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The Federal Reserve Since the Global Financial Crisis: Do Foreign Interests Matter to the World's Economic Hegemon?

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The Federal Reserve since the Global Financial Crisis:
Do Foreign Interests Matter to the World's Economic Hegemon?

Marka Peterson

Abstract: During the 2007-2008 global financial crisis, the Federal Reserve (Fed) took sweeping steps to help rescue the global economy, which suffered as much or more than the U.S economy. This paper examines whether the Fed's international activities during and since the crisis indicate the Fed has become more attuned to the interests of others outside the U.S. To do so, the paper considers three main ways of characterizing action – other-regarding, reflecting enlightened self-interest, or reflecting narrow self-interest, and analyses a series of Fed policy actions according to these categories. I find the Fed has acted with a mix of enlightened self-interest and narrow self-interest, and in particular that it acted narrowly self-interested when it perceived that the U.S.'s interests are so dominant that they are *global interests, and when it perceived that the dominance of U.S. interests cause those interests to diverge from other global actors' interests. I also find that the Fed is more internationally oriented than immediately before the crisis, but has been internationally oriented at various times in its history. Finally, the paper briefly considers the implications of these conclusions, particularly in light of the increasing complexity of the global economy and the ways that the U.S. does and does not continue to dominant and control that economy.*

INTRODUCTION

It seems obvious now that the international economy is highly interdependent and interconnected. Anyone who lived through the global financial crisis – which started in the United States but then spread to the rest of the globe, with devastating economic effects – would recognize this. Yet many, including officials of the U.S. Federal Reserve (Fed), were taken off-guard that a crisis originating in the U.S. would have such a significant impact on the rest of the world.[1] Nevertheless, the world's economic interdependence now seems obvious to the U.S. Fed as well. The Fed has acted with a strong international orientation since the financial crisis, including by coordinating interest rate cuts with other central banks, extending lines of currency (U.S. dollars) to other central banks to preserve liquidity in their markets, and working with other foreign actors to revise global systems of banking regulation. This raises the question whether the Fed's international actions are driven by a genuine consideration of how the Fed's policies and the U.S. economy in general affect others' interests, or instead reflect a less "other-regarding" posture such as what many have called "enlightened self-interest," or even U.S. self-interest more narrowly defined. This

[1] *See generally* Transcript of Federal Open Market Committee Meeting (hereinafter "FOMC Transcript"), Oct. 28-29, 2008 (several officials, including Chairman Bernanke at pp. 116-117, expressed surprise at the severity of the international effects of the unfolding economic crisis), *available at* http://www.federalreserve.gov/monetarypolicy/files/FOMC20081029meeting.pdf (last visited June 20, 2015).

paper explores the Fed's actions during and after the crisis and attempts to answer this question.

The paper proceeds as follows: Section I provides definitions for the criteria used to evaluate the Fed's post-crisis orientation, including "other-regarding," based on Eyal Benvenisti's concept of sovereigns as trustees of humanity, "enlightened self-interest," and narrow self-interest. Section II describes several areas of activity by the Fed that it undertook during and since the crisis and evaluates each of these activities for the Fed's orientation, and concludes that the Fed has acted somewhere between enlightened self-interest and narrow self-interest since the crisis, especially on issues where the U.S. is particularly dominant. Section III describes the Fed's posture just before the crisis, showing this was a period when the Fed was largely unconcerned with international economic inter-connections because it believed developed economies were insulated from crises in other parts of the world, and briefly covers the Fed's posture in a more historical light. Section IV discusses conclusions and remaining questions.

I conclude that in spite of extensive international engagement, recognition of the interdependence of the world's economies, and significant efforts to improve global economic stability, the Fed has generally acted not with true regard for others or even pure enlightened self-interest, but a mix of enlightened self-interest and narrow self-interest. This is particularly true where the Fed views U.S. and global interests – and indeed the dynamics that drive these interests – as essentially identical because of the dominant place of the U.S. in the world economy. And in situations where the Fed perceives that U.S. dominance gives the U.S. different interests from other economies, the Fed more clearly pursues narrow self-interest. I further conclude that although the Fed is more engaged and concerned internationally than immediately before the crisis, the Fed has been highly internationally engaged and has exhibited enlightened self-interest during several periods in its history. However, as this history also demonstrates, the "need" for the Fed to be engaged in and care about the rest of the world in an enlightened way does not guarantee that it will.

I. CRITERIA AND METHODS FOR COMPARISON

This section will explain the criteria used to evaluate the Fed's actions. The three benchmarks I will use for evaluating the Fed are Benvenisti's concept of "other-regarding" sovereigns, the concept of "enlightened self-interest," and "narrow self-interest." My definitions include an account of how others' interests are treated under each benchmark, because this is necessary to make the meaning of each benchmark distinct from the others. These definitions may differ from how others understand them, but if I define them clearly they can be used to evaluate and characterize the Fed's actions.

A. Other-regarding

Benvenisti advances a concept of sovereignty that is "other-regarding," that is, it takes the interests of humans other than the state's citizens into account in its policies and actions in order to respect the full dignity and equality of all humans. His starting point is that the world is now too "small" in various ways – too interconnected and too crowded – to support a concept, either resource-wise or legitimacy-wise, of sovereignty that disregards any interests except those of its citizens. [2]

Based on his analysis of sovereignty, he posits four minimum obligations to support sovereigns as trustees of humanity. First, the state should take account of others' interests. This does not mean giving priority to those interests – a state is still permitted to give priority to its own citizens – but the state should give others' interests "due regard" by "weigh[ing] the interests of other stakeholders and consider[ing] internalizing them into their balancing" of various interests.[3] He also says the interests of the entire collective (of humans) is more important than the interests of other nations individually.[4] The obligation to consider others is the basic, substantive, day-to-day obligation that states should follow in making policy.

Second, states have a minimum procedural obligation to provide affected stakeholders with both a meaningful opportunity to voice their concerns and reasons for the state's ultimate policy choices.[5] Third, the state must accommodate others' interests if it can do so at no cost to itself. Fourth and finally, the state must affirmatively seek to prevent harm – apparently even at the expense of its own interests – in the case of catastrophes. This would include not just harm to another state, but also damage to global welfare or global resources.[6]

Finally, Benvenisti explains that his concept is based on first principles – regard for the full dignity and equality of every human – and that it therefore provides a basis for calling on states to modify their behavior "even without assured reciprocity."[7] Thus his concept, although it allows for states to prioritize their own interests to a large extent, nevertheless also rests on the foundation that in recognizing others' interests, states must do so without expecting reciprocity. Even if a state's action benefits the state itself, the state's purpose in acting specifically with respect to others should be for the sake of the other, and not with the expectation that acting for the other will in turn benefit the state. This last point is the most helpful for distinguishing between enlightened self-interest and other-regarding, as explained below.

These obligations constitute the minimal vision of sovereigns-as-trustees. They are sufficient for determining whether the Fed has acted in an other-regarding way since the crisis because the Fed has not met these minimal standards.

B. Enlightened Self-Interest

A second benchmark against which to compare states' (or other actors') policies and actions is the concept of "enlightened self-interest." Enlightened self-interest, as I define it, is reflected in actions when the actions on their face benefit someone else, but they also benefit the actor in turn. Often the "other" affected is not just another individual but the actor's community or society at large. Indeed a defining characteristic of enlightened self-interest is

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[2] Eyal Benvenisti, *Sovereigns as Trustees for Humanity: On the Accountability of States to Foreign Stakeholders*, AM. J. OF INT'L L. 295, 295-96 (April 2013).
[3] *Id*. at 314.
[4] *Id*. at 312-13.
[5] *Id*. at 318.
[6] *Id*. at 325-26.
[7] Eyal Benvenisti, *AJIL Symposium: Benvenisti response to Klabbers, McCrudden, Von Bogdandy and Schmalz* (Opinio Juris, July 25, 2013), *available at* http://opiniojuris.org/2013/07/25/ajil-symposium-benvenisti-response-to-klabbers-mccrudden-von-bogdandy-and-schmalz/ (last visited May 20, 2015).

that the self-interest realized by the actor is typically the benefit to the actor of having her relevant community improve.[8] The acts are "enlightened" because the actor must have enough foresight to recognize the interconnections between those she affects and her own interests. She also often has to wait for the benefits of her acts to accrue; hence enlightened self-interest is also sometimes equated with long-term self-interest.

Narrow Self-Interest

The benchmark of "narrow self-interest" are those situations where the actor pursues her own self-interest in a way that directly benefits the actor. The actor may or may not harm others' interests. Some call this pursuing short-term interests at the expense of long-term interests, but because those two concepts do not have a clear dividing line, I distinguish them according to how the actor treats others' interests.

In terms of how to distinguish enlightened self-interest from other-regarding,[9] other-regarding requires that the actor not expect, or undertake the act with the purpose of gaining, reciprocity from the other who benefits.[10] With enlightened self-interest, reciprocity – in the sense of the act eventually accruing to the benefit of the actor – is always present.

Comparing enlightened self-interest with the four different types of other-regarding action further illustrates this difference based on reciprocity: With respect to the first element, it is true that the other-regarding concept can still result in acts that benefit the actor, because the obligation is only to take others' interests into account and the state's interests can still take priority. But the state's interests would not benefit *because of* taking the other's interests into account. The same is true with respect to the second element, giving others a voice and an explanation – any benefit to the state (for example policies that reflect more foresight) would be incidental. In the third element (the obligation to help if it doesn't cost the state), states may take account of whether the act will cost them, but they do not consider whether – and they do not act because – the act will benefit them. Finally, acting under the fourth element is at the expense of the state's interests (the state must help in a catastrophe). In contrast to each of these situations, a state acting on the basis of enlightened self-interest would always consider whether and how the act would eventually benefit the state.

Comparing enlightened self-interest to narrow self-interest, enlightened self-interest is indirect: the actor's course benefits the actor because the action benefits a group or a system of which the actor is part. The self-interest recognized (and served) by the actor is dependent on benefit to others; this is why enlightened self-interest requires that the actor recognize the interdependence of her welfare and others'. In contrast, narrowly self-interested actions are

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[8] Alexis de Tocqueville is often credited with first articulating the concept of enlightened self-interest, or "self-interest properly understood" as he wrote, which he explained as individuals acting for the benefit of their own society: "[A]n enlightened regard for themselves constantly prompts them to assist one another and inclines them willingly to sacrifice a portion of their time and property to the welfare of the state." ALEXIS DE TOCQUEVILLE, DEMOCRACY IN AMERICA, vol. II, sec. 2, ch. VIII, *available at* http://xroads.virginia.edu/%7EHYPER/DETOC/ch2_08.htm (last visited May 20, 2015).

[9] Christopher McCrudden compares enlightened self-interest to Benvenisti's other-regarding concept but he does not define enlightened self-interest. Christopher McCrudden, *AJIL Symposium: Comment on Eyal Benvenisti, Sovereigns as Trustees of Humanity* (Opinio Juris, July 15, 2013), *available at* http://opiniojuris.org/2013/07/25/ajil-symposium-comment-on-eyal-benvenisti-sovereigns-as-trustees-of-humanity/ (last visited June 20, 2015).

[10] *See supra* note 7 and accompanying text.

intended to benefit the actor directly, and are not intended to benefit others or even the actor's group at large, although they might do so incidentally.

The paper also briefly considers whether action by the Fed that appears narrowly self-interested could instead be a "tit-for-tat" response within an overall enlightened self-interest framework. As explained below, the "tit-for-tat" strategy, in which actors choose self-interested options at the expense of other actors only when the other actor does so first, has been identified as the best strategy for engendering mutually beneficial cooperation over the long-term.[11]

Finally, a brief explanation about how the Fed's actions are described and evaluated. The paper does not evaluate the technical economic rationality of Fed actions or policies, even to the extent of whose interests actually benefit. Rather, it uses the Fed's own portrayal of actions and who they benefit, and also considers the views of others, in particular the international community, for additional views on whose interests are served. Thus the paper uses actors' self-perception of their interests for evaluation. Similarly, the paper relies heavily on the Fed's own statements. In this way it also considers the Fed's self-perception and the image it seeks to project.

The paper proceeds this way because there is broad disagreement about the wisdom and benefits of most economic policies; thus such an analysis would require taking a firm position on economic theory in a paper that is intended to be descriptive. Second, in seeking to determine whose interests are served by an actor, the actor's own perceptions are the most relevant to discerning the actor's motivation, and here the actor's statements are the primary source of this information. The paper examines outside opinions primarily to counter the inevitable fact that the Fed will tend to state a policy's winners and benefits but not its losers, but in some cases I discount criticisms of the Fed where they seem obviously wrong – such as criticism from libertarian politicians that the Fed's swap lines constituted "passing out dollars" to other countries, since the consensus was that the swap lines did not cost the Fed or the U.S. anything.[12]

Similarly, the paper treats the Fed as a monolithic institution, which it clearly is not. Fed governors and officials have disagreements and debates behind closed doors, and even in speeches different officials emphasize different themes (although Fed officials are, in fact, fairly unified on policy matters and how they define U.S. interests in their public statements, as the examples below will reflect). Nevertheless, the paper is not trying to discover *how* the Fed makes policy or why it produces certain outcomes, but only how to characterize that outcome, the resulting policy. The rest of the world experiences Fed policy as a unified thing. Thus, I also take Fed actions and statements as representative of the institution, in order to describe and evaluate the product of that institution. Similarly, the Fed is obviously constrained by various other institutions: Congress, which has defined the Fed's statutory power and mission;[13] political constraints which the Fed may experience through Congress;

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[11] ROBERT AXELROD, THE EVOLUTION OF COOPERATION, Basic Books (2006). *See infra* notes 62-66 and accompanying text.

[12] *See infra* note 37 and accompanying text.

[13] In this regard, the Fed's enabling statute, the Federal Reserve Act, defines the Fed's mission somewhat narrowly but without precluding other goals: It requires that the Fed establish monetary policy in order to "promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates." The Federal Reserve Act, 12 U.S.C. § 225a. This is the only statement of the Fed's mission, as such, in the

Executive branch institutions such as the President and the U.S. Treasury; and general public opinion. The paper does not address this question – the why or how of Fed policies – but, again, seeks to describe and characterize them as an initial project.

II. THE FED IN ACTION: FIVE EXAMPLES FROM THE CRISIS

This section will briefly describe five areas in which the Fed acted during and after the crisis with an international connection, and evaluate each area for the posture the Fed has taken towards the rest of the world. The five areas are (1) coordination with other central banks during the crisis; (2) liquidity swaps with other central banks; (3) tracking the effects of the crisis on Emerging Market Economies (EMEs); (4) adopting regulations for foreign banking organizations in the U.S.; and (5) negotiation of Basel III international banking regulations and implementation of the standards in the U.S.

In these five areas, the Fed's activities and statements[14] exhibit common themes, which the remainder of the paper will further illustrate. First, the Fed undoubtedly recognizes the strong interconnections between U.S. economic interests and those of the rest of the world.[15] Relatedly, although the Fed repeatedly acknowledges these interconnections and discusses policy measures on the international level to promote global stability or some aspect thereof, Fed officials often do so without articulating the actual motivation behind specific goals.[16]

Secondly, when the Fed has explained the motivation for policies directed at global issues, it has done so in terms of specific benefits to U.S. economic interests. Thus the Fed has explained repeatedly to Congress and the public that international cooperation and regulation of the financial sector is important for two primary reasons: one, they are necessary to promote international financial stability, which in turn protects U.S. financial stability because of the interdependence among world economies; and two, they are necessary to create a level playing field internationally and ensure that internationally active U.S. financial institutions are not at a competitive disadvantage.[17]

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entire Act. Thus it appears that as long as the Fed is generally serving these goals and meeting other specific statutory requirements of the Act, its policies can serve other interests as well without running afoul of its statutory mission.

[14] In citing the Fed's speeches and testimony, I will provide a full cite and then subsequently will cite just name and date (e.g., "Bernanke speech (Aug. 21, 2009)"). All speeches and testimony are available on the Federal Reserve's website under "News and Events," *available at* http://www.federalreserve.gov/newsevents/default.htm (last visited June 20, 2015).

[15] *See, e.g.*, Chairman Ben S. Bernanke, Reflections on a Year of Crisis, Remarks before the Federal Reserve Bank of Kansas City's Annual Economic Symposium (Aug. 21, 2009) at 1; Chairman Ben S. Bernanke, Emerging from the Crisis: Where Do We Stand? Remarks at the Sixth European Central Bank Central Banking Conference (Nov. 19, 2010); Vice Chairman Stanley Fischer, The Federal Reserve and the Global Economy, Remarks at the Per Jacobsson Foundation Lecture (Oct. 11, 2014) at 1-3; Vice Chairman Donald L. Kohn, International Perspective on the Crisis and Response, Remarks at the Federal Reserve Bank of Boston 54th Economic Conference (Oct. 23, 2009) at 1.

[16] *E.g.*, Chairman Ben S. Bernanke, Liquidity Provision by the Federal Reserve, Remarks at the Federal Reserve Bank of Atlanta Financial Markets Conference (May 18, 2008) at 4 ("In such cases [of extreme financial distress], central banks may find it essential to work closely together. For this reason the Federal Reserve, the EBC and the Swiss National Bank [have taken coordinated action].").

[17] *E.g.*, Governor Daniel K. Tarullo, Capital and liquidity standards, Testimony before the House Comm. on Financial Services (June 16, 2011); Governor Daniel K. Tarullo, International cooperation and financial regulatory modernization, Testimony before the Subcomm. on Security and Int'l Trade and Finance, Senate Comm. On Banking, Housing, and Urban Affairs (July 20, 2010) at 1. *See also* Kohn speech, Oct. 23, 2009 at 2-

Relatedly, when the Fed has stated that it has global responsibilities because of the impact the U.S. has outside its borders, it often couples these statements with explanations or caveats that its mandate is purely domestic and it must – and does – promote U.S. interests through its international involvement. For example, in a 2014 speech, Vice Chairman Stanley Fischer announced he would answer the question "What is the Federal Reserve's responsibility to the global economy?" He answered forcefully that the Fed's responsibilities "do not stop at our borders," and the Fed must take actions "that also benefit the world economy." But, he explained, this is because the U.S. and other economies have important feedback effects on each other, and the U.S. cannot make good domestic policy "in the interest of the U.S. economy" without taking these feedback effects into account.[18] Thus, the U.S. has a global responsibility not because it has chosen to play this role or take on an altruistic obligation, but because it must play this role based on how its economy is intertwined with the global economic system.

Third, Fed officials often speak interchangeably about U.S. and international interests,[19] equate U.S. economic interests with global economic interests, and assert the "unique dominance" of the U.S. in the world economy.[20] One key area where the Fed has done this is liquidity, because the unique role of the U.S. dollar as the dominant international currency means that international liquidity issues will directly translate into domestic liquidity issues, as explained in more detail in the subsection two on liquidity swaps.[21]

Because these themes focus on U.S. interests, they do not reflect an other-regarding posture. If it had an other-regarding posture, the Fed would consider others' interests for their own sake, without framing international activity and the U.S.'s role in the world in terms of U.S. interests.

Rather, these themes reflect a mix of enlightened self-interest and narrow self-interest. They reflect enlightened self-interest because they indicate the Fed recognizes the interdependence among world economies, and seeks to improve the stability and well-being of other economies and the international economy generally because these factors in turn impact the U.S. economy: Working to improve the international situation improves the U.S. situation because of their interdependence.

The Fed's posture also includes narrow self-interest as well, however, because the Fed directly equates U.S. and international interests; for example, the dominance of the U.S. dollar in the world economy causes the Fed to view international liquidity as an issue of

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4 (swap lines reduced dollar funding pressure at home, international regulation prevents regulatory arbitrage, and a resilient financial system requires international collaboration because the financial system is globally integrated).

[18] Fischer speech (Oct. 11, 2014) at 4.

[19] *E.g.*, Chairman Ben S. Bernanke, Financial Regulation and Supervision after the Crisis: The Role of the Federal Reserve, Remarks at the Federal Reserve Bank of Boston 54th Economic Conference (Oct. 23, 2009) at 4 (speaking interchangeably about both the global and domestic economic "system" in advocating the need to regulate systems and not just individual firms); Chairman Ben S. Bernanke, Policy Coordination Among Central Banks, Remarks at the Fifth European Central Bank Central Banking Conference (Nov. 14, 2008) at 3.

[20] E.g., Fischer speech (Oct. 11, 2014) at 4; Bernanke speech (Nov. 14, 2008) at 2.

[21] *E.g.*, Fischer speech (Oct. 11, 2014) at 4 ("These financial responsibilities do not stop at our borders, given … the unique position of the U.S. dollar as the world's leading currency for financial transactions."); Bernanke speech (Nov. 14, 2008) at 2 ("the continued prominent role of the dollar in international trade, foreign direct investment, and financial transactions contributes to dollar funding needs abroad").

direct self-interest to the U.S.[22] A purely enlightened approach would aim to improve the global condition and expect this to benefit the U.S. indirectly, based on improving the whole regime. In contrast, when it equates global and U.S. interests and their underlying dynamics or systems, the Fed is pursuing U.S. interests directly by also safeguarding or promoting global interests. Because it is pursuing its own direct self-interest, this exhibits narrow self-interest even if the Fed's actions also benefit others.

A. Coordinated Action with Other Central Banks

In October 2008, as the global crisis deepened for many economies around the world, the G7 group of countries announced their central banks would take extensive coordinated action to avert a deep global recession.[23] On October 8, the banks agreed to a simultaneous interest rate cut by each of the banks. On October 10, the G7 announced it had agreed to work together to stabilize the global financial system by preventing the failure of systemically important banks, providing deposit insurance and other guarantees to support consumer deposits and boost consumer confidence, and enhancing liquidity in credit markets.[24]

The Fed has pointed out that the coordinated action taken by the central banks was a rare event, indicating that the Fed as well as foreign actors were pushed to more internationally-minded action by the crisis.[25] The G7 felt these actions were necessary in the wake of individual, uncoordinated action that had not stemmed the downturn.[26] Indeed, the Fed stated afterwards that it believed the coordinated action had prevented the crisis, as bad as it was, from devolving into a complete collapse of the global financial system.[27]

Similarly, President Bush's statement issued in conjunction with the agreement emphasized the interdependence among countries' economies and the need to work together to avoid pursuing a narrow self-interest that would ultimately harm everyone. Nevertheless, he stopped short of taking responsibility on behalf of the U.S. for others' interests or fates, stating "[t]he United States has a special role to play," and exhorting cooperation as in everyone's interests.[28]

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[22] Indeed it is not just the interests that are viewed as the same but the systems themselves. International requirements for dollars and U.S. requirements for dollars draw from the same resource. As a result international and domestic liquidity are somewhat indistinguishable for the Fed, so the corresponding interests in maintaining them are too.

[23] All G7 members' central banks participated except the Bank of Japan, which expressed its "strong support." Federal Reserve Press Release, *Joint Statement by Central Banks*, Oct. 8, 2008, *available at* http://www.federalreserve.gov/newsevents/press/monetary/20081008a.htm.

[24] *See, e.g., G7 Agrees to Global Rescue Plan*, THE GUARDIAN, *available at* http://www.theguardian.com/business/2008/oct/11/banking-globaleconomy; White House Press Release, *President Bush Meets with G7 Finance Ministers to Discuss World Economy*, G7 INFORMATION CENTER, October 11, 2008, *available at* http://www.g8.utoronto.ca/finance/fm081011-bush.htm (last visited May 13, 2015); Bernanke speech (Aug. 21, 2009) at 4.

[25] *See* Bernanke speech (Nov. 14, 2008) at 1.

[26] *Id.; see also The Biggest Bet in the World*, THE GUARDIAN, Oct. 12, 2008 at 2, *available at* http://www.theguardian.com/business/2008/oct/12/creditcrunch-economics (last visited May 25, 2015).

[27] Bernanke speech (Aug. 21, 2009) at 4.

[28] White House Press Release, *President Bush Meets with G7 Finance Ministers to Discuss World Economy*, G8 INFORMATION CENTRE, Oct. 11, 2008, *available at* http://www.g8.utoronto.ca/finance/fm081011-bush.htm (last visited May 25, 2015) ("As our nations carry out this plan, we must ensure the actions of one country do not contradict or undermine the actions of another. In our interconnected world, no nation will gain by driving down the fortunes of another. We're in this together.").

In terms of how to characterize the Fed's participation in the coordinated central banks' action, the Fed recognized that the interconnections among economies could cause the crisis to lead to a general collapse of the global system of which the U.S. is part. It also acted cooperatively to prevent this. Such actions, which involve working with others to pursue mutually-beneficial policies, recognize U.S. interdependence with others and seek to benefit the U.S. by ensuring the interdependent system functions well generally, because this is in the U.S.'s interests. It is distinguishable from the Fed directly equating U.S. and international interests/issues, which is more narrowly self-interested. Thus the coordinated action that the Fed took with other central banks during the crisis evinces an enlightened self-interest posture by the Fed based on recognizing the dependence of domestic economic interests on global financial stability, and not an other-regarding or narrowly self-interested posture.

2. Currency Swaps with other Central Banks

During the crisis, starting in October 2007, the Fed authorized so-called "currency" or "liquidity" "swap lines" or accounts containing U.S. dollars that foreign central banks could draw on for lending within their own markets, to preserve dollar liquidity in those markets. The swap lines were made available to specific central banks for specific periods of time. The foreign central banks also made available accounts containing their currencies for use by the U.S., but the real purpose was to provide liquidity in dollars in foreign markets; the Fed did not experience any liquidity issues with regard to foreign currencies during the crisis.

The mechanics of the swaps – somewhat simplified – are that the Fed would use dollars to purchase foreign currency of the target central bank (thus providing the bank with dollars); at the same time, the central bank would sign a contract promising to buy back its currency (in dollars) at a fixed time in the future at a fixed rate, which also provided the Fed with interest on the effective "loan" of dollars.[29] The program stayed in place through February 2010, was terminated briefly, and then resumed in May 2010. In October 2013 the Fed announced the swap lines would be converted to standing arrangements with several foreign central banks and remain in place until further notice.[30]

The Fed said the swap lines served U.S. interests because they supported the financial stability of important economies that could have spillover effects on the U.S. and the global economy.[31] It also asserted a rationale more directly related to U.S. interests: that because U.S. dollars are the most widely used currency in the world, and the U.S. itself depends on dollars to preserve liquidity in its own credit markets, a liquidity crunch abroad would directly affect liquidity in the U.S.[32] In this regard, then-Vice Chairman Timothy Geitner

[29] *See Central Bank Liquidity Swaps*, Federal Reserve website, *available at* http://www.federalreserve.gov/monetarypolicy/bst_liquidityswaps.htm (last visited May 13, 2015).
[30] *Id.*
[31] FOMC Transcript (Oct. 28-29, 2008), *supra* note 1 at 11-13.
[32] *See* Fischer speech (Oct. 11, 2014) at 2 (because the dollar is the most widely used currency, U.S. interests *automatically* have an international dimension); Chairman Ben S. Bernanke, Economic Challenges: Past, Present, and Future, Remarks at the Dallas Regional Chamber (April 7, 2010) at 3 (swaps were provided after liquidity crunches in other places began to squeeze the credit available in the U.S.); Vice Chairman Stanley Fischer, Monetary Policy Lessons and the Way Ahead, Remarks at the Economic Club of New York (March 23, 2015) at 1; Kohn speech (Oct. 23, 2009) at 2 (providing dollars to foreign banks "reduced the pressure on dollar funding markets here at home"). *See also* Neil Irwin, *Fed's Aid in 2008 Crisis Stretched Worldwide*, N.Y.

iterated the special role of the U.S. in the world, while making clear at the same time that fulfilling this special role is in the U.S.'s interests rather than being altruistic:

> Another way to think about [currency swaps] is that the privilege of being the reserve currency of the world comes with some burdens. Not that we have an obligation in this sense, but we have an interest in helping these guys mitigate the problems they face in dealing with currency mismatches in their financial systems.[33]

Indeed, although the Fed ultimately initiated swap lines with several central banks, it did not extend swap lines to all countries that wanted or needed liquidity. In its Open Market Committee Meeting considering swap lines for four emerging market economies (Brazil, South Korea, Singapore and Mexico), the consensus of Fed officials was that approval rested on two factors, the systemic importance of these economies to the U.S., and their "prudent policies and large reserve holdings" which made them relatively likely to repay the swap funds or even not use them.[34] Further, Fed officials discussed strategies to limit providing swap lines to additional emerging market economies that were not important enough to the world economy to impact U.S. interests.[35] This indicates swap lines were intended to help U.S. interests, even if they also directly benefited global interests.

The central bank swap lines are a clear example of the Fed directly equating international and domestic U.S. economic interests: in effect, the U.S. has a direct interest in maintaining liquidity in global markets because the global currency is dollars, so liquidity problems in other markets translate directly into liquidity problems at home.

In terms of how swap lines should they be classified, they might be viewed as other-regarding, because the Fed decided to provide critical economic assistance to several central banks. This is not the case, however. The Fed did not take other economies' interests genuinely into account, give them a voice, or provide the swap lines without expecting a reciprocal benefit to the U.S., because as stated above, the Fed recognized it was a matter of critical importance to the U.S. to preserve global liquidity. If there is any doubt about this, the fact that the U.S. extended swap lines to some countries, but refused to extend swap lines to other countries that it considered less important to the U.S., indicates the Fed performed a purely interest-based calculation. In fact, for the countries for which the Fed refused swap lines, the Fed might have been expected to provide this help, according to the other-regarding maxim that one must help regardless of cost to oneself to prevent harm during a catastrophe.[36]

TIMES, Feb. 23, 2014 ("Fed officials, then and now, framed the program as intended to help the United States economy.").

[33] FOMC Transcript (Oct. 28-29, 2008), *supra* note 1 at 21.

[34] *Id*. at 11-13, 29-31. *See also* Neil Irwin, *supra* note 32 ("The Fed rejected some nations that wanted dollar swaps but, in the Fed leaders' judgment, were not important enough to American economic interests to warrant participation."); Benn Steil, *Taper Trouble: The International Consequences of Fed Policy*, FOREIGN AFFAIRS, July/Aug. 2014, *available at* https://www.foreignaffairs.com/articles/united-states/2014-06-04/taper-trouble (last visited June 20, 2015 (reporting the Fed denied India's request for a swap line in 2012)).

[35] FOMC Transcript (Oct. 28-29, 2008) at 16-42.

[36] *See* Benvenisti, *supra* note 2 at 325-26.

Rather, the swap lines appear to fall somewhere between enlightened self-interest and narrow self-interest. The swap lines demonstrate enlightened action because they show the Fed recognized the interdependence of global interests in preserving liquidity, and preserving liquidity did assist the whole global system, of which the U.S. is a part and which thus indirectly benefited the U.S. But the swaps were also narrowly self-interested because the Fed directly equated the need for liquidity in the global system with the need for liquidity in the U.S. And the rejection of swap lines for countries that were not economically important to the U.S. reinforces the narrow self-interest of these acts. As such the Fed was pursuing a direct U.S. interest, not helping a larger system with merely the expectation of indirect benefit as a member of that system. Because the Fed expected – and acted to ensure – that the benefit would accrue directly to the U.S., its action was also narrowly self-interested. The swap lines thus fall between enlightened and narrow self-interest. [37]

C. Tracking the Effects of the Crisis on EMEs

During and in the aftermath of the crisis, the Fed periodically reviewed the effects of the Fed's policy of quantitative easing (lowered interest rates and bond buying) on emerging market economies (EMEs). Economic theory posits that lowering interest rates in one country can cause capital to exit that country and flow into another, with detrimental effects such as currency appreciation and unstable, rising asset prices as well as the general inability to control monetary policy through traditional domestic means in the receiving country.[38] Given the steps that the U.S. and other developed country central banks took to ease credit, the potential seemed high that capital would flow heavily into EMEs and destabilize these economies.

The Fed concluded its policies have not harmed EMEs in this respect, but its tone is defensive and its support is equivocal. Thus Chairman Bernanke reviewed economic research purportedly showing that advanced economies' monetary policies are not the primary determinant of capital flows to EMEs, but also cautioned that to the extent accommodative policies by the U.S. harmed EMEs by stimulating capital inflows to those countries, these negative effects must be balanced against the benefits of these policies – namely that as advanced economies recover, their demands for exports from EMEs will increase.[39] This equivocal picture was similarly reflected in a speech by Governor Powell. Powell made many of the same points, but also acknowledged that advanced economies' policies will

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[37] Some critics objected to the swap lines as "passing out dollars," and contended that providing liquidity to foreign economies was contrary to U.S. interests. *See, e.g.*, *Foreign Banks Used Fed Secret Lifeline Most at Crisis Peak*, Bloomberg News, April 1, 2011, *available at* http://www.bloomberg.com/news/articles/2011-04-01/foreign-banks-tapped-fed-s-lifeline-most-as-bernanke-kept-borrowers-secret (last visited June 20, 2015) ("'The caricature of the Fed is that it was shoveling money to big New York banks and a bunch of foreigners, and that is not conducive to its long-run reputation,'") (quoting Vincent Reinhart, the Fed's director of monetary affairs from 2001 to 2007); *id.* (quoting U.S. Senator Ron Paul accusing the Fed of passing out U.S. dollars to overseas banks). These opponents took the narrowly-self-interested view that helping other economies must be against U.S. interests because it came at an immediate cost to the U.S., regardless of the long-term benefit.

[38] *See* Gerald Epstein, *Should Financial Flows Be Regulated? Yes*, DESA WORKING PAPER NO. 77, July 2009 at 2, 5; *see also* Chairman Ben S. Bernanke, The Policy Response to the Crisis in Korea and Other Emerging Market Economies, Remarks at the Bank of Korea's International Conference (May 31, 2010) at 2.

[39] Chairman Ben S. Bernanke, U.S. Monetary Policy and International Implications, Remarks at Challenges of the Global Financial System: Risks and Governance under Evolving Globalization Seminar (Oct. 14, 2012) at 2.

affect capital inflows to EMEs and that such policies may contribute to financial instability in EMEs including dangerous asset price bubbles and too-rapid expansion of credit.[40]

Outside criticism was more pointed, stating that U.S. accommodative policies had put EMEs in a difficult position.[41] Others accused the U.S. and other advanced economies of waging a currency war which only advanced economies, and not EMEs, could win.[42] These critics contended that advanced economies' policies indeed destabilized EMEs.[43] The Fed was similarly charged with ignoring the effects of its announcement that it might end quantitative easing soon.[44] On balance, especially given the charges of accommodative easing's negative impact on EMEs, the Fed's concern about EMEs appears to be somewhat superficial and more of a defense of its policies than genuine concern for EMEs.[45]

At first glance the Fed's concern for the impact of its accommodative policies on EMEs may seem to exhibit an other-regarding character, because the Fed appears to be taking account of how its policies impact others' interests, thus giving others' interests "due regard."[46] However, the Fed's concern is actually superficial and defensive rather than genuine, as explained above. Moreover, the Fed considered the impact on EMEs after its accommodative policies had been in place for some time, not while it was formulating them.[47] Therefore I conclude the Fed's apparent concern for EMEs is not other-regarding. Is it then narrowly self-interested? I believe so. In announcing its policies did not harm EMEs, the Fed disregarded information about the significant, negative effects of its policies that others, including its own governors, recognized. Thus the Fed seemed concerned primarily

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[40] Governor Jerome H. Powell, Advanced Economy Monetary Policy and Emerging Market Economies, Remarks at the Federal Reserve Bank of San Francisco 2013 Asia Economic Policy Conference (Nov. 4, 2013 at 2-3). *See also* Governor Elizabeth A. Duke, Central Bank Cooperation in Times of Crisis, Remarks at the Center for Latin American Monetary Studies 60th Anniversary Conference (July 20, 2012) at 4 (noting that the quick recovery from the crisis in Latin American countries helped fuel capital inflows "which, at times, have proved challenging for policymakers of these economies").

[41] Alice Ross, *Fed action triggers fear of new currency wars*, FINANCIAL TIMES (London), Sept. 26, 2012, *available at* http://www.ft.com/intl/cms/s/0/d69a4470-07e9-11e2-a2d8-00144feabdc0.html#axzz3bijan7qz (last visited May 31, 2015) ("[C]entral banks in emerging markets face a tough decision over whether to weaken their currencies to help struggling exporters and stimulate growth, or allow them to strengthen to offset the impact of rising food prices.").

[42] *Id.; see also* Satyajit Das, *Currency wars are hell on emerging markets*, MARKETWATCH.COM, April 11, 2013, *available at* http://www.marketwatch.com/story/currency-war-is-hell-on-emerging-markets-2013-04-11 (last visited May 31, 2015). Das contends that such fights are always tilted towards advanced economies because they can close their borders and retool their economies, while EMEs cannot because they require access to external capital and foreign markets.

[43] Das, *supra* note 42 (noting that as a result of advanced countries' economic policies, EMEs had to contend with "destabilizing capital flows and inflationary pressures.").

[44] Benn Steil, *supra* note 34 (arguing the Fed ignored potential effects of announcing it might taper bond purchases in May 2012, which caused Ukraine's public debt to dive in value – which in turn threw the country into political chaos).

[45] *See generally* Gerald Epstein, *supra* note 38 at 7 (summarizing research showing that unregulated international capital flows do not contribute to growth generally, and during crises have devastating short term effects and negative long-term effects on growth); Dani Rodrik, *Who Needs Capital-Account Convertibility?*, Feb. 1998, *available at* http://www.uvm.edu/~wgibson/PDF/Rodrik%20convertibility.pdf (last visited May 21, 2015).

[46] Benvenisti, *supra* note 2 at 314.

[47] The Fed began quantitative easing policies in November 2008, and by October 2012, when Bernanke gave his speech on the effects on EMEs, the Fed was in its third round of quantitative easing. *See Full Timeline*, St. Louis Federal Reserve, *available at* https://www.stlouisfed.org/financial-crisis/full-timeline (last visited June 8, 2015); *Quantitative Easing*, Wikipedia, *available at* http://en.wikipedia.org/wiki/Quantitative_easing (last visited June 8, 2015).

with justifying its policies, and not with taking honest account of their effects. Indeed the Fed caused severe international capital flow swings when it announced it might taper its bond-buying program (the equivalent of raising interest rates) in the spring of 2013.[48] The negative effects of the so-called "Taper Tantrum" included sparking political chaos in Ukraine, which clearly compromised long-term U.S. interests in global economic and political stability.[49] The Fed does seem chastened since this event, and has promised to give more advance and explicit warnings when it is considering interest policy changes in order to mitigate effects on EMEs in particular.[50] Nevertheless, for the reasons above, the Fed's actions in considering the effects of its rate changes on EMEs were narrowly self-interested, not enlightened or other-regarding.

D. Domestic Regulation of Foreign Banking Organizations

The regulation of foreign banking organizations (FBOs) by the Fed is also narrowly self-interested and harms foreign and international interests. In the aftermath of the crisis, the Fed enacted new regulations for U.S. branches of foreign banks that were controversial. The rules require that foreign banking organizations with foreign branch assets of more than $50 billion establish a U.S. holding company over their U.S. subsidiaries, and subject those FBOs to generally the same capital standards that apply to U.S. bank holding companies and to the Fed's rules regarding capital plans and stress tests.[51]

The regulations were enacted after two significant relevant events: first, during the crisis, some countries engaged in "ring-fencing" assets, that is, asserting claims to banking assets in the country and refusing to let such assets be used to support overseas bank branches of domestic banking corporations or refusing to let assets of U.S. creditors from being recovered from those countries.[52] Second, in the regulatory aftermath of the crisis, some countries, notably the U.K., enacted laws that similarly "ring-fenced" certain assets prospectively.[53]

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48 *See* Benn Steil, *supra* note 34.
49 *Id.*
50 *E.g.*, Fischer speech (Oct. 11, 2014) at 3.
51 Federal Reserve Press Release, *Federal Reserve Board approves final rule strengthening supervision and regulation of large U.S. bank holding companies and foreign banking organizations*, Feb. 18, 2014, *available at* http://www.federalreserve.gov/newsevents/press/bcreg/20140218a.htm (last visited April 20, 2015).
52 Heather Stewart, Larry Elliott, Ruth Sutherland & Lisa Bachelor, *Credit Crunch: The Biggest Bet in the World*, *The Guardian*, Oct. 12, 2008 at 2, *available at* http://www.theguardian.com/business/2008/oct/12/creditcrunch-economics (last visited May 25, 2015) (("[D]eclarations of solidarity were swiftly belied by Germany's unilateral decision to guarantee all bank deposits, an example of the beggar-my-neighbour behaviour that had helped to deepen the Great Depression"); KPMG, *Global regulatory cooperation under threat: Tension over US bank capital proposals*, FRONTIERS IN FINANCE (undated) at 2, *available at*: http://www.kpmg.com/global/en/issuesandinsights/articlespublications/frontiers-in-finance/pages/global-regulatory-cooperation-under-threat.aspx (last visited April 20, 2015).
53 *See* Governor Daniel K. Tarullo, Regulation of Foreign Banking Organizations, Remarks at the Yale School of Management Leaders Forum (Nov. 28, 2012) at 5 (noting ring-fencing by the U.K. and Switzerland); Paul J. Davies, *U.K. Banks Start to Ring in the Changes: So-Called Ring-Fencing Will Have Far-Reaching Implications For Bank Business Models*, WALL ST. J., (Heard on the Street), Jan. 20, 2015; Huw Macartney, *Walking the Tightrope: The British Dilemma and EU Ring-Fencing*, *available at* https://www.academia.edu/6407442/Walking_the_Tightrope_the_British_Dilemma_and_EU_Ring-Fencing (last visited June 4, 2015) (explaining negative aspects of ring-fencing).

Indeed these events are reflected in the reasons the Fed said the rules were necessary. First, it said whereas FBOs in the U.S. in the past had tended to be recipients of funds from their foreign parents, this had shifted to FBOs becoming large borrowers of U.S. dollars that they sent to their banking parents – shifting from receiving dollars to sending dollars.[54] This in turn resulted in the possibility that U.S. depositors' capital would be trapped overseas during a crisis.[55]

Second, it said the global financial crisis showed that cross-border banking organizations that are regulated only through their host country may provide incentives for home or host countries to ring-fence financial assets –to corral a bank's assets for use by the home or the host country, even if this is unfair in the sense of favoring some creditors over others or if this might threaten the financial stability of branches in other locations. Third, the Fed claimed that the crisis showed that home countries might not back-stop overseas branches of their banking organizations, and indeed noted that in the wake of the crisis some countries had enacted laws that made it more difficult for the government to provide financial support to troubled overseas bank branches, a reference to post-crisis ring-fencing noted above.[56]

Critics, including foreign governments, complained that the new rules gave U.S. banks a competitive advantage over foreign banks located in the U.S. More significantly, they complained that the FBO regulations continued a "trade war" begun by the U.K.'s decision to ring-fence domestic retail banking assets,[57] and reflected a "go it alone" approach that could lead to regulatory arbitrage and "re-nationalizing" bank supervision, which could lead to global imbalances.[58] They similarly accused the Fed of pursuing this strategy at the expense of attempts to coordinate supervision of cross-border banking institutions at the international level.[59] Thus the Fed was accused not only of favoring U.S. interests substantively, but also of abandoning efforts to attempt to resolve the issue through international coordination and instead taking unilateral action that could engender race-to-

[54] Tarullo speech (Nov. 28, 2012) at 3-4.
[55] KPMG, *supra* note 52 at 2 (quoting Governor Tarullo).
[56] Tarullo speech (Nov. 28, 2012) at 3-4. *See also* Mitchell Berlin, *New Rules for Foreign Banks: What's at Stake?* PHILA. FED. RESERVE BUS. REV., Q1 2015, *available at*: http://www.phil.frb.org/research-and-data/publications/business-review/2015/q1/brq115_new_rules_for_foreign_banks.pdf ("Funds head home in a crisis. Many studies document a 'flight home' effect in which global banks withdraw funding from host markets and transfer funds to the home market.").
[57] *See, e.g.*, Randall D. Guynn, *Impact of U.S. Regulatory Reform on Global Banks: Key Perspectives on the Major Areas*, Speech at Federal Reserve Bank of New York, February 12, 2013, *available at* http://www.davispolk.com/files/uploads/FIG//guynn.remarks.FedReserve.feb13.pdf (last visited June 4, 2015).
[58] *E.g.*, Craig Torres, *German Regulators Oppose Fed Rule on Foreign Bank Oversight*, BLOOMBERG NEWS, April 29, 2013, *available at* http://www.bloomberg.com/news/articles/2013-04-29/german-bank-regulators-oppose-fed-rule-on-foreign-bank-oversight (last visited April 20, 2015).
[59] Michel Barnier, European commissioner for the internal market, complained: "I think it's a shame that we are not advancing with a multilateral approach—already being discussed at the [international] level… The global level playing field is essential for all economic actors." Stephanie Armour and Ryan Tracy, *Fed Sets Rules for Foreign Banks*, WALL ST. J., Feb. 18, 2014, *available at* http://www.wsj.com/articles/SB10001424052702303945704579391244050104458 (last visited April 20, 2015).

the-bottom-type competition among nations, the dynamic that states involved in international post-crisis cooperation were specifically seeking to avoid.[60]

The Fed's response was two-fold: it stated it was responding to ring-fencing and similar phenomena, and it asserted the U.S. is unique because of the prevalence of dollars in the global market and foreign demands to be in the U.S. market, and thus "[international supervision] cannot provide complete protection against risks engendered by U.S. operations [of foreign banks] as extensive as those of many large U.S. institutions."[61]

The Fed's regulation of FBOs is probably narrowly self-interested, depending on how one weighs the second justification advanced by the Fed, that the U.S.'s uniquely dominant position in the world economy as a host of foreign banks requires it to regulate those banks in a more intrusive, unilateral way. If one does not take this seriously, then the Fed's regulation appears to favor U.S. interests in a quite narrow, short-term way: The Fed may well have a legitimate interest in countering other countries' ring-fencing actions to protect the U.S. economy. But since the criticism is not just that the Fed is regulating to counter ring-fencing but also imposing regulations unilaterally, without attempting to coordinate with other states, the Fed seems to be placing immediate U.S. interests above longer-term U.S. interests. Such longer-term interests, or enlightened self-interest, include the benefits of avoiding ring-fencing and similar race-to-the-bottom tactics and instead promoting the level playing field the U.S. has sought in other areas.

Even if one credit's the Fed's assertion that unilateral FBO regulations are necessary because of the U.S.'s dominant position, however, this does not mean the Fed's acts exhibited enlightened self-interest. Is acting unilaterally and against others' self-interests (perhaps narrowly defined themselves), but making the global system more stable, consistent with enlightened self-interest? The argument in favor is that the act benefits the global system, which benefits others, and of course the action is based on recognizing U.S. interdependence with the global system, all of which accords with enlightened self-interest. But the argument against is that the Fed forewent the clearly enlightened alternatives – the "high road" of international cooperation and regulation – in favor of unilateral action that, even if it benefits the global system, directly serves U.S. interests at foreigners' expense. Even if the U.S. neede more stringent or otherwise different regulation from other countries, the Fed still could have negotiated to place its regulations in a broader international framework and work to mitigate or eliminate individual ring-fencing, but it chose not to. In my view, therefore, the rejection of the enlightened, "race-to-the-top" alternative by the Fed puts this act in the narrowly self-interested category.

Notably, in this example, the U.S.'s dominance in the global system caused the Fed to distinguish U.S. interests from others' in the global system. On the issue of dollar liquidity, the dominance of the U.S. caused the Fed to directly equate U.S. and global interests and issues. In both cases where the Fed perceives the U.S. as uniquely dominant, it has acted to serve U.S. interests directly, and thus to act based more on narrow self-interest than enlightened self-interest. Nevertheless here, where the Fed perceives U.S.'s interests as

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[60] *See, e.g.*, Gina Chon, Camilla Hall and Martin Arnold, *Foreign banks braced for Fed rule changes*, FINANCIAL TIMES (London), Feb. 17, 2014, *available at* http://www.ft.com/intl/cms/s/0/f903b3f6-97e0-11e3-8dc3-00144feab7de.html#axzz3XqpKlIZK (last visited April 20, 2015).

[61] KPMG, *supra* note 52 at 2 (quoting Governor Tarullo).

significantly *different* from others', it acted more narrowly self-interested than with respect to liquidity.

The other possibility is that the Fed's actions were indeed taken in retaliation for other countries ring-fencing their assets during and since the crisis, but that this retaliation reflected a decision to engage in reciprocity that nevertheless still fits within an overall enlightened self-interest approach. The theory that allows for retaliation within a framework of cooperation is the "tit-for-tat" theory of cooperation identified by Robert Axelrod.[62] Axelrod showed that "tit-for-tat," is the most effective strategy for promoting long-term cooperation, given a setting in which individuals pursue their self-interest without a central authority.[63] According to the strategy, an individual acts cooperatively at the outset, responds in kind if other actors "defect" by not cooperating (deciding in their own short-term self-interest), and then "forgives" following the retaliatory response-in-kind by returning to the cooperative behavior. Thus an uncooperative act may still reflect an overall strategy of cooperation, if it is merely reciprocating another actor's uncooperative act.[64]

The long-term, mutually beneficial cooperation allowed for by tit-for-tat is thus the quintessential pursuit of enlightened self-interest: recognizing the interdependence of our interests, and foregoing immediate short-term benefit at others' expense in favor of choices that benefit everyone, including ourselves. Therefore, if the Fed enacted its FBO rules to retaliate against other countries for ring-fencing, they might reflect reciprocity that is part of a larger tit-for-tat strategy, in which the Fed is consistently focused on promoting long-term cooperation.

This does not seem likely, however, because the Fed put in place a rule that will apply going forward. Tit-for-tat requires that actors have the opportunity to interact repeatedly over time in order to engage the full pattern – cooperation, reciprocity, forgiveness/return to cooperation. It is true that the actors here – the Fed and other economic players – have long-term and frequent interactions in the overall global economic system that make cooperation likely (what Axelrod would call a large "shadow of the future"),[65] so the Fed rule could be seen as merely one move in a long series of policy actions aimed largely at cooperation. And other actors not only ring-fenced assets during the crisis but also enacted ring-fencing rules going forward, so the Fed's response might be seen as reciprocal in scale. However, there do not appear to be opportunities for a series of continued interactions in this specific area now that the rules are in place – nor are the actors expecting or hoping that future economic crises would provide such opportunities for action and response. Moreover, the Fed did not clearly communicate that its actions were retaliation, whereas tit-for-tat requires "clarity of behavior" so other actors can "adapt" to the cooperative behavior.[66]

Similarly, tit-for-tat is a strategy for achieving cooperation among actors in the absence of a central authority; here the Fed asserted that its uniquely dominant position drove its behavior, thus claiming its interest to be on a completely different level from others and not susceptible to cooperation, essentially taking itself out of the game. Accordingly,

[62] AXELROD, *supra* note 11.
[63] *Id*. at 6.
[64] *Id.* at 20.
[65] *Id*. at 126-130.
[66] *Id*. at 20.

although a true tit-for-tat response could reflect enlightened self-interest, here the Fed's actions appear motivated by narrow self-interest.

E. Implementation of Basel III

The Basel Committee on Banking Supervision ("Basel Committee") is an international body created by the central banks of the G10 economic group.[67] The Committee, acting through top regulators from participating countries, sets international standards for banking regulation. Although the standards are non-binding, most countries implement them. Prior to the financial crisis, the Basel Committee devised its first round of banking standards, known as "Basel I" in 1988. The second round, Basel II, followed in 2004 but some countries, including the U.S., had not fully implemented Basel II by the start of the financial crisis in 2008. After the financial crisis, regulators (U.S. and foreign) negotiated and published a new set of international regulations, "Basel III." Basel III primarily revises capital and liquidity requirements for banks. In June 2012, the Fed issued proposed rules to implement Basel III, and in July 2013, it adopted final rules to this effect.[68] The final U.S. rules address the new Basel capital requirements for banks. They allow a phase-in of capital requirements such that the rules will be fully effective in 2019, per the Basel III standards.

The Fed's efforts in negotiating, promoting and defending Basel III are notable because they indicate the Fed believed strongly in this new system of international regulation for banks. Thus the Fed was heavily involved in negotiating and drafting Basel III standards.[69] In addition, when it proposed rules implementing Basel III domestically, the Fed came under heavy criticism from Congress and banking interests,[70] but defended Basel III and largely held its course.[71] It also implemented the Basel III standards – and did so timely – in contrast to Basel II.[72] In addition, the Fed's justifications for negotiating and

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[67] *See* website of the Bank for International Settlements, *available at* http://www.bis.org/bcbs/ (last visited June 7, 2015).

[68] *Basel III Implementation*, Federal Reserve website, *available at* http://www.federalreserve.gov/bankinforeg/basel/USImplementation.htm (last visited June 8, 2015).

[69] Tarullo testimony (July 20, 2010) at 1-2 (explaining to Congress the reasons for the Fed's involvement in the Basel Committee and Basel III); *see also* Tarullo testimony (June 16, 2011) at 1-4 (explaining, with a sense of urgency, how "essential" it is that international standards be devised and adopted to achieve financial stability and a level international playing field, and urging that implementation must be achieved in a globally consistent manner to avoid a race to the bottom).

[70] *American banks lobby for diluted Basel III amid US Europe Tensions*, April 2013, EUROMONEY, *available at* http://www.euromoney.com/Article/3190828/American-banks-lobby-for-diluted-Basel-III-amid-US-Europe-tensions.html (last visited May 19, 2015) (noting "the hostility Basel III guidance has received in the US, from politicians, bankers and corporates"); Alan Zibel, *New Capital Rules Elicit Squawks: Letters to Regulators Say Basel III to Burden Small Banks, Pose Danger to Real-Estate Lending*, WALL ST. J., Oct. 22, 2012, *available at* http://www.wsj.com/articles/SB10001424052970203400604578072971165861356 (last visited May 19, 2015).

[71] Michael S. Gibson, Testimony before the Sen. Comm. on Banking, Housing, and Urban Affairs (Nov. 14, 2012), *available at* http://www.federalreserve.gov/newsevents/testimony/gibson20121114a.htm (last visited May 19, 2015). The Fed did revise the proposed rules as they applied to community banks but generally maintained the rest of the rules consistent with Basel III or the more stringent requirements of Dodd Frank. *See* Powell speech (May 14, 2015) (explaining the Fed revised rules in response to complaints regarding their application to community banks).

[72] Daniel Indiviglio, *Regulators without borders*, BREAKINGVIEWS, July 2, 2013, *available at* http://www.breakingviews.com/21094722.article?h=95449922dd3fd61bb02b8f34a5361921&s=2 (last visited

implementing Basel III identify global interests that in turn serve U.S. interests: global financial stability helps ensure U.S. financial stability, and international regulation ensures a competitively level playing field for U.S. firms.[73]

Because the rationales the Fed advanced in support of Basel III are framed in terms of how international regulation helps ensure U.S. financial stability by promoting global stability, the Fed's posture on Basel III exhibits enlightened self-interest. The Fed does not appear to be taking others' interests directly into account, or otherwise acting to assist others outside the U.S. without expecting the U.S. to benefit, so its conduct on Basel III is not other-regarding. It is somewhat open to the charge that it acted in a narrowly self-interested way, because it revised the proposed rules to accommodate domestic concerns of community banks.[74] However, since community banks are not international players, it is doubtful that these changes came at any cost to the international regulatory system and the international financial stability goals of the Fed. Rather, by identifying the ways the U.S. could benefit indirectly, by improving the international system to improve international stability, the Fed exhibited classic, community-minded enlightened self-interest.

Conclusions regarding the Fed's Actions During and After the Crisis

These five examples illustrate the Fed has acted with various types of self-interest in responding to the 2007-08 global financial crisis. In some cases (coordinating activities with other central banks, and advocating and implementing Basel III rules), the Fed acted with classic enlightened self-interest: it sought changes in the international system of which the U.S. is a part to improve that system, and expected the benefits of those improvements to accrue to the U.S. along with other economies in the system.

In other cases, where the Fed distinguished the U.S. from other international players, the Fed's actions were less enlightened. On issues where the Fed believed the U.S. is uniquely interdependent with the global system because it dominates the system, and directly equated U.S. interests with international interests (credit swap lines), the Fed took action to benefit the international system, but it intended to benefit the U.S. directly. This exhibits self-interest that is more narrow, because although the Fed's actions still benefit the larger system, the aim and thus the interests the Fed meant to serve are still direct U.S. interests, not the interests of others. On issues where the Fed perceived the U.S. as uniquely dominant so that its interests *diverge* from other global players, the Fed pursued U.S. self-interests even more narrowly defined, by pursuing U.S. interests directly and at the expense of other global players' interests and internationally coordinated improvements in the global system. This was the case with the Fed's rules to regulate FBOs.

Other examples also illustrate that the Fed pursues narrowly defined U.S. interests where it views U.S. dominance as meaningful. For countries that do not have a sufficient impact on the world economy, the Fed was willing to consider their interests but not to take action to help them, as in the case of swap lines and considering the effects of rate changes

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June 7, 2015); Douglas J. Elliott, *Basel III, the Banks, and the Economy*, BROOKINGS INSTITUTION, *available at* http://www.brookings.edu/research/papers/2010/07/26-basel-elliott (last visited May 19, 2015).

[73] *E.g.*, Tarullo testimony (June 16, 2011) at 1-2.

[74] *E.g.*, Cheyenne Hopkins and Jesse Hamilton, *Regulators Grilled Over Community Banks' Basel Burden*, BLOOMBERG NEWS, Nov. 14, 2012, *available at* http://www.bloomberg.com/news/articles/2012-11-14/community-banks-basel-iii-burden-to-be-hearing-s-focus (last visited June 20, 2015); Federal Reserve Press Release, July 2, 2013 ("The final rule minimizes burden on smaller, less complex financial institutions.").

on EMEs. An enlightened view of global economic stability would recognize that effects on less economically powerful countries are tied to U.S. and global economic interests. Nevertheless, because of the Fed's significant actions during and after the crisis on the international level, including those that also directly aided U.S. interests, the Fed's actions overall present a mix of enlightened and narrow self-interest.

III. THE FED'S POST-CRISIS ORIENTATION IN HISTORICAL PERSPECTIVE

The question presented in the paper is whether the Fed is *more* other-regarding (or differently oriented) since the global financial crisis. Thus this section briefly examines the orientation of the Fed in the period just before the crisis and considers the Fed's pre- and post-crisis orientation in broader historical perspective. I conclude the Fed has had several periods of greater and lesser international involvement, and similar periods of enlightened or narrow self-interested action, so the current orientation of the Fed is not new or unique historically.

In the period just before the crisis, the Fed was involved in some international cooperation and regulation attempts. This included involvement in the Basel Committee and attempts to implement Basel II.[75] These attempts may demonstrate some narrow self-interestedness: then-Chairman Greenspan commented that the U.S. had fought for and won changes in the rules that were favorable to U.S. banks,[76] and it was noted after the crisis that the U.S. never actually implemented Basel II. Nevertheless the Fed's general posture – favoring international regulation, and for similar reasons as above (providing international financial stability that would in turn help ensure U.S. stability, and ensuring a level international playing field for U.S. banks) – was consistent in these respects with the Fed's post-crisis orientation,[77] even if it was less urgent.[78]

However the Fed, particularly its Chairman before 2006, Alan Greenspan, also de-emphasized international involvement. First, Greenspan and others believed that "flexible"

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[75] *E.g.*, Governor Ben S. Bernanke, The Implementation of Basel II: Some Issues for Cross-Border Banking, Remarks at the Institute of International Bankers' Annual Breakfast Dialogue (Oct. 4, 2004); Vice Chairman Roger W. Ferguson, Jr., The Role of Central Banks in Fostering Efficiency and Stability in the Global Financial System, Remarks at the National Bank of Belgium Conference on Efficiency and Stability in an Evolving Financial System (May 17, 2004) at 6-7 (increased financial globalization has increased the need for international coordination); Vice Chairman Roger W. Ferguson, Jr., Basel II: A Realist's Perspective, Remarks at the Risk Management Association's Conference on Capital Management (April 9, 2003).

[76] Transcript, *The New Basel Accord: In Search of a Unified U.S. Position*, 2003: Hearing before the Subcomm. on Fin'l Institutions and Consumer Credit of the House Comm. on Fin'l Serv., 108th Cong. 1 (2003), at 189-195, *available at* http://babel.hathitrust.org/cgi/pt?id=pur1.32754075575773;view=1up;seq=199 (appended letter to and from Fed Chairman Alan Greenspan in which Greenspan writes that the U.S. "fought for and won" rules favorable to U.S. banks in the new Basel II rules).

[77] *E.g.*, Chairman Ben S. Bernanke, Bank Regulation and Supervision: Balancing Benefits and Costs, Remarks at the Annual Convention of the American Bankers Association (Oct. 16, 2006) at 1-2; Chairman Ben S. Bernanke, Basel II: Its Promise and Its Challenges, Remarks at the Federal Reserve Bank of Chicago's 42nd Annual Conference on Bank Structure and Competition (May 18, 2006) at 1-2; Governor Susan Schmidt Bies, The Basel II Accord and H.R. 1226, Testimony before the Subcomm. on Domestic and International Monetary Policy, Trade, and Tech. and the Subcomm. on Financial Institutions and Consumer Credit, House Comm. on Financial Services (May 11, 2005) (explaining why U.S. is involved in developing new international capital standards for banks under Basel II); *see also* Governor Donald L. Kohn, Globalization, Inflation, and Monetary Policy, Remarks at the James R. Wilson Lecture Series, The College of Wooster (October 11, 2005) (explaining new international forces and risks to which U.S. economy is subject).

[78] Ferguson speech (April 9, 2003) at 5 (responding to charges the U.S. implementation does not "truly reflect[] a commitment to an international capital standard").

domestic economies, by which they meant deregulated economies (and less active monetary policy) that allowed market forces to respond to issues, would be able to withstand and adjust to shocks coming from outside. Thus they emphasized that opening economies to international trade and capital flows were the best ways for countries to ensure their financial stability, rather than internationally devised regulations.[79]

In addition, the "de-coupling" theory became popular in the years leading up to the crisis. This theory held that the U.S. (along with other so-called healthy economies) was insulated from foreign economic crises because its economy had become "de-coupled" from the rest of the world.[80] This theory also fit well with Greenspan's belief in deregulation as the primary tool for managing foreign or global crises. The decoupling theory was abandoned soon after the global nature of the crisis became evident.[81]

Bernanke, who became Chairman in 2006 (after being a Governor from 2002 to 2005), has a more international orientation in his scholarship. His research included work showing that the Great Depression had certain international causes and not just domestic causes as was previously thought,[82] and he also identified the overseas investment dynamics underlying the global financial crisis.[83]

Are the theories prevalent in Greenspan's Chairmanship, deregulation and decoupling, other-regarding? They take others into account in the attenuated sense that they assert other countries will also be better off if they deregulate. But they do not directly take others' interests into account, and they fail to recognize the interconnectedness among

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[79] For example, in a 2005 speech Greenspan stated:

> We appear to be revisiting Adam Smith's notion that the more flexible an economy the greater its ability to self-correct after inevitable, often unanticipated disturbances. That greater tendency toward self-correction has made the cyclical stability of an economy less dependent on the actions of macroeconomic policy makers, whose responses often have come too late or have been misguided.

Chairman Alan Greenspan, International Imbalances, Remarks before the Advancing Enterprise Conference (Dec. 2, 2005) at 6. *See also* Chairman Alan Greenspan,
Remarks at the 21st Annual Monetary Conference (Nov. 20, 2003) at 1, 6-7; Chairman Alan Greenspan, Lessons from the Global Crises, Remarks before the World Bank Group and the International Monetary Fund (Sept. 27, 1999) at 3, 6.

[80] *The decoupling debate*, THE ECONOMIST, March 6, 2008, *available at* http://www.economist.com/node/10809267 (last visited June 9, 2015); Herbert Lash, *Emerging market 'decoupling' theory may be premature*, REUTERS, Oct. 12, 2007, *available at* http://www.reuters.com/article/2007/10/12/us-markets-decoupling-idUSN1259286920071012 (last visited June 9, 2015); *Decoupled or shackled together?* THE ECONOMIC TIMES (India), March 10, 2008, *available at* http://articles.economictimes.indiatimes.com/2008-03-10/news/27696790_1_economies-decoupling-china-s-gdp (last visited June 9, 2015).

[81] *See, e.g.*, Governor Randall S. Kroszner, The United States in the International Financial System: A Separate Reality? Resolving Two Puzzles in the International Accounts, Remarks at the Central Bank of Argentina 2008 Money and Banking Conference (Sept. 1, 2008) at 1; Martin Wolf, *America's economy risks mother of all meltdowns*, FINANCIAL TIMES (London), Feb. 19, 2008, *available at* http://www.ft.com/intl/cms/s/0/4d19518c-df0d-11dc-91d4-0000779fd2ac.html#axzz3cYDXPJXS (last visited June 9, 2015); *see also* Tarullo speech (Feb. 22, 2013) at 3 (noting that before the crisis, "systemic risk had also come to seem more theoretical than real to many academics and financial market participants").

[82] *E.g.*, Governor Ben S. Bernanke, Money, Gold, and the Great Depression, Remarks at the H. Parker Willis Lecture in Economic Policy, Washington and Lee University (March 2, 2004).

[83] Governor Ben S. Bernanke, The Global Saving Glut and the U.S. Current Account Deficit, Remarks at the Sandridge Lecture (March 10, 2005) (discussing global savings "gut" and how foreign countries had recently "mobilized" citizens' savings by issuing debt in the U.S. and then using the proceeds to purchase other U.S. securities, notably mortgage securities, in historically high quantities).

economies, and instead leave other economies to take care of themselves. Thus they are not particularly "enlightened" either – because an enlightened view would recognize interconnections and seek to promote common interests as a way of promoting long-term self-interests.

If the Fed was not particularly internationally-oriented nor acting on enlightened self-interest prior to the crisis, is the post-crisis Fed a "new" Fed? The answer historically seems to be no. Barry Eichengreen describes the Fed's history with this question in mind, and shows that the Fed has been internationally involved to various degrees at different times during its history.[84] For example, the early Fed under New York Fed Governor Benjamin Strong advocated for an international gold standard as critical to international trade, and also lowered interest rates in order to push up the pound sterling against the dollar. Eichengreen points out Strong was not acting altruistically, but wanted to help promote an international market for U.S. exports to help U.S. growth. Nevertheless he lowered rates in spite of strong domestic arguments for raising rates to dampen stock market speculation.[85]

After the Depression began and Roosevelt was elected, Roosevelt took the U.S. off the gold standard.[86] In addition to the disconnection from other currencies this produced, the U.S. was further insulated from international problems because the low value of the dollar prevented capital flight from the U.S., and instability in Europe kept capital and gold flowing to the U.S.[87]

In contrast, the post-WWII era was one of high international concern. The U.S. and others recognized that economic conditions in Germany had contributed to the causes of WWII. The U.S.-led the creation of the Bretton Woods system which included, among other things, returning to an international gold standard.[88]

Other periods of low international concern include the early 1970s, when Chairman Burns took the U.S. off the gold standard and allowed high inflation for several years,[89] and the 1980s, when Fed Chairman Volcker raised interests rates for a sustained period to tame inflation and restore U.S. credibility.[90] Both these periods had severe negative economic consequences internationally, but the Fed prioritized U.S. interests over international ones. Burns' policies in particular, which allowed for severe distortions in the U.S. balance of payments, had subsequent negative consequences for the U.S.[91]

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[84] *See* Barry Eichengreen, *Does the Fed Care about the Rest of the World?* 27 J. OF ECON. PERSPECTIVES 87 (Fall 2013), *available at* http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.27.4.87 (last visited June 20, 2015).

[85] *Id*. at 89-90; *see also* LIAQUAT AHAMED, LORDS OF FINANCE: THE BANKERS WHO BROKE THE WORLD 292-30 (2009) (also portraying Strong as also inclined to help the U.K. because of his close friendship with the U.K.'s head banker, Montagu Norman). Strong raised rates again in 1927 for similar reasons and many argue that this rate hike served as a catalyst for the stock market crash and start of the Depression. Eichengreen, *supra* note 84 at 91.

[86] It was indeed Roosevelt – and not the Fed – that made this decision. For a colorful account of Roosevelt's takeover of monetary policy during his "first hundred days," *see* AHAMED, *supra* note 85 at 461-76.

[87] Eichengreen, *supra* note 84 at 92.

[88] *Id.* at 95-96 (nevertheless noting that Fed minutes rarely mentioned international issues, perhaps because the international Bretton Woods system, under which the U.S. went back on the gold standard, provided more international financial stability, which thus required less intervention, than without it).

[89] *Id*. at 96. *See also* WILLIAM GREIDER, SECRETS OF THE TEMPLE: HOW THE FEDERAL RESERVE RUNS THE COUNTRY at 66-67, 340-45 (1987) (also describing the political nature of Burns' actions as Fed Chairman).

[90] Eichengreen, *supra* note 84 at 96-98.

[91] High inflation and low interest rates under Burns harmed U.S. balance of payments and its credibility, and internationally the sustained high interest rates of the 1980s was a key cause of the Latin American debt crisis.

Although the above is just a brief glance at the history of the Fed prior to the crisis, it indicates that the Fed has pursued enlightened self-interest in the past, and has also pursued narrow self-interest during other periods. Benjamin Strong's decision to raise interest rates in 1927 was motivated by enlightened self-interest, because it recognized the interconnections among foreign economies and the U.S., and prioritized this over more immediate U.S. self-interest in taming the stock market. The Roosevelt era appears to have been characterized by narrow self-interest, because the U.S. disconnected its currency from the international gold standard and focused on domestic issues, although it is unclear whether these policies had a strong negative impact on foreign economies.

The post-war era of the Bretton Woods system was another era of enlightened self-interest, where the U.S. recognized connections among global economies and sought international solutions to economic issues to promote general political stability.

The Burns period was narrowly self-interested, because Chairman Burns pursued inflationary policies that harmed the international economic system (and arguably the U.S. economy as well). The Volcker Fed also disregarded international economic issues, but there is a good argument that Chairman Volcker had to raise rates in order to get the U.S. economy back in shape after a sustained period of inflation and low rates. Thus the Volcker period is self-interested in the sense that the Fed's policies had negative effects on other countries, but it was also in the interests of other economies for the U.S. to restore order in its own economy.

Eichengreen concludes that while the Fed's orientation has been more or less international in the past, it would be difficult at this point for the Fed to abandon its international focus.[92] As the current Fed itself recognizes, there are many ways that merely because of the size and dominance of the U.S. economy and U.S. dollar, U.S. interests dictate that the rest of the world matters to the U.S. However, this may not guarantee a Fed that takes account of international interests. History indicates the Fed – for example under Chairmans Burns or possibly Chairman Greenspan – may disregard international interests even when this harms others around the globe and ultimately the U.S.

CONCLUDING OBSERVATIONS

This paper asks whether the Fed is more internationally minded, or even other-regarding, since the 2007-08 global financial crisis. The answer is that the Fed's actions do not appear to have been other-regarding, either before or after the crisis, although its actions have been more "enlightened" since the crisis than immediately before it. The Fed has not acted in unambiguously enlightened self-interest since the crisis, however; rather the Fed's actions reflect enlightened self-interest in part and narrow self-interest in part. Moreover, where the Fed believes the U.S. is so dominant that either its interests equate with those of the international economy or its interest diverge significantly from the rest of the world, its actions since the crisis have been the most narrowly self-interested.

Lurking behind the question of how the Fed treats the rest of the world is the issue of American dominance, or what could be called American exceptionalism. What is the role of

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GREIDER, *supra* note 89 at 340-45 (international consequences of runaway inflation under Burns); *id*. at 413-15 (international consequences of anti-inflationary policies under Volcker).

[92] Eichengreen, *supra* note 84 at 98.

such a dominant player in the global economy, and can or must the U.S. act according to enlightened self-interest, and act to ensure a stable global economy for all, either for the sake of its own interests or everyone else's?

In a special issue devoted to the dominance of the U.S. dollar in the world economy, "Dominant and Dangerous," *The Economist* examined the issue of American economic exceptionalism, pointing out that America's declining economic output and the increase complexity of the global economy, along with similar factors, have contributed to the general decline of American economic regulatory hegemony, even though the U.S.'s sneezes still cause much of the world to catch cold.[93] As a solution, the magazine harkens back to the "golden era" of U.S. economic leadership after World War II, and urges the U.S. to heed the admonition of Charles Kindleberger (incidentally a looming figure for the influential Vice Chairman of the Fed, Stanley Fischer) that the world needs one hegemonic power that will set the rules for the benefit of all, and to address its declining power and the increasing divisions and complexity of the global economic system by asserting hegemonic rule-making leadership once again.[94] Only this way, it opines, can global economic policies reflecting enlightened self-interest be put in place.[95]

I will agree for the purposes of this paper that a set of overarching rules to address causes and means of mitigating global financial crisis is desirable.[96] Further, it may be true that a single powerful actor is an easy – and certainly easily imagined – way to get there. But the idea of such a hegemon acting unilaterally for others' benefit is an outdated idea, in exactly the way that is dramatized by the position in which the Fed appears to find itself. The world is more interconnected than ever before, and the nature of the U.S.'s dominance has changed.

In fact it may be that in the current global economic system, the international tail is wagging the all-powerful American dog – that although the Fed/U.S. is perceived as the dominant player, it nevertheless must act, and in particular must be seen as acting, based on enlightened self-interest in order to preserve its own role and authority. It may also be, moreover, that this necessity, although it casts the Fed as the center of the global machinery, in fact reflects the Fed's weakness, as well as the extreme interdependence of the global economy even for its traditionally most powerful economic actor. To lead successfully, the U.S. must take these changes into account.

The Fed has some apparent power, generated by the U.S. historical role and political might on the global economic scene, the dominance of the dollar, and the fact that its policies still can and do have a dramatic effect on economies all around the world. But U.S. economic power has very clear limits today, as evidenced by, for example, the decline in U.S. economic power as measured by economic output and the huge portions of the global dollar economy that are neither issued nor controlled by the Fed, including Eurodollars.[97] In addition, the increasing complexity of the world economy, together with movements that

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[93] THE ECONOMIST, Oct. 3, 2015, *available at* http://www.economist.com/printedition/2015-10-03 (last visited May 3, 2016).
[94] *E.g., Glad, confident mornings*, THE ECONOMIST, *supra* note 93.
[95] *Neither leading nor ceding*, THE ECONOMIST, *supra* note 93.
[96] Meaning I will agree that it is generally in everyone's enlightened self-interest to set up and encourage compliance with global rules that promote overall financial stability.
[97] *Thrills and Spills*, THE ECONOMIST, *supra* note 93.

would accelerate the trend away from centralized or American control (China's proposal for the creation of an Asian Infrastructure Investment Bank;[98] countries seeking alternatives to Fed control because they have been shut out of the dollar payments system or for other reasons),[99] will further erode the Fed's power.

In this context, the Fed can successfully advocate an overarching set of rules only if other economies and actors allow it to, and they will allow it to only if they perceive the Fed acting in global, and perhaps also their specific, interests. Thus the Fed may need to take – and, importantly, to appear to be taking – international interests into account. This would not simply serve long-term or enlightened U.S. domestic interests, but would allow the Fed to preserve its own ability to act and have a say over international conditions, and to do so in a way that allows it to set domestic monetary policy that is relevant and effective. More to the point, this seems qualitatively different from a more simplistic setting in which the U.S. could lead by proposing and orchestrating a system for international economic stability. Rather, if the Fed is to act as a dominant player in an interdependent world, it may require a cooperative kind of leadership that prompts others to act based on their enlightened self-interest as well.

Thus it may not be a good thing for the Fed to perceive the U.S. as so dominant that it believes it can or should favor U.S. interests at the expense of others. As this paper demonstrates, the Fed may be more likely to act in the U.S.'s narrow self-interests where it believes its interests dominate. Further, the U.S. has abused this dominance for political ends.[100] While the U.S. may have been able to lead in such a fashion in the past, in the current context of extreme interdependence and declining control by the Fed, such self-interested actions not only undermine international cooperation and lead to a race to the bottom by others, but also encourage countries and institutions to try to avoid U.S. systems altogether, which further lessens U.S. sway. A weakened U.S. may not be a bad thing in itself, but if the goal is to devise mutually beneficial rules that global players adhere to, then America asserting power forcefully and abusively, causing others to go their own fragmented way, is hardly the path to a rational, cooperative system.

Thus U.S. actions may need to be understood with an updated sense of American "exceptionalism," which recognizes that the Fed may act because of a complicated combination of U.S. interests that are both self-interested and take others' interests into account. At its best, U.S. action should reflect traditional enlightened self-interest as leadership that deliberately exhibits an enlightened self-interest calculation and is based on inspiring and promoting cooperation. When the U.S. announced a new policy for climate change of publicly detailing its commitment to greenhouse gas emissions cuts and inviting other countries to do the same, in the hopes of creating a "race to the top," the U.S. Special Envoy for Climate Change stated that American action on the issue was important because "here, as in so many areas, we find that American commitment is indispensible to effective

[98] *Neither leading nor ceding*, THE ECONOMIST, *supra* note 93.
[99] *Dominant and dangerous,* THE ECONOMIST, *supra* note 93; *see also Thrills and Spills, id.* ("More and more of the offshore dollar world is trying to avoid direct contact with America"); *Glad, confident mornings, id.*, (if the dollar remains dominant but the U.S. and IMF do not lead, we could have "global ownership" of the dollar).
[100] *Neither leading nor ceding,* THE ECONOMIST, *supra* note 93; *Dominant and dangerous, id.*

international action."[101] The U.S. should similarly recognize in the economic arena that if it wants to lead on big issues, it may need to demonstrate its commitment to global improvement for its own sake.

Similarly, as the U.S. loses straightforward economic hegemony, and the U.S. and Fed witness or even cede such authority on a policy front, cooperation will be more necessary. This requires the opposite of a hegemon – rather a context and behavior that promotes mutual cooperation, such as the tit-for-tat strategy for cooperation that leads to the best long-run outcomes for all actors. Richard Dawkins wrote in the foreword to *The Evolution of Cooperation* that all world leaders should be locked in a room and required to study the book's findings, [102] namely that cooperation, reciprocity, and clarity of communication produce maximum benefits to groups in the long run. Such an egalitarian approach to pursuing enlightened self-interest is more likely to achieve cooperation for mutual global benefit in the current highly complex, intensely interdependent world.

[101] *US Special Envoy for Climate Change: US Leadership is Indispensable to Effective International Action*, posted on GlobalTrust website, *available at* http://globaltrust.tau.ac.il/us-special-envoy-for-climate-change-us-leadership-is-indispensable-to-effective-international-action/#more-1364 (last visited April 30, 2016).

[102] Axelrod, *supra* note 11 at xv-xvi.