furman & Powell, 2020). A massive 95% of low-income families had either been laid off or seen income losses, according to a Gallup survey covering the period between April 17 and May 17, 2020 (Rothwell, 2020). Of the highest income earners, 33% had lost jobs or income.

The stock market became even more divorced from economic reality in the wake of Covid-19 than it had due to the Fed-led remedies after the financial crisis of 2008. With rates at zero or negative, the momentum of investors seeking equity-based returns acted as its upward propellant. Fiscal stimulus measures provided some relief to individuals and small businesses, but these were temporary compared to bank and corporate support via cheap lending facilities, and how those funds quickly went into new debt or stocks.

Many comparative data points showcased the disconnect between financial market and the people comprising the broad economy. For example, on June 5, 2019, the S&P 500 hit 2,826 while the United States unemployment rate stood at 3.5%. A year later, on June 5, 2020, the S&P 500 had reached 3,193, while the United States unemployment rate was 13.3% (Watts and DeCambre, 2020). On June 8, 2020, the National Bureau of Economic Research declared the United States in a recession that began in February 2020 (Smialek, 2020). The International Air Transport Association (IATA) declared the industry faced a record $84 billion loss (IATA, 2020). In contrast, the Nasdaq hit a record of 10,000 on June 9, 2020 and another the next day (NASDAQ, 2020). When Powell was asked if he was concerned about the disconnect between financial markets and the real economy by reporters on June 10th, 2020, he simply ignored the question. To answer, would be to admit that the Fed *is* the market. That would kill the myth

that the Fed is just following its mandate. It would also mean that the risk of asset bubbles wasn't worth it.

Wall Street represented the collective power of the largest United States banks, and by extension, their major corporate clients. Making regular decisions about risk is part of their business. In the wake of the financial crisis of 2008, their risk was effectively subsidized by the Fed's massive cheap money and quantitative easing (QE) strategies. Before the pandemic hit, they chose to use a substantial amount of their capital to purchase their own stock, rather than extend more loans to individuals or small businesses or protect it in case of a liquidity crunch – precisely because they knew the Fed would be their backstop at the next crisis. When the pandemic first hit the United States, the Fed and Congress moved quickly to liquefy the system. But the selective manner of financing ensured that assistance went disproportionately to Wall Street and its largest corporate customers vs. the rest of Main Street (Dayen, 2020). That imbalance set the economy up for a longer period of instability ahead. It set the financial system up for a larger crisis.

United States banks' deposit accounts were the recipients of a record $2 trillion in cash since the coronavirus first struck the United States.[15] That increase had no precedent (Son, 2020). In April 2020 alone, bank deposits grew by $865 billion, more than the previous record for an entire year. More than two-thirds of that increase went to the 25 biggest banks (Reinicke, 2020). The money came from multiple sources. Major corporations such as Boeing and Ford that immediately drew down billions of dollars from their existing bank credit lines, and stored that money at the same banks. The big banks also provided a large chunk of the government's $660 billion Paycheck Protection Program loans to small businesses, which, because they went to their existing customers first, bolstered their deposit accounts (Cox, 2020).

The megabanks also had the benefit of starting with the most United States retail customers. These customers socked money in their accounts, including $1,200 stimulus checks, due to the lockdowns and pandemic uncertainty. Megabanks relied on customer deposits in the post-financial crisis era as a cheap source of funding for loans, enabling Wall Street to reap record profits with low-interest rates, while offering near-zero interest rates on those deposits in return. Once again, even during a devastating crisis to the majority of the population, banks were benefiting from a crisis.

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[15] "The Fed - Assets and Liabilities of Commercial Banks in the United States - H.8." The Fed - Assets and Liabilities of Commercial Banks in the United States - H.8 - July 10, 2020, Board of Governors of the Federal Reserve System, 10 July 2020, <www.federalreserve.gov/releases/h8/current/>. Accessed on 24 September 2020.

The problem that history will show is that once the world gets through the start of the second major crisis of the 21st century, markets will have recovered, but more small businesses and individuals will be struggling. The crisis jolted by the pandemic is one that was floated on the debt and asset bubbles inflated by monetary policy from 2008. That meant that any remaining fractures, along with any others that rise up, will again be placated by the power of unlimited central bank monetary policy and supporting governments.

The second major crisis of the 21st century was more dangerous in other ways, too. On one hand, the higher bubbles rise, and bigger they get, and faster they are created, the quicker they can pop. On the other hand, the amount of time that could take depends on the extent to which markets are willing to ignore the fact that central bank policy can't stop a crisis from happening. Markets around the world chose to rely on Fed Chair Jerome Powell using terms like "no limit" to characterize the Fed's and other central banks' money-creating mandate. As in the 2008 crisis, there was no line between financial bubbles and real economic security. This is what happens when the selective financing of an economy focuses on an elite few, and the markets inhale and diffuse whatever money is available in the process. The market reflects a major detachment or disconnect between the monetary stimulus that central banks provide, and the real economy that remains impaired by the impact of the coronavirus pandemic or any other exogenous crisis-inducing event, and the economic slowdown and inequality inherent beforehand.

On June 15, 2020, the Fed announced it would begin purchasing up to $250 billion worth of individual corporate bonds in its Secondary Market Corporate Credit facility or SMCCF (Business Insider, 2020). Its Primary Market Corporate Credit Facility stood ready to take in up to $500 billion worth of corporate credit. In its original form, the SMCCF was allowed to purchase corporate bonds, but *only* through corporate bond exchange traded funds (ETFs). Even that facility was already pushing a key boundary for the Fed that hadn't even been breached during the financial crisis of 2008 – direct involvement in the corporate bond market. The ECB had already been doing that for years. The Fed had anointed itself a *bona fide* corporate bond portfolio manager through its ability to select and buy the debt of specific corporations directly. But there was no logical reason for the Fed to do that at the time. Markets had soared since mid-March 2020. The Dow, which represents many of the larger companies whose debt the Fed could purchase, had rallied by 40% since its March lows when the Fed first established the SMCCF.

Powell spoke to the Senate Banking Committee on June 16, 2020, and the House Financial Services Committee on June 17, 2020, for the Fed's semiannual policy report to

Congress. Before the Senate, Powell said, "if not contained the downturn could further erode inequality… [and] the longer the downturn the harder the recovery." He again stressed the refrain, "we are committed to using our full set of tools." Powell told the House that the Fed needs "to keep our foot on the gas." Powell concluded by repeating that Congress should also do more to support the economy (Smialek, 2020).

Even the Fed reported that the coronavirus pandemic was exacerbating the wealth divide in America, as it had throughout the world.[16] That's because the wealthiest 10% of Americans owned 88% of the $29 trillion in stock and mutual fund shares. Similar or more disparate statistics described global markets in contrast to their respective populations. The coronavirus crisis increased the wealth divide more than prior crises because it impacted people in lower-wage jobs, or jobs with fewer safeguards, with greater health and financial risk. Wealthy and middle-class citizens that owned homes and stock and had jobs more adaptable to work from home arrangements didn't have as great an overall household wealth impact. Their assets bounced back quickly due to the cheap money policy and the ability to borrow at those lower rates more easily. As cities and countries had to close their domestic economies and transportation within and between countries, central banks, again became the market stabilizing force with unlimited firepower. The fact that similar, but larger, remedies were used during the coronavirus crisis, as for the financial crisis of 2008, meant the world has been set up for a bigger crisis – next time.

On June 24, 2020, the IMF downgraded its global economic outlook and warned of soaring debt levels (IMF, 2020). The international organization revised its estimates to a 4.9% contraction in global GDP in 2020, lower than the 3% decline it predicted back in April (IMF, 2020). The IMF also downgraded its GDP forecast for 2021 to a growth rate of 5.4% from its April 5.8% forecast (that positive forecast in 2021 is due to economic activity stemming from a lower 2020 base.)

The world was fractured. Economic activity that had been stopped due to the pandemic was struggling to regain footing. Trade wars were resurfacing, with the Trump administration deciding to potentially engage in a new round of tariffs battles with the EU. The United States also threatened to impose 10% tariffs on aluminum from Canada. Such policies could further crush the United States economy and global economy, amidst the worst peacetime recession in 100 years (Riley, 2020). In addition, the United States election and the posturing between

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[16] "Distribution of Household Wealth in the U.S. since 1989." The Fed - Distribution: Distribution of Household Wealth in the U.S. since 1989, Board of Governors of the Federal Reserve System, 19 June 2020, <www.federalreserve.gov/releases/z1/dataviz/dfa/distribute/chart/>. Accessed on 24 September 2020.

President Trump and presidential candidate, Joe Biden going into that vote, added uncertainty to a crisis period.

The fallout of all these tensions on the broader economy would foster more political, social and racial unrest, just as it did in Brazil, Hong Kong and the United States in the wake of the pandemic. The ramifications of fabricated money flowing to financial assets translates into more economic insecurity, racism, nationalism, social unrest, and disenfranchisement of people in contrast to their elected leadership. Central Bank policy effectively plastered over existing cracks in the economy; the repercussions of which are greater problems down the road. A more level economic playing field requires systemic, growth policies that strengthen society and the economy from the ground up, not the mirage of monetary policy that elevates markets and those already better-off from an economic and power perspective.

The unrest over racism and police brutality was also about underlying economic instability and inequality, including racial inequality. Trump’s brand of nationalism exacerbated a divide in the United States that was already there but that became even more acute. In Brazil, the finance minister, Paulo Guedes advocated returning to austerity measures and “pro-market” reforms while Brazil’s economy was headed for damage that could last for generations (Paraguassu, 2020). Whether Trump won or lost the election in November 2020 or UK prime minister Boris Johnson navigated an acceptable Brexit deal with the EU or not, or Bolsonaro was found to guilty of corruption before Brazil headed to the polls in 2022, it could still be impossible to quell all the mini-crises erupting on a more frequent basis, or prevent the next one. The major danger is having anyone in power that ignores the economic state of their population, in their own quest for more power. Ultimately, this quest will bring down the individuals, even as the financial system around them will remain intact.

5.5 CONCLUDING REMARKS

This chapter analyzed the global money and power dynamics leading from Phase I of the rise of central bank power following the financial crisis of 2008 to Phase II, the spread of central bank power more globally from late 2019 through the coronavirus pandemic crisis. It also discussed how the tensions between the United States and China, and Brazil grew as a result of the pandemic and explored its parallels to the Great Depression. The chapter reviewed how these dynamics, as well as central bank actions and underlying economic and societal problems were exacerbated by the pandemic. Then it explored the disconnect between the stock market and real

economy as a result of these power plays. This paradigm change in the money and power relationship will be a phenomenon further analyzed in the next chapter.

6 PERMANENT DISTORTION AND CRISIS: A NEW GLOBAL MONEY-POWER PARADIGM?

This chapter will expand upon the main threads of this research so far, including the historical money and power relationships in the United States and around the world, the now-permanently heightened levels of central bank intervention, and the jockeying for global superpower status in the twenty-first century amidst escalating financial crises. These factors, as they pertain to the coronavirus pandemic crisis and beyond, mesh together so as to benefit those in power, and work to the detriment of the economic security of average citizens everywhere. And yet, there has been precious little conversation as to real alternatives (beyond a general noting that fiscal stimulus is also necessary to lift economies) to such extreme monetary measures – such as focus on foundational economic development vs. financial market support.

The chapter is organized as follows. After this introduction, the second section we deal with unlimited monetary emission as a companion to unlimited struggles for power in the world order. The third section shows how the coronavirus pandemic affects the relationship between financial markets and the real sector. The fourth section considers the international conflicts between China and the United States and their spillovers to other countries, like Brazil. The fifth section deals with the permanent monetary distortions and the consequent geo-economic and geo-financial turbulence. The final section concludes.

6.1 NO LIMIT MONEY EQUALS NO LIMIT POWER STRUGGLES

The ability of central banks to execute unlimited power from electronically fabricated money as a supplement to government and bank power has reached levels never seen before. These institutions have unleased tools for subsidizing public and private debt and equity markets and have now irrevocably reshaped the international power paradigm of the twentieth-first century. The result of these monetary measures was to amplify the power of governments with the largest central bank footprints on a global scale. Domestically, these actions increased economic instability and inequality (Ludwig & Raskin, 2020). The consequences of upwardly-skewed monetary policy diminished the power entrusted in a free-flowing economy and had the effect of rendering populations more divided and polarized.

The 2008 financial crisis elevated the power of central banks relative to their governments and private banks during Phase I of this great global paradigm shift (chapter 4

above). This phenomenon emerged when monetary power was added to the arsenal of geo-political, economic, and financial power (Kirshner, 1997). Without cheap money, the debt-laden banking, corporate, market, and public systems would have faltered more than they did in 2008. Market recovery would have been less secured. However, absent from this external artificial liquidity source, funding real economic growth could have been more sustainable, innovative, and equal. It could have been cultivated with comparatively more strategic planning and large-scale capital investment in physical and social infrastructure, relative to financial assets. Plus, the evaluations of those financial assets would be more accurately based on true price discovery, as opposed to merely reflecting super-inflated prices catapulted up by cheap money.

In the new overriding monetary environment, personal, and one could argue, epistemological relationships amongst leaders of the world's major central banks became a new dynamic. They were considered chief creators of monetary remedies and yet their feedback loop of systemic crises, in what contemporary capitalism had transformed into, was critical. For example, the personal relationships of China's key monetary policy leaders with former IMF leader, Christine Lagarde, were crucial to China's growth of power and legitimacy on the world stage as we discussed in chapter 4. Elements of anti-globalism and the slowing down of globalization acted either in concert or opposition to domestic needs. Globalized monetary policy had permeated the world in a coordinated manner –transforming how governments, financial markets and economies would interact, bend or break.

In that way, as has been uncovered, Henrique Meirelles seems to have played a central role in the instigation of the fiscal and budgetary crises of Brazil. Yet, it was the United States and China that implicitly defined his political and monetary action, as they did for all BCB leaders (and those of other emerging market central banks), in the background. The influence of the world's two powerful superpowers was widespread across Brazil. The significance of monetary decision-making dictated how money flowed to Brazil and through its borders, as well as how internal politics was calibrated as a byproduct of decisions related to the treatment of that money, and its impact on domestic budgets.

The epic amount of debt and asset bubbles inflated by central bank money, largely through the banking system to financial markets, outpaced real economic growth as the recipient of cheap capital. This was the result of a process that optimized and prioritized high returns in a prevailing low rate environment – all while leveraging that capital. This phenomenon, predicated on the imbalance of capital flows, set the world up for more major financial and economic crisis to come. Both of these types of crisis were inextricably connected

through the coordinated monetary and fiscal responses. They also caused a shift in trade and other foreign policy decisions between and amongst nations, as well as voting preferences within countries.

During Phase I of this paradigm shift, as discussed in chapter 4 above, coordination amongst core G7 central banks, as well as the People's Bank of China, unleashed a monetary philosophy of unmitigated expansion that may be irreversible. Phase II discussed in chapter 5 saw an expansion of more central banks enacting looser monetary policy through various means, and cementing this monetary policy globalization. The nature of any individual crisis didn't change this re-structuring of capitalism, nor its latest capital source.

Each new twentieth-first -century crisis has thus been structured in a way that it will emanate from a point of greater debt, larger asset bubbles, and heightened central bank support. This will continue to render a growing disconnect between monetary and financial markets and the real economy[1][2]. It will further widen demographics, social structures, and upward mobility while leaving the ramifications of each new crisis harsher on the global working population. The nature of stabilizing markets and massive corporations first and foremost will continue to drive a wedge in inequality and bolster financial, economic, and political instability. This cycle now represents a permanent distortion between the financial system and the economic structure across the world, highlighting financialization. The results will bring significant power changes and dynamic shifts in the hierarchy of countries and their institutional leaders.

The financial crisis of 2008 and the post-crisis monetary policies adopted by other major central banks was supposed to "trickle-down" to the masses. That never happened. In January 2017, the World Economic Forum admitted that rising inequality threatens the world economy (Elliott, 2017). Central bankers provoked inequality because their policies benefited their institutional power and the preservation of existing financial power hierarchies – even to the detriment of everyone else. The Fed and its allies created an unstable monetary system destined

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[1] Since CB's help financial firms, industrial firms perish in comparison, as funds are directed mostly toward finance. Keynes wrote (Keynes, 1936, p. 158-159), "Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done. The measure of success attained by Wall Street, regarded as an institution of which the proper social purpose is to direct new investment into the most profitable channels in terms of future yield, cannot be claimed as one of the outstanding triumphs of *laissez-faire* capitalism (…)". Our research provides fresh insight as to how CB's focus on the financial over industrial sectors in terms of their creation and circulation of money (Keynes 1930) and how this has intensified in scale and in a rogue way, along the lines of perpetuating financial speculation with CB's coming to the rescue when needed, or "casino capitalism" (Strange, 1986). Other authors have dealt with this phenomenon from a heterodox perspective, but are beyond the scope of this research. The interested reader can consult Knell (2015) and Messori (1991) for an idea.

[2] Considering financialization as a central feature shaping the world economy became more important in the literature at the turn of the 21st century. (Epstein 2006).

to collapse without their constant and continual manipulation. The side effect was a moral hazard for the future where associated financial bubbles increased considerably, as did the austerity measures crafted to counterbalance them - especially during times of crisis.(Canova, 2015) At this juncture, central bankers have no exit plan to reverse or alter course without first causing massive damage and financial pain to billions of people.

From a private banking perspective, since the financial crisis of 2008, Wall Street banks leveraged central bank *largesse* to fund record buybacks of their shares. (Gray, 2017). As discussed in chapter 5, the strategy artificially boosted their stock values and those of their major corporate clients who borrowed money cheaply to do the same thing. By doing so, Wall Street transformed fabricated market values into stratospheric executive bonuses. (Merle, 2018) This vicious cycle of making money for those at the top of the socio-economic ladder never ended, it merely morphed to find other outlets even when facing temporary restrictions. Though the Fed prohibited banks from buying back their own shares during the second quarter of 2020, banks had already halted their buyback programs by then, due to their fears of pandemic related credit crunches (Onaram and Hamilton, 2020). The gesture proved meaningless.

United States banks and private equity firms, armed with the knowledge of unlimited cheap money and bond-purchasing facilities', pushed the boundaries of regulations that were put in place to reduce risk. The coronavirus pandemic crisis therefore offered an alternative route through supplemental Fed help to regain some of the freedoms they perceived to have lost due to regulations put in place after the 2008 crisis, such as the Dodd-Frank Act of 2010 which restricted the amount of risky assets banks could have on their books.[3] The early days of the pandemic provided an avenue to reinforce the power relationships between banks, central banks, multinational institutions, states, and governments versus the rest of society.(Kennedy, 2020) As the pandemic unfolded, this co-dependence strengthened.

6.2 THE CORONAVIRUS CRISIS AMPLIFIES FINANCIAL MARKET-REAL ECONOMY DISCONNECT

On May 28, 2020, Philadelphia Fed head, Patrick Harker, declared that the pandemic was increasing United States inequality. He also noted that "American inequality is a moral and ethical challenge to our country's founding creed. But research shows it's also a growing

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[3] Quarterly Report on Federal Reserve Requirements. Federal Reserve. March 2017. https://www.federalreserve.gov/monetarypolicy/bsd-appendix-201703.htm.

economic problem."[4] Indeed, for the United States, as a result of the initial months of the coronavirus pandemic, according to the Becker Friedman Institute, 35 % of the lowest-earning Americans had lost jobs. Comparatively, only 9 % of the highest-earning Americans had lost jobs.(Cajner et al., 2020) Throughout the world, the most economically vulnerable and low-skilled workers felt the economic impact of the virus the most, and their path back to where they had been before the pandemic, would be therefore rendered that much more difficult.

In contrast, as the first half of a turbulent 2020 came to an end, the Dow closed its best quarter since 1987. The SP500 rose by more than 18 % during the second quarter of 2020, to close its best percentage gain period since the last quarter of 1998. (Samson & Elder, 2020) The NASDAQ experienced its best one-quarter performance since 1999. These rallies were fueled by an epic amount of central bank stimulus and optimism over a post-pandemic economic recovery. It followed the record pandemic-driven crash the prior quarter. (Horowitz, 2020) Throughout the world, the stock market recoveries far outpaced economic recoveries on the back of central bank reliance. Developed and emerging market indices jumped 17 % during the second quarter of 2020, according to MSCI's All-World index. MSCI's Asia-Pacific index rose by 15 %. MSCI-s EM index rose by 17.7%, its best performance since September 2009; those gains followed a 24% drop in the first quarter of 2020. (Warrick, 2020)

The lasting ramifications of the division between financial markets and the real economy will negatively impact those at the lower economic spectrums the most. It will devastate small and large businesses as they shed workers and elements of stay-in-place orders become a new normal that flatlines spending. (Flitter, 2020) Continued and further cuts to local and federal programs around the world will be taken in an attempt to recoup massive budget losses for years and cause further damage even at the most micro levels.(Siripurapu & Masters, 2020)

For instance, in the United States, California is the state with the largest economy. The state maintains the fifth largest economy in the world (Egel, 2018). California, like other states and regions around the world, was facing extensive economic stress as a result of the pandemic associated shut-downs, lock-downs, and loss of associated tax revenue. The state is seen as progressive and socially-oriented, while also marked by a relative abundance of social programs. (Langlois, 2017) However, by the end of June 2020, California faced a deficit of $54.3 billion. (KTLA, 2020) Its legislature began discussing what amounts to austerity methods such as

[4] Harker, Patrick. Equity and the Recovery. Federal Reserve Bank of Philadelphia, 28 May 2020, www.phil.frb.org/publications/speeches/harker/2020/05-28-20-equity-and-the-recovery.

raising taxes, delaying public school funding, and cutting billions of dollars to state workers, critical services, and housing programs to make up for shortfalls. That same dynamic was unfolding around the world on a macro-level. (Griffiths, 2020) Before Covid-19, the state was expecting another multibillion-dollar surplus for 2020. The state was in its 10th year of economic growth with record low unemployment. Post Covid-19, more than 6.7 million Californians filed for unemployment benefits as businesses shut down, employees got sick or were forced to cut back. (McGreevy, 2020d) That happened as reports of waning business confidence, and future planning were mounting. According to the United States Business Roundtable's Q2 2020 CEO Economic Outlook Survey, for the second quarter, its confidence index was 34.3, showing both a contraction and the lowest reading since 2009. (Business Roundtable, 2020) That didn't bode well for the rehiring prospects of workers that lost jobs and benefits.

As the discrepancy between the economic retraction seen at the individual, state, small business, and certain sectors of big business level went in direct contrast to stock markets that were growing – leadership in Washington was called to attention. Both Federal Reserve Chair, Jerome Powell, and US Treasury Secretary, Steve Mnuchin, addressed the United States House Financial Services Committee for the first of the CARES Act required quarterly oversight testimonies on June 30, 2020. In his opening remarks, Mnuchin said that the United States economy was "in a strong position to recover because the administration worked with Congress on a bipartisan basis to pass legislation and provide liquidity to workers and markets in record time."(Rappeport & Smialek, 2020) Yet economic uncertainty over a path forward remained for most people, just not to the markets that Mnuchin referred to first and foremost. Powell said that the United States economy had entered a new phase sooner than expected [while] he admitted that the Fed was "keeping in mind that more than 20 million Americans have lost their jobs, and that the pain has not been equally spread." He re-emphasized that the path forward for the economy remained "extraordinarily uncertain" and would also depend on policy actions at all levels of the government.[5]

Regarding the 11 facilities that the Fed had either established or re-earthed, he said that the Fed will use these means "forceful, proactively and aggressively."(Lang, 2020) Though he stressed, "these are lending not spending powers. The Fed cannot grant money to particular

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[5] Powell, Jerome. "Testimony by Chair Powell on the Coronavirus and CARES Act." Board of Governors of the Federal Reserve System, 30 June 2020, www.federalreserve.gov/newsevents/testimony/powell20200630a.htm.

beneficiaries."[6] the Fed had already begun buying individual corporate bonds from companies that had either already borrowed from the capital markets or had plenty of cash on hand. The Fed's top holdings of corporate debt spanned from giant United States to non-United States based multinational companies. They included: Toyota, Volkswagen, Daimler, AT&T, Apple, Verizon, GE, Ford, Comcast, BMW, Microsoft, AbbVie GM, CVS, and BP.(Timiraos, 2020) That happened despite the fact that, together, those firms had raised approximately $1 trillion in the bond market on the back of the Fed's pandemic crisis support - double the pace of that debt growth the prior year.(Smith and Hill, 2020) The Fed effectively choose to use its power to subsidize firms that already had other avenues to do so. And the investors in their stock reaped the benefits.

Google reached the $1 trillion market cap level, joining Apple, Microsoft, and Amazon in that powerful 13-digit club. (Wakabayashi, 2020) Together with Facebook, they were worth nearly $5.6 trillion.(The Economist, 2020) That figure was roughly equal to the next 19 largest United States companies combined. In the wake of the pandemic, these mega United States technology firms would compete with the banks for power and influence.

The added unemployment assistance that the United States federal government enacted in March 2020 when millions of Americans lost jobs were set to expire within four months without additional Congressional assistance. When the benefits program, the Federal Pandemic Unemployment Compensation, went dry nearly 20 million saw their incomes drop by over 50% at a time when the economy was largely frozen and the pandemic was still raging. Overall, the benefits package for all of the people that lost their jobs was in the range of $260 billion. What remained from the federal economic-rescue law were significant tax breaks like one made for the top 1% of taxpayers - households earning a minimum $500,000 a year. Just the overall tax-break benefit package for the wealthiest Americans and large corporations alone was worth an estimated $174 billion. (Gross, 2020) What transpired was greater insolvency amongst small businesses and more downward economic movement for the vulnerable – while the wealthiest got what the New York Times called a "tax-break bonanza" from the rescue package. (Drucker, 2020)

Meanwhile, coronavirus cases in the United States rose rapidly as it topped the world record for having the most acute case of flattening the infection curve and then accelerating it. (Hernandez, 2020) The increase drove more state and city shutdowns throughout the United

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[6] Powell, Jerome. "Transcript of Chair Powell's Press Conference." *Federal Reserve*, The Federal Open Market Committee (FOMC), 10 June 2020, www.federalreserve.gov/mediacenter/files/FOMCpresconf20200610.pdf.

States. The rise also prompted the EU to extend its travel ban to Covid-19 heavy countries like the United States and Brazil, as it opened its borders to 16 other nations, including China, Japan, South Korea, and Canada. (Chappell, 2020) Covid-19 exposed a new power dynamic, itself where borders increased separation between countries with fewer cases versus those with growing caseloads – which only compounded economic turbulence globally.

As in the United States, parts of Brazil re-opened quickly only to be forced to close - escalating hardships for an already anxious population. On June 24, 2020, Brazil's Treasury Secretary announced that Brazil's economy could contract by 7% for 2020. (Thomson Reuters, 2020) That calculation was worse than official government forecasts had initially predicted. It paved the way for a return of austerity reforms for the following year. The move was feared to be even more damaging for the majority of the Brazilian population, even if history indicated it could benefit its stock market and top income earners.

The Secretary said that Brazil's public sector primary deficit for 2020, not including interest payments on its debt, could hit 800 billion Reais (about $152 billion at current exchange rate), or more than 11% of GDP. As countries across the globe put aside budgetary restraints and launched aggressive stimulus, the Brazilian Treasury followed the Bolsonaro administration's lead and made a call for more austerity. The coronavirus had provided another reason to attempt to cut public expenditures that provide aid to the most vulnerable segment of the population. It also served as an opportunity to exploit their pre-coronavirus policy goals that certain circles had been pressing for.

However, the push for reform was not without dissent. "Their reforms are based on fiscal austerity, and this agenda is absolutely incompatible with the situation the country finds itself in," a federal lawmaker from the center-right Liberal Party said. "There is no point in saving the economy if we don't have a country any more. It's time to save people," he declared. (McGeever, 2020e)

Those on the corporate side had contrasting opinions. During an online event hosted by Citigroup, the Treasury Secretary said that if fiscal costs rose, absent austerity measures, the nominal public sector deficit could reach 17% of GDP. He noted, "I'm not worried now about debt sustainability. I could be worried, one or two years from now, if we fail to approve anything (on economic reforms) or for some reason we don't comply with the spending cap." (McGeever, 2020e)

The Secretary argued that the government's agenda of cutting public spending, accelerating privatizations, and promoting corporate tax reforms would attract private-sector investment to help the economy. He claimed these measures would show credit rating agencies

that "we are doing our homework" and believed Brazil should work to regain its investment-grade rating in the future. He was echoing former finance minister, Joaquim Levy, who, as discussed in chapter 4, had promised to maintain what was then Brazil's investment-grade rating by pressing President Dilma Rousseff to enact austerity measures – a move that ultimately did not help Brazil's population and the political situation of Rousseff. (Mello, 2015)

The discrepancy between Main Street and financial markets was a key factor in the power shift toward central banks. It allowed them to support markets and government policies, while calling for more fiscal stimulus in general to help the economy as well, so they didn't have to take responsibility for what would happen without that stimulus. In the United States, that gap between Wall Street and Main Street underscored the fact that the Fed had effectively become the market. It also revealed that the financial market could not achieve its value based on information and corporate earnings results absent Fed support. That meant that the classical Chicago School Milton Friedman notion of a "free-market" which had already become obsolete in the twentieth-first century was dealt a further blow (Letelier, 2019). Markets were not free; they were reliant on artificial external support and the implicit promise that external support would be available if needed.(The Economist, 2013b) In the wake of the financial crisis of 2008 and the pandemic, it was clear that they weren't just not free, they weren't functional without central bank infusions.

What the Covid-19 stock market behavior enabled was a financial system even further detached from the real economy than it had been during Phase I. Financial asset values had already increased on a relative basis relative to real economic growth after the financial crisis of 2008. According to the Federal Reserve, the richest 10% of Americans owned 88% of the $29 trillion in corporate stock and mutual fund shares.[7] Since cheap money was used to inflate financial assets more quickly and easily than it could achieve returns in the real economy, and the wealthy possessed more of those assets, the differential resulted in increased wealth inequality. That imbalance of this appreciating value was a phenomenon inherent to the majority of people relative tom arkets stretching from the United States to Brazil to China. (Smith, 2020)

The disconnect in the emerging market nations was more apparent by the middle of 2020. Despite populations facing difficult economic and health conditions, financial assets were doing extremely well. The MSCI EM index posted its best quarter since 2010 and dollar-

[7] "The Fed - Distribution: Distribution of Household Wealth in the U.S. since 1989." Board of Governors of the Federal Reserve System, 19 June 2020, www.federalreserve.gov/releases/z1/dataviz/dfa/distribute/chart/.

denominated bonds posted their largest quarterly gains since 2009. Except for the Brazilian Real, by June 29, 2020, EM currencies had rebounded substantially against the US dollar from their March lows. In contrast to that show of financial market strength, Brazil's death toll hit 60,000 by July 2020. (Barron's, 2020)

6.3 PANDEMIC ESCALATION UNITED STATES-CHINA TRADE WARS AND ISOLATIONISM

Another by-product of the post-financial crisis period and the ascent of central banks was the rise in economic anxiety. Instability was a major catalyst attributed to a global shift in nationalism and twentieth-first -century populism that spread with circularity from the vote for Brexit in the UK to the election of Trump in United States, to the election of Bolsonaro in Brazil, and back to the election of Boris Johnson in the UK. (Liddiard, 2019) Each of these events reverberated around the world as voters turned away from their incumbent leadership and policies. In the process, power shifted from the left to the right, as did subsequent alignments.

Yet, despite their polarizing and controversial positions, it was Trump's, Bolsonaro's and Johnson's handling of the coronavirus pandemic that would bring considerable ramifications and sober realities. These political power shifts were not caused by central banking policy directly, but they were the by-products of cheap capital flows that had weakened economies before the pandemic and whose effects were exacerbated by the pandemic. In the wake of pandemic intensified instability in real economies and the shock and trauma from significant health system concerns, another shift back could occur in response to criticisms of these leaderships. Regardless, central bank influence will seemingly remain a constant.

Isolationism had proven economically detrimental to the United States and China as we discussed in chapter 5. (Beinart, 2020) In the battle for economic survival and dominion over the future of the global economy, one country's isolationism would prove another country's opportunity to forge new trade relations with former rivals. Trump's isolationist stance drove China to hasten its targeting of United States allies for trade and diplomatic relationships. China approached former United States strategic partners like Germany and Saudi Arabia and forged tighter alliances with Russia. Russian President Vladimir Putin in turn began tending more toward agreements with Germany and China than with the United States.

The trade war that started as a political platform for Trump and escalated to tariffs and kinetic defense positions left the two countries dueling over faltering growth and blaming each

other. While China and the US sparred with consulate closures, flight restrictions and economic brinkmanship – consumers and products were caught in the middle. (Ward, 2020)

Containing its crisis to fewer deaths per capita, or at least reporting it as such, China attempted to resume its economic recovery relatively rapidly compared to the United States.(Yamey and Jamison, 2020) As the United States got mixed public health messages from the White House, China appeared quietly strong and unified amongst its allies and rivals. As the concept of "face," or a cultural understanding of respect and honor is pivotal in China, the message that the Chinese were to "save face" was on display to its global partners in an uncertain world. (The New York Times, 2010)

This message was not very different from China's post-financial crisis of 2008 message. However, in the aftermath of Trump's presidency and his coronavirus pandemic response, China tried to expand its influence. In that process, China began to overplay its business, diplomatic and infrastructure roles on the global stage. While it had made allies following the financial crisis of 2008, its power grab made new allies wary. The newfound skepticism stemmed from China's and the United States' major trading partners like the European Union, which began bemoaning some of China's trade practices and its brand of harsh leadership overreach.(Erlanger, 2020) Australia, with whom a tariff war with China was raging, and some of its other regional trade partners, were increasingly critical of China's method of lending money in return for access to their resources or infrastructure development. (Bengali, 2020a)

For all of its strategy building, China had perhaps gone too far in its power quest. It launched an internationally criticized battle over freedom with Hong Kong amidst years of provocation and unrest in the South China Sea. (BBC News, 2020) On June 30, 2020, the National People's Congress (NPC) passed a sweeping new Hong Kong security bypassing Hong Kong's legislative body in the process.(Regan, 2020) The law stipulated that any person that "undermines national unification" of Hong Kong with the mainland could face a punishment of up to life in prison. It was a controversial move given the inevitable negative reactions from the US, UK, EU, and the international financial community.

Hong Kong's Chief Executive Carrie Lam welcomed the legislation in a statement, saying "Safeguarding national security is the constitutional duty of the Hong Kong Special Administrative Region (HKSAR). The HKSAR Government welcomes the passage of the national security law by the NPCSC today.[8]" Lam said, "I am confident that after the

[8] The Government of the Hong Kong Administrative Region. Press Release. 30 June 2020. https://www.info.gov.hk/gia/general/202006/30/P2020063000767.htm. Accessed on 29 September 2020.

implementation of the national security law, the social unrest which has troubled Hong Kong people for nearly a year will be eased and stability will be restored, thereby enabling Hong Kong to start anew, focus on economic development and improve people's livelihood." (ibid).

Massive protests along with arrests and greater unrest that followed underscored the precarious balance China faced. It was seizing power but losing international political status, and political "face" by overstepping norms and standards. The US had already begun rolling back Hong Kong's preferential trade status, and in response to the law's approval, announced a round of visa restrictions on Chinese officials. (BBC News, 2020)

For its part, on June 30, 2020, the US Federal Communications Commission, the US telecommunications watchdog designated two Chinese companies, Huawei Technologies, and ZTE, as national security threats. (Xu Klein, 2020) The FCC banned US firms from using the FCC's existing fund to subsidize the purchase of their products. FCC Chairman Ajit Pai added that "Both companies have close ties to the Chinese Communist Party and China's military apparatus, and both companies are broadly subject to Chinese law obligating them to cooperate with the country's intelligence services." As a result, American technology firms wouldn't be able to use money from the FCC's annual $8.3 billion Universal Service Fund, to buy any equipment or services provided by those companies in the US government's bid to distance US firms from China in the critical technology space.

As Representative Mark Green wrote in the US national security magazine, *The National Interest*, " In addition to tracking citizens' every move, Xi's CCP has actively silenced dissenting voices—even whole people groups, like the one million Uighurs currently held in "re-education camps" in Xinjiang China today... Xi's objective is a tight rein on the Chinese population, with the belief that this will promote a strong, united China to the rest of the world. But the reality is that as each of Xi's predatory police tactics is discovered by the rest of the world, the world is increasingly suspicious of doing business with such a regime—as it should be."(Green, 2020) The sentiment underscored where the lines between the two superpowers would be fought, no matter who was president of the US in 2021. The defense complex and a national security doctrine would serve either US political party.

The United States wasn't oblivious to these complaints or China's power maneuvers. It saw them as an opportunity to deflect pandemic related weakness. That's why United States Secretary of State Mike Pompeo, on June 25, 2020, surprised his European partners by launching a new US-EU dialogue on China. (Herszenhorn, 2020) Leveraging its military and defense capabilities, the US Congress began working on a Pacific Deterrence Initiative , a $7 billion 2-year special fund aimed at strengthening naval forces in the Indo-Pacific. (Zengerle,

2020) The United States also began warming to the idea of reinforcing the Quadrilateral Security Dialogue (known as the Quad), which was originally put together in a tsunami relief effort in 2004. The Quad group consists of Australia, Japan, India and the United States as a security bloc. After a decade hiatus, a Quad-Plus Dialogue group has emerged in response to the Covid-19 crisis – to include three new partners: South Korea, Vietnam and New Zealand. Thus, it seemed that "Trump appears to be seeking "an alliance of democracies" to oppose China." (Bengali, 2020b) However, as Chinese-counterbalancing regional partnerships struggle to take hold, it could bolster China's president Xi's determination to escalate his country's role as a global powerhouse.

By the second half of 2020, China continued taking advantage the gaps in United States power and legitimacy caused by its internal political, social, racial and economic fractures and pressed forward in a global leadership capacity. In addition to fighting Covid-19 more effectively, Beijing accelerated its work on crafting a digital currency. (Kumar and Rosenbach, 2020) The motive of such ambition was to move its creditors to make payments in the yuan and ultimately use both the yuan and its digital currency as a means to reduce the reliance on the United States dollar in global transactions. This was reflective of the way it had pressed for the yuan to be part of the International Monetary Fund's (IMF) special drawing right (SDR) basket of reserve currencies (see chapter 4). China was also expanding its regional military capabilities and ambitions toward reclaiming Taiwan its own by July 2021. (Myers, 2020) The buildup strategy has intensified tensions between China and the US over Taiwan's future, which is already unfolding in the tech sector – and seen as a proxy step forward as restrictions in Hong Kong grow. (Lintner, 2020)

In the backdrop of pandemic-heighted US-China tensions, President Trump's former national security advisor, Ambassador John Bolton published his book, *In the Room Where it Happened.* The book provided an interesting glimpse into the power dynamics between President Trump and President Xi. According to Bolton, Trump's late 2019 comment that "we are with" Hong Kong's pro-democracy protesters, was for public consumption. However, Bolton wrote that, in private, Trump had said, "I don't want to get involved." By Bolton's account, Trump was reluctant because he didn't want to upset Xi who, the Ambassador wrote, Trump thought was critical to his re-lection chances. (Bolton, 2020) Trump's often mercurial Asia strategy seemed more about retaining his base of conservative voters than building long-term alliances or trade relationships. This behavior underscored the tactical power gap between the more seasoned, long-term oriented, Xi, and the impulsive, reactive Trump. In that sense, a steadier handed President Biden administration could hamper Beijing's power aspirations,

because, as Zhou Xiaoming, a former Chinese trade negotiator, told Bloomberg News. “he will work with allies to target China, whereas Trump is destroying U.S. alliances.” (Bloomberg, 2020)

For the US business community, a considerable amount of Trump’s power rested on his earlier presidential-term policies such as loosening corporate regulations. He had also slashed corporate taxes. Through enacting a trade war with China, whatever his private conversations might have been, a tit-for-tat retaliatory escalation was set in place with less trade activity overall. That made business planning more difficult even before the pandemic hit, which could diminish US economic power. (Bown, 1979) It was worse afterwards.

As a key member of the Group of 20 (G20) debt relief program, China looked to demonstrate its leadership on the matter of pandemic response. China agreed to pause debt payments for 77 low-income countries and pledged $2 billion to help countries recover from the Covid-19 pandemic. The Chinese government also committed $50 million in donations to the World Health Organization, an organization that President Trump had the US government cut ties with. (Luan, 2020) However, China had to combat mounting domestic problems of its own. China faced a resurgence in Covid-19 cases, record debt, an aging population, unused infrastructure in some of its planned cities, and continued territorial disputes. But Xi’s government also had its eye on China’s future and was investing hundreds of billions of dollars in becoming the world's greatest superpower in renewable energy sources and information technology, which the leader considered critical.

From the Balkans to the South Sea, China was determined to expand its global influence, while the US was mired with sweeping negative impacts from the coronavirus, a growing recession, and social and racial unrest. The November 2020 US presidential election would also serve to determine how the ideological divide within the US population would sway. Despite its problems and political instigations, the coronavirus pandemic had ushered in a chance for China to rise even further in the global power paradigm. The chaos caused by the pandemic, the Fed’s latest financial endeavors, the US financial system’s lack of substantial post-financial crisis regulations, and a deadlocked Congress, was a gift to power-focused China.

The US had risen to global dominance on the back of three compound crises, World War I, the Great Depression, and World War II, which were spread over four decades. China sought to capitalize on its rise throughout two financial crises, over two decades. The pandemic that started in China and disrupted global service and supply chains forced Chinese companies to buy domestically. That shift in domestic spending elevated Chinese stock prices that the government further encouraged Chinese citizens to buy, in a version of “population share-

buybacks." (Domm, 2020a) The health crisis also instigated a resurgence of self-reliance and China's version of nationalism. With such a large population, the next phase of China's power strategy would likely be domestic-oriented.

In the US, from four months before the 2020 elections through election day, according to FiveThirtyEight's general election polling averages, former Vice President, Joe Biden held a 10-percentage point lead over President Trump in the national polls.(FiveThirtyEight, 2020) That lead was bigger than Barack Obama's lead in 2008, or Hillary Clinton's largest lead over Trump. It was around Bill Clinton levels from 1996. Those composite polls showed that President Trump was in the worst position of any sitting president since Jimmy Carter in 1980. But Trump proved that the polls were faulty in 2016, so a Biden victory wasn't necessarily a foregone conclusion. The country was set to face a tenuous time before the November election and the potential power change or a power consolidation. Either outcome (or even a situation where the outcome wasn't immediately known) would have major ramifications on the direction the US deployed throughout the pandemic, with respect to fiscal stimulus plans, and regarding economic policy and diplomatic relations.

In Brazil, even without an election on the horizon, the nation was dealing with internal tumult. Brazil's position as a global COVID-19 hot spot accentuated Bolsonaro's mishandling of the pandemic. The issues would couple with his internal struggles facing Brazil's Supreme Court and Congress. The Bolsonaro administration would also come under increased scrutiny as high ranking political figures and health officials resigned from his administration. The turmoil weighed heavily on how the outside world viewed Brazil's stability and status as an emerging regional power. The mounting turmoil scared investors that worried Bolsonaro's battles would thwart his government's economic reform and austerity agenda, something that western markets, in particular, had supported since his campaign. (McGeever, 2020e) That fear would surface in Brazil's currency volatility as it fell to near March levels by the middle of 2020.

Brazil's economic picture was dire. Its May 2020 unemployment rate hit 12.9%, its lowest point in two years.(Pinto, 2020) Less than half of the working-age population was working. (McGeever, 2020f) As a result, Brazil's government had to extend aid to informal workers, a necessary move to help the most vulnerable navigate the pandemic's impact.(Marcello, 2020) Brazil also asked China for its bans on some of the country's meat plants to be removed that were imposed due to coronavirus outbreaks. (Mano, 2020) These moves helped the real economy to an extent, but rising cases and internal turmoil acted in opposition to that.

On June 29, 2020, Brazil's Real recovered after several days of sharp losses, as it had been underperforming other Latin American currencies. The move was due to data showing Brazilian industrial confidence figures had rebounded sharply in June, posting their biggest rise ever. Still, the absolute levels were indicative of a severe recession. (Rabouin, 2020) Brazil reported a record budget deficit for May due to anemic tax revenues and a surge in government spending due to the pandemic. Latin American stocks and currencies had registered three straight weeks of losses as the world narrative shifted from recovery back to fears of a resurgence in cases. The BlackRock Investment Institute downgraded emerging market stocks to "underweight." The move was due to uncertainty about the pandemic and concerns that central banks had exhausted their firepower which could impact foreign investment while domestic revenues remained heavily damaged. (Domm, 2020b)

Meanwhile, “Stop Bolsonaro” protests erupted online and throughout the streets of Brazil’s main cities and in more than 20 countries around the world. They were aimed at criticizing President Bolsonaro's handling of the pandemic. Coronavirus cases were rising as Brazil hit its greatest number of cases in a week on June 28, 2020. (Aljazeera, 2020) Protestors demanded Bolsonaro’s resignation. They called him a threat to democracy. Bolsonaro was denounced for his denial of the disease's deadly impact on Brazil and of science as he rejected advice from Brazil’s health policymakers.

In Brasilia, protesters staged 1,000 crosses on the lawn in front of Congress as a tribute to COVID-19 victims, with a banner reading "Bolsonaro, stop denying!" The protests in Brazil stood in contrast to the lack of coronavirus-related protests in the US where President Trump continued to deploy denial as his policy. Despite facing a curve expected to peak by August, 2020, and Latin American deaths forecast to reach 438,000 by October according to the World Health Organisation’s director for the Americas, Carissa Etienne. (Boadle, 2020) Regardless, Brazil was due to re-open many businesses, as Bolsonaro told supporters, “I regret every death but that’s everyone’s destiny.” (Phillips, 2020) On July 7, 2020, President Jair Bolsonaro tested positive for the coronavirus and soon three other high-ranking government officials would as well, including two government ministers. Yet as the coronavirus continued to take its toll on Brazil’s economic and mental health, Brazil’s leaders still advocated austerity measures despite social backlashes. (Beck and Preissler, 2020). In the United Kingdom, renewed coronavirus restrictions, caused intensified criticism of Prime Minister Boris Johnson from his own party.(Behr, 2020) And in the United States, one of the key election issues of contention was Trump’s handling of the coronavirus. What transpired amongst three of the most powerful isolationist leaders - Donald Trump, Boris Johnson, and Jair Bolsonaro was that, although they

had down-played the virus, their leadership and policies would become victims to it – as would all three of them.

6.4 PERMANENT DISTORTION: PERPETUAL ECONOMIC AND FINANCIAL REALM DIVERGENCE

As we have discussed, as the world's most powerful central bank, and the one that global monetary policy directions are taken or modeled after, the Federal Reserve has the power to generate global crises, as reminded by Walter (1991). It could inflate, manipulate, or explode the bubbles it triggered. Though the coronavirus pandemic was not triggered by the financial system, its impact within it would be exaggerated because of the assets inflated by the Fed and central banks the world over, not to mention the role of financialization.

Stiglitz (2015) argued that

> Quantitative easing was yet another instance of failed trickle-down economics—by giving more to the rich, the Fed hoped that everyone would benefit. But so far, these policies have enriched the few without returning the economy to full employment or broadly shared income growth.

What was true in 2015 remained even more so in the new coronavirus world – that the Fed would bail out the investor class and markets as a gatekeeper, protecting capital markets from economic downsides. Meanwhile, countries amassed historically high debt burdens relative to GDP. As long as central banks kept rates low, the cost of servicing that debt would remain low as well. That situation would enable governments to issue more debt at a cheaper cost. If their strategies reverse or rates eventually rise, so does the cost of paying back the debt for governments and corporations. That could lead to significant debt defaults around the world. Even former Fed chairman Alan Greenspan — who enflamed the derivatives market and favored bank mergers and deregulation — in August 2017 warned of the dangerous bubble "abnormally low rates" inflate.(Cox, 2017) The next bubble was re-inflating in the wake of the coronavirus crisis – on the back of the last one.

Without a debt overhaul or relief program, there will be another epic credit crisis from a higher volume of debt. If and when that occurs, banks and corporations will again turn to governments and central banks to save them at the expense of fortifying broader populations and the foundational economy. Only the next time, central banks might not be able to exert the same confidence into markets - or worse, they risk creating conditions for another cycle of perpetual crisis, over and over again.

The great economic divide stemmed from a policy of saving Wall Street over Main Street. The logic was that to save the economy, governments must rescue investors first and foremost. Central bankers perpetuated the idea that the financial markets and the economy were the same – that in order to save people it must act to rescue Wall Street's high-risk investments above all else. The Fed, an organization established by elite bankers (see chapter 3), created a new world order built around non-elected government officials – who faced minimal accountability. Their experimental policies built out a system of permanent distortion in which "rational exuberance" and "QE infinity" made the neo-capitalist structure one in which "losing" in the world of big finance was near impossible. No longer were large corporations and Wall Street banks simply "too big to fail" they were "too big to lose."

For central bankers, even admitting they contributed at all to the problem of market distortion, didn't elicit changes in directive. In an interview with Bloomberg on June 30, 2020, the Bank for International Settlements (BIS) leader Agustín Carstens, a former Mexican central bank leader, said that central banks were acting on their mandates. He stressed that "there's plenty of room" ahead for central banks to act proactively. He agreed that corporate debt has been increasing substantially recently and that in asset markets, "prices are, shall we say 'misaligned."(Bloomberg, 2020)

When asked whether central banks help the real economy given that central banks have stabilized financial markets of which the biggest beneficiaries are the top 10%, he replied, "many of the monetary policy actions have worked for asset prices, which is part of the solution, but the final objective is to preserve jobs and working… the emphasis is not to control artificially asset prices." The response from the central bank leader was ultimately an admission that central bank policies were considerably more focused on financial markets than the economy, whatever the intent.

As former NY Fed President, Bill Dudley wrote, "The Federal Reserve's balance sheet is exploding, growing by about $3 trillion since mid-March and now totaling more than $7 trillion. It could conceivably exceed $10 trillion by year end... This would be more than double the peak that the Fed's balance sheet reached after the 2008-09 financial crisis."(Dudley, 2020) The Fed was no longer hiding its power to fabricate money anymore. There was no question of whether it had the capacity. That question had been answered. It had self-declared unlimited capacity.

Even in terms of risk, Dudley didn't see a problem, "This is a major motivation of quantitative easing," he wrote, "By reducing the supply of safe assets and increasing the amount of deposits that the private sector must hold, the Fed generates a demand by the private sector

for more risky assets. The result is a rise in financial-asset valuations and an easing of financial conditions." The result was also a flow of money to emerging markets, which can equally and quickly reverse course at the slightest twinge of a crisis. Such a move would serve to continue the cycle of financial, economic, and political instability in the process. Foundational economies of many other nations faced stark economic and health problems. Yet, in the start second half of 2020, global equity markets continued their second-quarter rebound. Many economists and investors attributed those soaring numbers to the trillions of dollars of government stimulus pumped into the markets. (Pease, 2020)

The truth was that financial markets are by necessity to avoid financial catastrophe, now permanently bolstered by the sheer mechanics of the capital distribution of electronically fabricated cheap money. The financial system had been fueled and subsequently leveraged by the explicit promise of "no-limits" for what the Fed was committed to doing to induce markets to rise. That's because, as has been discussed, only a minority of people are involved in the equity markets.(Saad, 2020; Eisinger, n.d.) No economy jumped back to pre-pandemic levels, as the markets did, not by any measure, or any economic figure.

By July 2020, the US reported over 4.2 million Covid-19 cases with nearly 150 thousand dead. Spikes across states prompted governors in some of the most populous and economically important states (Florida, Texas, California) to slow down reopening efforts. The US economy was closing down again, yet markets were still soaring. That was no accident. It was a reflection of where money and power were going and where they weren't.

Meanwhile, political isolationism and nationalism marched on. President Trump signed an executive order to curb immigration by suspending new work visas and green cards issued outside of the US for the remainder of 2020, citing the pandemic, as well as foreign competition. (Los Angeles Times, 2020a) The move stood in stark contrast to criticism from major US companies that use foreign skilled labor. It was largely believed that Trump was on a mission to become re-elected and provide his base the policies of protectionism that they had come to expect.

United States and China relations had sunk to their lowest point since diplomatic relationship were established in 1979, according to China's foreign minister, Wang Li.(Smith and Baculinao, 2020) American workers, farmers and industries had been economically hurt by trade wars, not helped by them as Trump had promised. A set of consulate closures in the US and China, initiated by the Trump Administration, increased tension in their relationship heading into the US elections.

The world's elite central bankers transformed the stability of the financial system by rendering it subservient to them. They did so on a mandate ill-suited to handle the realities of today's economy, markets, and the power relationships between two of the world's dominant countries. In the years to come, the debate will center around whether the pandemic brought about an acute economic crisis that could have become a financial crisis without the aid of central bank injections - or not. So will political decisions about how and where to fund more necessary and sustainable elements of domestic economies.

What is certain is that once the coronavirus pandemic crisis is mitigated, there will be another crisis. It will temporarily cripple the markets which will be aided and abetted again by the central banks as "no-limit" support is now a perpetual state. This will further channel capital back to financial markets instead of the real economy. This disconnect will grow and real economic stability will be less attainable for the majority of the world's population. Each new crisis will further accentuate the unsolved byproducts of current financial and economic destabilizing factors, such as social, racial, health, and migratory crises. These will be exacerbated by isolationism and nationalism as personified in the US by the Trump administration, and through its tacit subsidizing when this weakens the economy - by the Fed. The greater the detachment between financial markets and the real economy around the world, the more vicious the fight will be between superpowers and satellite countries caught in between.

Meanwhile, the power struggle between the US and China, and the dynamics at hand in places like Brazil, will set the stage for a more turbulent world. What will unfold is a fight for power and influence in the economic, political, and financial landscapes around the globe. Without a true overhaul that focuses on real people and the vast majority over financial assets and the powerplays of the most powerful leaders and nations, the world is set for an escalated market collapse, more of the same responses, and a prolonged real economic Depression.

We have thus entered a period of permanent distortion of the financial economy relative to the real, foundational economy; from financial markets relative to people's daily experiences. The problem is that once governments and people emerge from the second major crisis of the twenty-first century, financial markets will have recovered, but more small businesses and individuals will be left behind. The issues of economic inequality will be exacerbated because the pandemic crisis occurred on top of an existing debt and asset bubble that were inflated by monetary policy from the financial crisis of 2008. This means any remaining fractures in the system now will again be plastered over by the power of unlimited central bank monetary policy and fiscal reliance.

6.5 CONCLUDING REMARKS

In this chapter, we have sought to contextualize the concepts that comprise, and stem from, the disconnect between financial markets and the real economy, or the phenomenon that we are calling – the Permanent Distortion. The sections in this chapter represent branches of the tree that culminates in this Permanent Distortion. In the first section following the introduction, we discussed the combined notion of unlimited money creation and its impact on fostering an unlimited power paradigm shift in the global order. After that, we analyzed the general disconnect between the financial markets and the real economy with respect to post pandemic factors. In the fourth section, we showed how this environment further exacerbated already stringent relationships between the United States and China and had subsequent effects on Brazil in the process. Finally, we considered that the world is on a Permanent Distortion trajectory.

7 CONCLUSION

In this dissertation, we sought to produce a more comprehensive framework for analyzing the relationship between money and power, as well as to explore how the rising power of central banks in the twenty-first century has permanently altered that global power paradigm. Specifically, in chapter 2, we reviewed the existing body of literature regarding the joint topics of money and power and suggested an addition to the prevailing IPE framework to include the element of central banks and financial markets, accomplishing the first specific goal. In particular, the literature review identified an important lacuna in the treatment of central banks regarding the money and power dyad.

In chapter 3, we went back in time through the twentieth century in order to unearth the motivations and relationships between private bankers and politicians and demonstrated how these associations shaped US domestic and foreign policy, and led to the establishment and formative years of the world's preeminent central bank, the Federal Reserve. This research allowed us to qualify important IPE scholarship that was not able, at the time, to identify the features that we flashed out. In particular, the works of Henning (1994) and Aronson (1978) were challenged. Banks are not passive bystanders when it comes to money and power.

In chapter 4, we expanded upon these US relationships. We showed how the Federal Reserve's powers exceeded their twentieth century mandates as it colluded with other central banks, as well as spawned actions by the People's Bank of China, and formulated policies that widened the gap between financial markets and the real economy. These actions also served to re-align existing money and power relationships. This pattern of money and power relations is absent from many IPE works, and the reason is the insufficient analytical role of central banks.

In chapter 5, we further explored how central banks provoked shifts in money and power associations, concentrating on the post 2019 through 2020 period and examining the monetary and political actions of the United States, China and Brazil as examples of this shift. We also showed the disparity between how financial markets reacted to these policies vs. how the real economy did – in terms of parameters such as GDP and employment rates before and at the onset of the coronavirus pandemic. And finally, in chapter 6, we considered how the coronavirus pandemic solidified the paths of these nations and their political leaders from a money and power perspective for years to come. We concluded that this new money and power and central bank supremacy framework will continue to destabilize the real economy for average citizens.

To summarize our main results and their context, we can view them from a time vs. money and power perspective. By 2020, there had been two major twenty-first century crises that spawned greater central bank power and influence on markets, governments and the economy. A rotation of leaders had taken the helms of their respective central banks in the cases considered. But whether it was former more academic leaders like Ben Bernanke and Janet Yellen, or current chairman, Jerome Powell, running the Federal Reserve, their liberal use of monetary "tools" was the same in structure and ideology, if not volume. What changed was the reduction of limitations on what the Fed could do that began in late 2019 and skyrocketed in 2020. This represents a continuation of the trends foreseen by Block (1977) in the 1970s and by others who saw Bretton Woods as a fetter on the US. Thus, Phase I of the rise of central bank power, lasted from the financial crisis of 2008 until a new round of more global easing policies began in mid-2019. This marked Phase II of the new expansion wave of central bank intervention. Phase II lasted into the 2020s, as the concerned emerging and developed world central banks deployed the strategies of the major countries to combat the Covid-19 pandemic related crisis. As we have explained, this imbalance of where money flowed and from where it was sourced, has set the world up for more intense financial and economic crises down the road. Or what Block (1977) assumed was an international monetary disorder. This new framework means a state of permanent distortion where financial markets (in particular, global debt and equity markets) boom while economies as measured by GDP growth parameters suffer or do not perform as comparatively well. Monetary power or statecraft has been also launched against non-monetary actors, not only other States.

This work has shown how China leveraged its criticism of post-financial crisis Federal Reserve monetary policy to lift its currency into greater international status, and later engaged in US-inspired trade wars to catapult itself into a premiere superpower. Still regarding developing nations, our research explained how, in Brazil, the reliance on chasing foreign capital ignored the needs of its people, and austerity programs crushed social service budgets, as it wavered between the United States and China.

The world's elite central bankers transformed the stability of the financial system, as predicted by Walter (1990). They did so on a mandate ill-suited to handle the realities of today's economy, markets, and power relationships. The 2008 financial crisis elevated the power of central banks above their respective governments and private banks. Without abundant cheap money, the banking, corporate markets, and public financial systems would have faltered more than they did. And though economies received some support, the bulk of this money flowed into financial assets. What is certain is that once the first coronavirus pandemic crisis is

mitigated, it is likely that there will be another crisis. It will temporarily cripple the markets, which will be aided again by the central banks with their "no-limit" support. This will further channel capital back to the markets instead of the real economy. The resulting disconnect will grow and real economic stability will be less attainable for the majority of the world's population.

As a result of the new power of central banks, each new crisis will further accentuate the unsolved byproducts of current financial and economic destabilizing factors, such as social, racial, health, and migratory crises. These will be exacerbated by isolationism and nationalism as personified in the US by the Trump administration. The greater the functional detachment between financial markets and the real economy, the more vicious the fight between superpowers and countries caught in between. We have entered a period of permanent distortion of the financial economy relative to the real economy; from the financial markets relative to the people. This gap will only widen as central banks perpetually subsidize banks and financial markets. This means any remaining fractures in the system will again be plastered over by the power of unlimited central bank monetary policy, increasing the likelihood of more intense crises in the future. This is contrary to what old-fashioned monetarists, still lurking around many central banks, would have expected. Instead of runaway goods and services price inflation, we have runaway asset price inflation and bubbles.

Where does all this ontological change lead us in epistemological terms? Since the International Political Economy (IPE) field evolved out of international relations, in which the Realists assumed that only states mattered for international strategic analyses, money was something they chose to relate only to nation states. Regarding non-state actors, in the 1970s the main research focus was on multinational firms, not on banks or financial institutions. Since the many thread of finance is more difficult to connect directly to states (except with regard to government securities, as in Hudson (2003)), financial markets themselves remained relegated to the sidelines in past research. However, it is important to examine how international financial markets and their operators and their central bank supporters will lead to further shifts in the money and power paradigm in order to gain more complete insight into these ramifications. While Helleiner (1994) has examined parts of this, these are limited to an understanding of why governments decided to liberalize markets, not on the consequences of the flow of capital through them, and how the behavior of that flow is itself a source of power.

The American IPE literature is even more complicated, because much of it examined economics from the orthodox side, which views money as a neutral factor that can only cause inflation which can be addressed by restrictive monetary policy, and nothing else. This is an

important gap because the flow of money itself dictates power, whether it be from a financial market or trade surplus or deficit perspective. It is for this reason that future research should jointly consider elements of monetary policy and financial policy as they pertain to banking practices and market behavior. This broader perspective on the role of finance, money and power can also serve to illuminate ways in which this new triad can be better harnessed to provide economic stability for global citizens. This is especially important since central bank influence will remain a significant factor in the finance, money and power paradigm for decades to come.

Regarding further topics for empirical research, it would be helpful to undertake a numerical examination of the timing and patterns of monetary policy flow, from a money supply and quantitative easing or financial asset purchasing perspective, as it relates to movements in global markets and real economic factors during and following crises, in order to fully understand the practical impact of central bank power, as compared to the theoretical one.

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APPENDIX A - PRIMARY DATA SOURCES

For Brazil

https://www.bcb.gov.br/en

https://www.ibge.gov.br/en/home-eng.html

http://www.ipeadata.gov.br/Default.aspx

For the United States

https://fred.stlouisfed.org/

https://www.federalreserve.gov/data.htm

https://www.fdic.gov/bank/statistical/

https://www.bea.gov/

For China

http://www.stats.gov.cn/english/

General
Bank of International Settlements

https://www.bis.org/statistics/consstats.htm

International Monetary Fund:

https://www.imf.org/en/Data