

The Political Economy of Central Bank Swap Lines

From Bazooka to Backstop: The Emergence of a Permanent International Lender of Last Resort

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Object of study

Eurodollar Markets

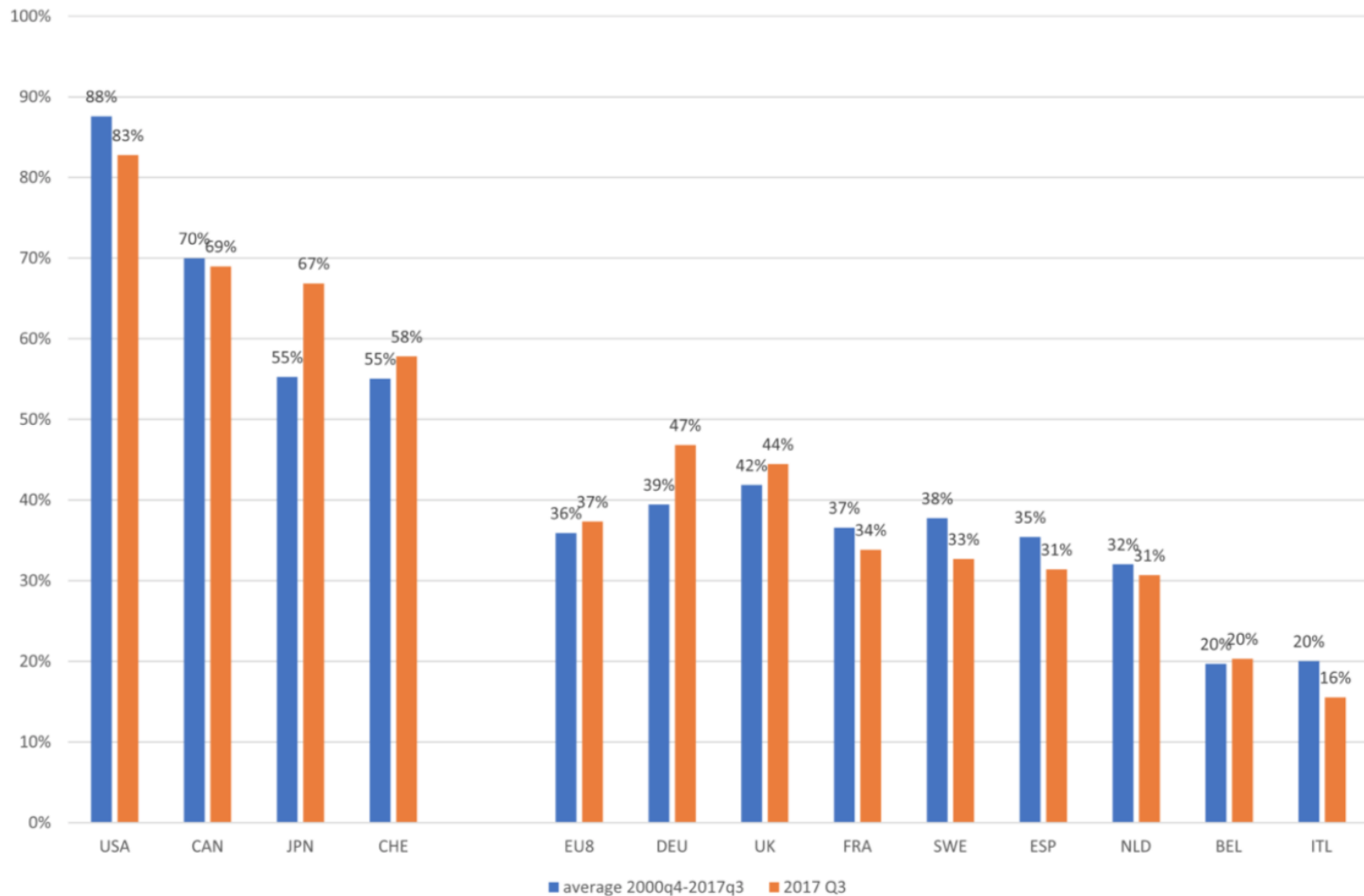


Figure 2 Share of average USD cross-border claims, source: Schwartz (2019, 13)

C6 Liquidity Swap Lines

- Solve Eurocurrency international lender of last resort problem, backstop to off-shore dollar markets
- Emerge ad-hoc in December 2007, as reiteration of previous facilities
- Reciprocal currency swap arrangements between Central Banks, negotiated rates

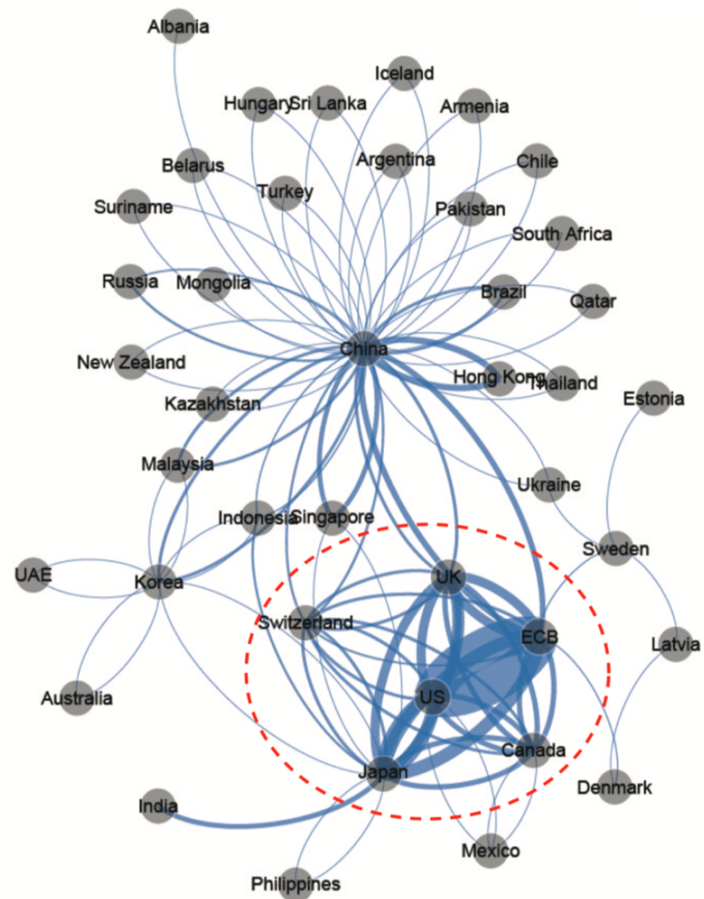


Figure 1 Network of bilateral swap-lines as of October 2015, adapted from Denbee, Jung, and Paternò (2017, 10)

Methods

- Qualitative Process Tracing
- Analysis of
 - FOMC meeting minutes from 2007 to 2013
 - Elite-Interviews with 12 central bankers, market participants, monetary policy experts

Argument

Institutional Design

IPE of Institutional Design

		Means-Ends Inspiration	
		Means	Ends
Agency-Structure Constraints	Agency	Bricolage	Rational Design
	Structure	Sociological Institutionalism	HI/Bounded Rationality

Kalyanpur & Newman (2017:366)

Bricolage: dialectic interplay of agency and structure

The available means are therefore time-dependent because they are “the contingent result of all the occasions there have been to renew or enrich the stock or to maintain it with the remains of previous constructions or destructions” (Lévi-Strauss 1966, 17)

interacting with the tools, the bricoleur also transforms the structural constraint, that is she “build[s] up structures by fitting together events, or rather remains of events” 7 (Lévi-Strauss 1966, 22)

Bricolage



Agency



creative experimenting



means-based /
non-rationalist process



retrospective / given means



Structure



ends-based /
rationalist process

Structure → Agency

structural disposition of Eurodollar markets generates specific agents and technologies

“the crisis has dramatized the remarkable extent to which financial markets have become globally integrated” (Nathan Sheets in FOMC 2009, 15)

↪ structure produces opposing agencies but only one viable technology; cannot explain timing

Structure ← Agency

Objective of swap lines:

“reduce uncertainty among market participants as to whether and when these arrangements would be renewed” (FOMC 2013, 9)

“as the deadline grew closer, the markets would start to worry about whether the swap-line was going to be there or not”
(Sheets in FOMC 2010b, 16)

↪ management of expectations

President Kocherlakota:

renewal of a temporal line could be understood as the Fed being “concerned about things”, while with a permanent facility the FOMC “[doesn’t] really have to worry as much about the signaling content of our decision” (FOMC 2013, 12).

↪ Permanent facility once market expectations converge

Means vs Ends: Practices of Bricolage

- Experimentation

„I think it will send a good signal [...] But I don't know for sure. If we do it, we are just going to give it a try and see what happens“
(FOMC 2007, 14)

- Creative re-deployment

„I think a lot of the programmes that we have are actually open ended. The discount window is open ended in the sense that it's limited only by the amount of collateral the banks post there“
(FOMC 2008, 17)

- Retrospective

„people became more familiar with it and we were able to say: this is necessary“ (I 10)

Why is this relevant?

Ontological Claim: Central Bankers not just do bricolage, they are Bricolageurs

↪ Generalizable claims upon decision-making

→ standing facilities will be introduced when market expectations converge, e.g. standing repo facility

Conclusion

- liquidity swap lines not mere functionalist response to problem in off-shore dollar markets (Mehrling 2013, Murau 2018)
- *appear* as functionalist, however bricolage lets uncover the precise practices used and the fragilities entailed (no rationalist, optimal solution)
- design by bricolage: neither praise for ingenuity (Bernanke, Geithner, Paulson (2019), nor power grabbing (Jacobs, King 2016)

Thanks

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Additional

Hypotheses

H_0^a : The outcome was *only* contingent on central bankers' agency.

OR

The outcome was *only* structurally defined.

H_1^a : The outcome results from dialectical interplay of agency and structure.

H_0^b : The outcome results from rationalist design.

H_1^b : The outcome results from design by bricolage.